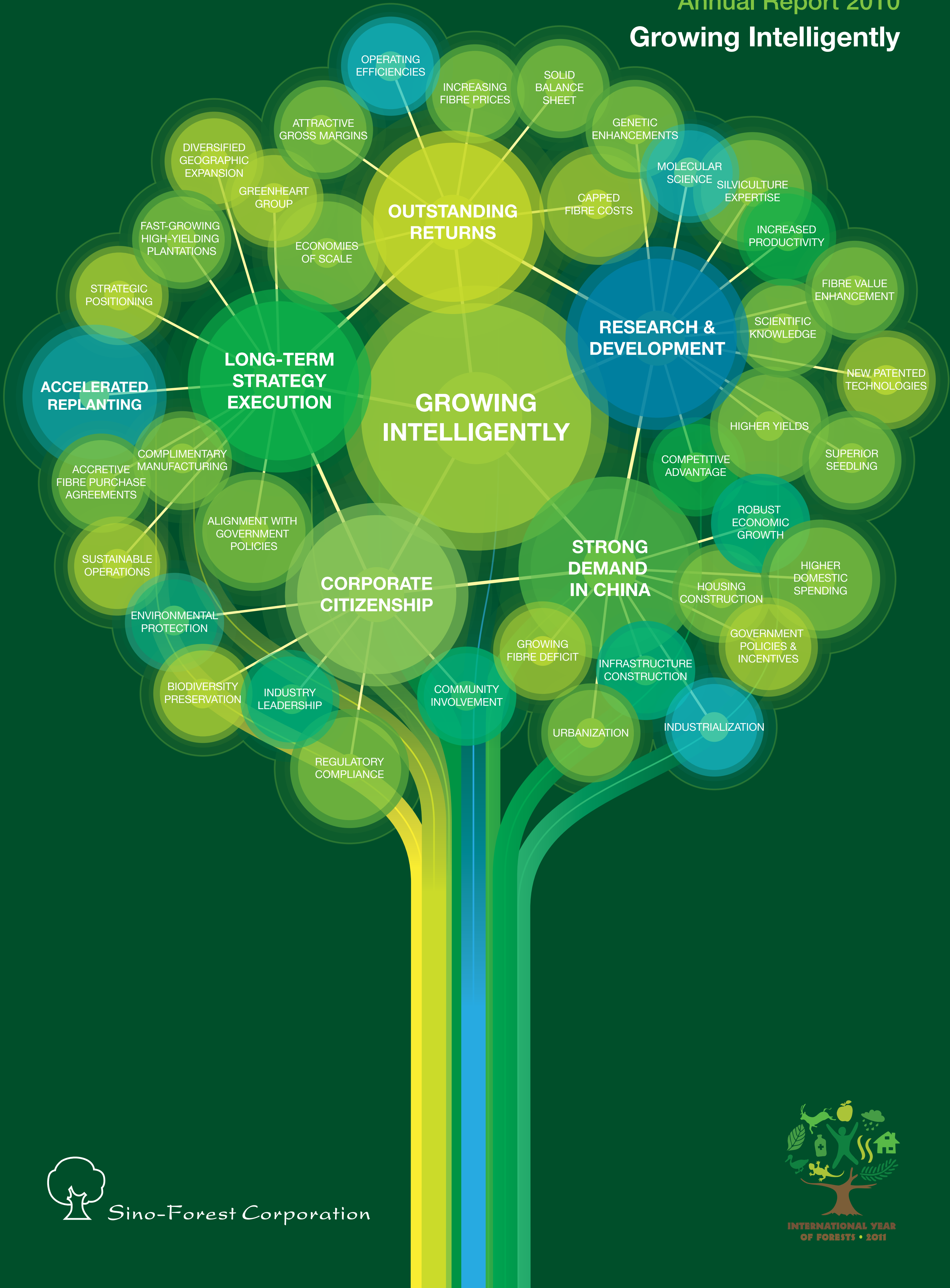
Annual Report 2010

Growing Intelligently



Sino-Forest Corporation

INTERNATIONAL YEAR OF FORESTS • 2011

Growing Intelligently

We pursue success by applying intelligence to opportunity. Our theme for this 2010 annual report is fitting for the following reasons:

- We are growing our portfolio intelligently by acquiring the right trees in the right markets at the right time. After carefully selecting tracts of valuable plantation forest, we negotiate and systematically execute long-term agreements with pre-determined fibre prices that are capped and with rights that enable us to lease land for sustainable replanting.
- By applying advanced scientific research and development and silviculture techniques, we are planting and cultivating our trees intelligently. This significantly increases the productive yield of our plantations.

Company Profile

Sino-Forest is a leading commercial forest plantation operator in China. Its principal businesses include the ownership and management of plantation forests, the sale of standing timber and wood logs and the complementary manufacturing of downstream engineered-wood products. The majority of our plantations and operations are located in southern and eastern China, primarily in inland regions suitable for large-scale replanting. Sino-Forest also holds a majority interest in Greenheart Group Limited ("Greenheart Group"), a company listed on the Hong Kong Stock Exchange (HKSE: 00094) involved in log harvesting, lumber processing, and marketing and sale of logs and lumber products to China and other countries. Sino-Forest's common shares have traded since 1995 on the Toronto Stock Exchange under the symbol "TRE". Learn more at www.sinoforest.com.

Contents

Why Invest in Sino-Forest?

China has a large and growing wood deficit. As the country's economy and infrastructure development continue to grow strongly, its wood deficit is increasing. This creates great opportunities for Sino-Forest – a well established and leading forest plantation company operating in mainland China with an outstanding operating and financial track record. After 16 years of prosperous growth, we have amassed a widespread portfolio of commercial plantations under management, we owned trees on approximately 788,700 hectares across nine provinces in China as of December 31, 2010. We are also expanding our global sourcing of fibre through our subsidiary, Greenheart Group.

Sino-Forest Creates Value by:

1. **Locking in access to tree plantations at capped prices through long-term contractual agreements,**
2. **Selling fibre at attractive margins either as standing timber or logs,**
3. **Increasing plantation yields through advanced scientific research and development and silviculture techniques,**
4. **Developing economies of scale and diversifying revenue with geographically widespread operations, and**
5. **Maximizing the use and value of fibre through our complementary manufacturing operations.**

Please Note: This report contains projections and forward-looking statements regarding future events. Such forward-looking statements are not guarantees of future performance of Sino-Forest and are subject to risks and uncertainties that could cause actual results and company plans and objectives to differ materially from those expressed in the forward-looking statements. Such risks and uncertainties include, but are not limited to, changes in the PRC and international economies; changes in currency exchange rates; changes in worldwide demand for the Company's products; changes in worldwide production and production capacity in the forest products industry; competitive pricing pressures for the Company's products; and changes in wood and timber costs.

All dollar amounts in this report are in US denomination unless otherwise stated.

Operations at a Glance

Sino-Forest's small-diameter logs, used mostly for veneer furniture, construction panels, engineered flooring and pulp and paper, generally do not compete with large-diameter imported logs that are used primarily for higher-grade furniture, lumber and solid flooring.

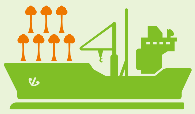
Wood Fibre Operations

Our core business is **Plantation Fibre,** where we acquire, cultivate and sell trees in nine provinces under two types of plantation models:

- **Purchased Plantations**, where we primarily acquire mature trees and sell them as either standing timber or logs, or use the fibre at our manufacturing facilities. After harvesting, we have the right to lease the underlying land and replant the land with our genetically superior seedlings that are adaptable to the region. The plantation will then be classified as Planted Plantations.
- **Planted Plantations**, where we lease land typically for 30 to 50 years and continuously plant genetically suitable seedlings and apply best plantation management practices.

Forest land in China is either State-owned or collectively-owned. We typically lease land long-term from landowners or from holders of land use rights.

As at December 31, 2010		Hectares managed	
Region in China	Provinces	Purchased Plantations	Planted Plantations
East	**Anhui**	104,000	0
South West	**Yunnan**	186,700	0
South West	**Guizhou**	42,800	0
South West	**Sichuan**	10,600	0
South Central	**Hunan**	148,700	18,800
South East	**Jiangxi**	108,700	6,600
South East	**Fujian**	9,600	400
South	**Guangxi**	90,700	13,000
South	**Guangdong**	9,200	38,900
	Total	711,000	77,700



Trading of Wood Logs

We source wood fibre domestically and globally (such as large-diameter logs, veneer, sawn timber and other wood-based products) and import the globally-sourced products into China. Sino-Forest also holds a majority ownership interest in Greenheart Group, which has access to logs and lumber in Suriname (South America) and New Zealand.

Manufacturing and Other Operations

We manufacture engineered-wood products using small-diameter domestic logs to produce finger-joint board, plywood, veneer, blockboard and other wood-based products in China. Our Sino-Maple branded engineered-wood flooring is distributed through more than 300 outlets nationwide. We also provide nursery, greenery and other forest product services. Our engineered-processing company, HOMIX Limited, uses recomposed wood technology to convert small-diameter plantation logs into building materials and furniture, which allows us to maximize the use of fibre and supply a variety of downstream customers.

End Users

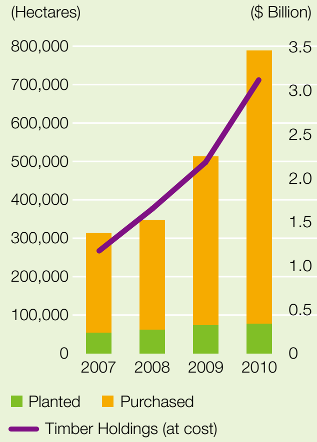
Wood fibre in China is used in a broad range of industry sectors, including:

- Construction materials for buildings and infrastructure such as highways, railways, bridges, etc.
- Materials for commercial, industrial and residential buildings, including panel boards, plywood, flooring, interior decoration, etc.
- Materials for industrial use such as container floorboards, wooden crates for packaging, etc.
- Consumer products such as furniture, paper, tissue, etc.

PRC Forest Coverage Percentage	Sino-Forest's Forest Distribution Hectares as at December 31, 2010	Legend
60-66 / 24-30	5,000-20,000	Executive Office
54-60 / 18-24	20,000-60,000	China Office
48-54 / 12-18	60,000-100,000	Manufacturing Operation
42-48 / 6-12	100,000-190,000	Long-term Wood Fibre
36-42 / 0-6		
30-36		

Primarily through our six fibre purchase agreements, we have significantly increased our plantation area under management in recent years.

Forest Area and Asset Valuation



Performance Highlights

We have achieved double-digit annual increase in nearly all of our key performance indicators.

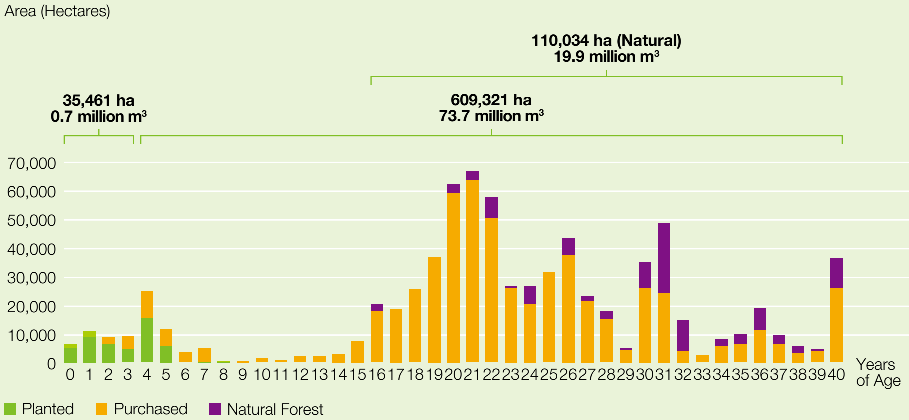
US dollars in millions, except EPS and share price	2010	2009	Annual Change (%)	2008
Revenue	$1,923.5	$1,238.2	55	$896.0
Gross profit	$671.5	$440.4	52	$366.0
Gross profit margin	34.9%	35.6%	(0.7 pt)	40.8%
EBITDA	$1,328.3	$898.8	48	$597.1
Net income	$395.4	$286.4	38	$228.6
Diluted earnings per share (dollars)	$1.60	$1.38	16	$1.24
Cash flow from operating activities	$840.1	$784.5	7	$487.2
Capital expenditures	$1,754.2	$1,071.8	64	$702.6
Cash & cash equivalents	$1,223.4	$1,102.4	11	$441.2
Assets	$5,729.0	$3,963.9	45	$2,603.9
Share price at year end (Cdn$)	$23.29	$19.38	20	$9.87
Volume of wood fibre sold (M m^3)[1]	20.0	15.4	30	10.9
Volume of plantation fibre sold (M m^3)[2]	17.6	14.2	24	10.2
Hectares of trees acquired	244,976	255,503	(4)	127,834
- Average purchase price (per m^3)	$45	$38	18	$49
Hectares of trees sold	120,457	109,189	10	103,945
- Average selling price (per m^3)	$79	$67	19	$68

[1] Includes plantation fibre and trading of wood logs

[2] Sino-Forest's goal to sell 17 million m^3 of fibre from plantation operations by 2011, which was surpassed in 2010

Forest Asset Valuation	2010	2009	Annual Change (%)	2008
Hectares under management at year end in China	788,700	512,700	54	347,000
Merchantable volume (M m^3)	93.2	62.0	50	37.5
Average yield (m^3 per hectare)	124	126	(2)	112

Profile of Tree Maturities



Source : Pöyry Management Consulting

2010 Operating Highlights

Secured access to over one million hectares of fibre with the addition of a sixth long-term fibre agreement in Guizhou Province
Acquired HOMIX Limited, a company with advanced patented manufacturing technology
Acquired majority ownership of Greenheart Group
Acquired Mandra Forestry, area of approximately 147,200 hectares

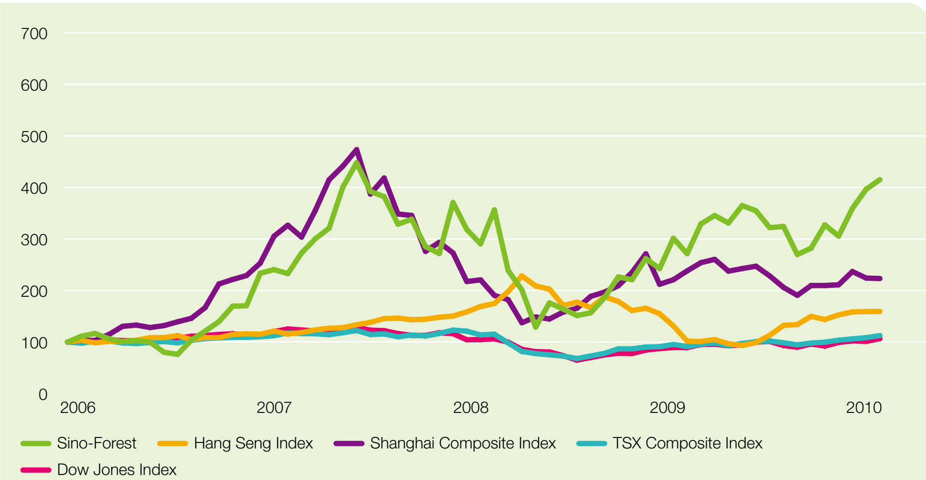
Our newly planted plantations in Guangxi. Tree plantations in China are mostly on rolling hills and are separated by natural barriers such as roads, rice fields, ponds and other barriers.

2010 Financial Highlights

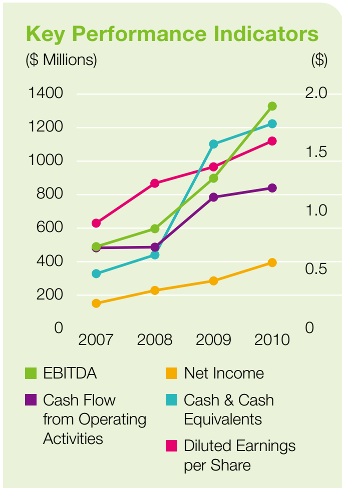
Revenue increased 55% to $1.9 billion
Diluted Earnings Per Share increased 16%
Raised $600 million from senior notes offering
Ended year with cash and short-term deposits of $1.3 billion and net debt-to-equity ratio of 0.38:1
Stock price increased 20% during the year

Share Price Performance

Over the five years ended December 31, 2010, the price of our common shares trading on the Toronto Stock Exchange increased 679% and our market capitalization rose to Cdn $5.7 billion. During the same period, Sino-Forest outperformed the North American TSX Composite and Dow Jones Indices by 303% and 309%, respectively, and outperformed the Shanghai Composite and Hang Seng Indices by 192% and 256%, respectively.



Source: Bloomberg



Channeling Resources

GROWING DEMAND

"Sino-Forest operates in China, a fast-developing country with unique growth opportunities. China is the second largest economy after the United States. The PRC Government is rolling out policies and incentives to encourage favorable reforms and modernization in the forestry sector.

Meanwhile, Sino-Forest is building a portfolio of plantations that is expected to produce a steady annual flow of fibre and cash for reinvestment. We are establishing and integrating our operations to enhance efficiencies and increase our profit margins.

We believe China provides a compelling and dynamic operating environment in which Sino-Forest can thrive for decades to come."

David J. Horsley, Senior Vice President & Chief Financial Officer, Sino-Forest

Sino-Forest is strategically positioned in provinces with excellent growth potential for wood product consumption. These provinces are targeted to have double-digit GDP growth under China's 12th Five-Year Plan, large populations undergoing increased urbanization, and relatively higher forest coverage.

*12th Five-Year Plan GDP Growth Target
Source: HSBC Global Research, www.GOV.cn

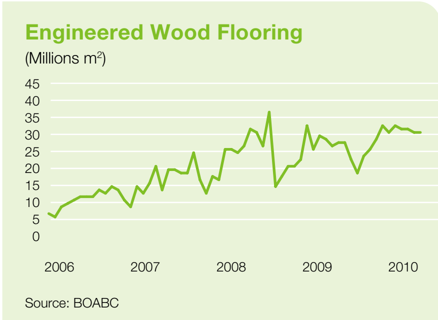
Growing Demand

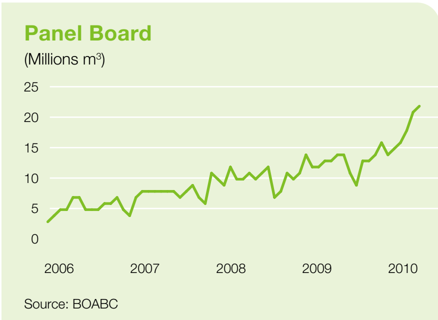
Market Dynamics

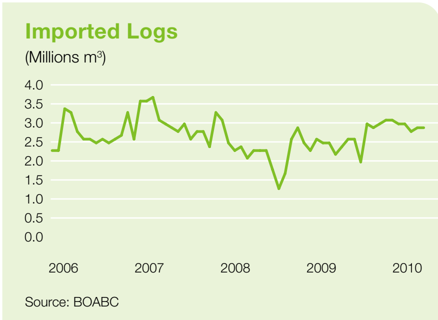
China's forest product industry and governments are constantly challenged by the sheer size and dynamics of the country's growing urban and rural markets, and fibre deficit.

Rising Fibre Demand

Sino-Forest operates in one of the world's fastest growing economies, where industrialization and urbanization continue to drive fibre demand. China's GDP grew about 10% last year and is expected to increase about 8% in 2011. This is creating high demand for wood fibre products such as furniture, flooring and panel boards for construction of infrastructure, and housing. The charts below illustrate upward growth trends for some of these wood products. As a result, domestic log prices increased 15% to 20% in 2010.







Foreword and disclaimer: Due to the lack of reliable and consistent forestry sector data in China, the data we obtain from various sources may not be completely accurate. While we believe that the data we present provides a meaningful overview and understanding of the dynamics of our industry, readers are cautioned not to place any undue reliance on such data.

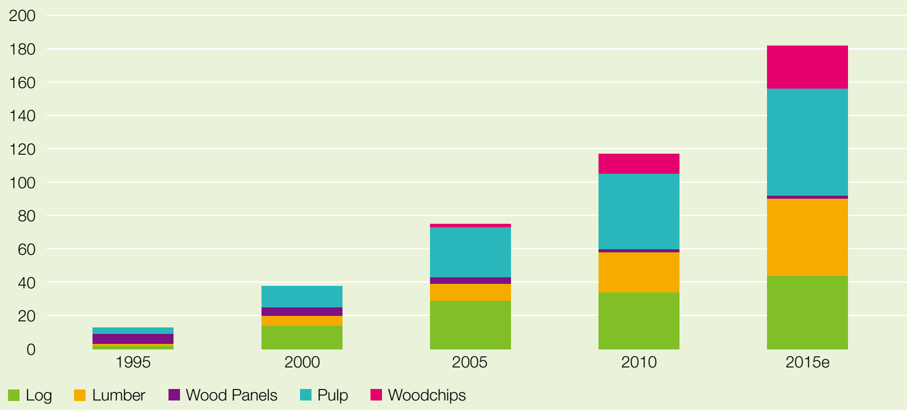
Chronic Wood Deficit

The total wood fibre consumption in China was 420 million m^3 in 2010, which included 260 million m^3 for industrial use and 160 million m^3 for multi-use and fuelwood. Domestic fibre supply was approximately 240 million m^3 based on the 11th Five-Year Plan annual allowable cut ("AAC"), and the deficit was supplied by the import of approximately 180 million m^3. China remains a significant net importer of wood fibre.

However, according to RISI, Inc., a leading information provider for the global forest products industry, China's wood fibre deficit in 2010 reached approximately 117 million m^3. It is assumed that there are logging allowances in addition to the AAC. RISI has estimated that China's wood deficit will increase to 182 million m^3 by 2015, equivalent to an average increase of 12% in volume demand per annum.

China: Timber Deficit Forecast

(Millions m³)



Source: RISI, Inc.

With surging demand for wood fibre and a shortage of supply, China's wood deficit is expected to grow larger.

At our nurseries, we carefully cultivate genetically superior seedlings.

Favorable Public Policies

With the gap between wood fibre supply and demand continuing to widen, the PRC Government is setting ambitious goals and introducing stimulus policies and financial incentives to support development of China's forestry sector, increase the country's wood fibre self-sufficiency and protect the natural environment.

China's National Plan for Conservation and Utilization of Forest Land proposes that forest area increase by 5.2 million hectares to 215 million hectares by 2020. To achieve such goal, the **Natural Forest Protection Program (2011-2020)** was launched with an aim to increase forest coverage and encourage investment in domestic timber supply. The **Revitalization Plan for Forestry Industries (2010-2012)** has given preferential tax treatment for forestry projects and related bank loans with more attractive terms.

China: Forest Industry Development	2000	2009	2020
Forestry Area (Millions ha)	159	195	215
Forest Coverage	16.6%	20.3%	22.4%
Plantation Area (Millions ha)	47	62	100
Wood-based Panel Production (Millions m³)	20	115.5	200

Source: China National Forest Products Industry Association

The PRC Government also aims to encourage economies of scale in forestry operation, commercialize upstream operations and develop industry leaders. Its goal is to decrease the logging of natural forests while increasing logging allowances for commercial forest plantations. The PRC Government is exploring the privatization of state-owned plantations and encouraging foreign investment in the development of fast-growing, high-yielding plantations.

China's National People's Congress has recently approved its **12th Five-Year Plan (2011-2015)**. It calls for the taming of inflation, GDP growth of 8% in 2011 and 7% in following years, and narrowing of the growing economic gap between inland and coastal regions. The disparity will be reduced through improving farmers' income, increased urbanization of rural residents, agricultural modernization, and accelerated construction of affordable housing. The State Forestry Administration is targeting 30 million hectares of new plantations, and Chinese production of forest products is expected to continue growing at 12% per year.

Geography

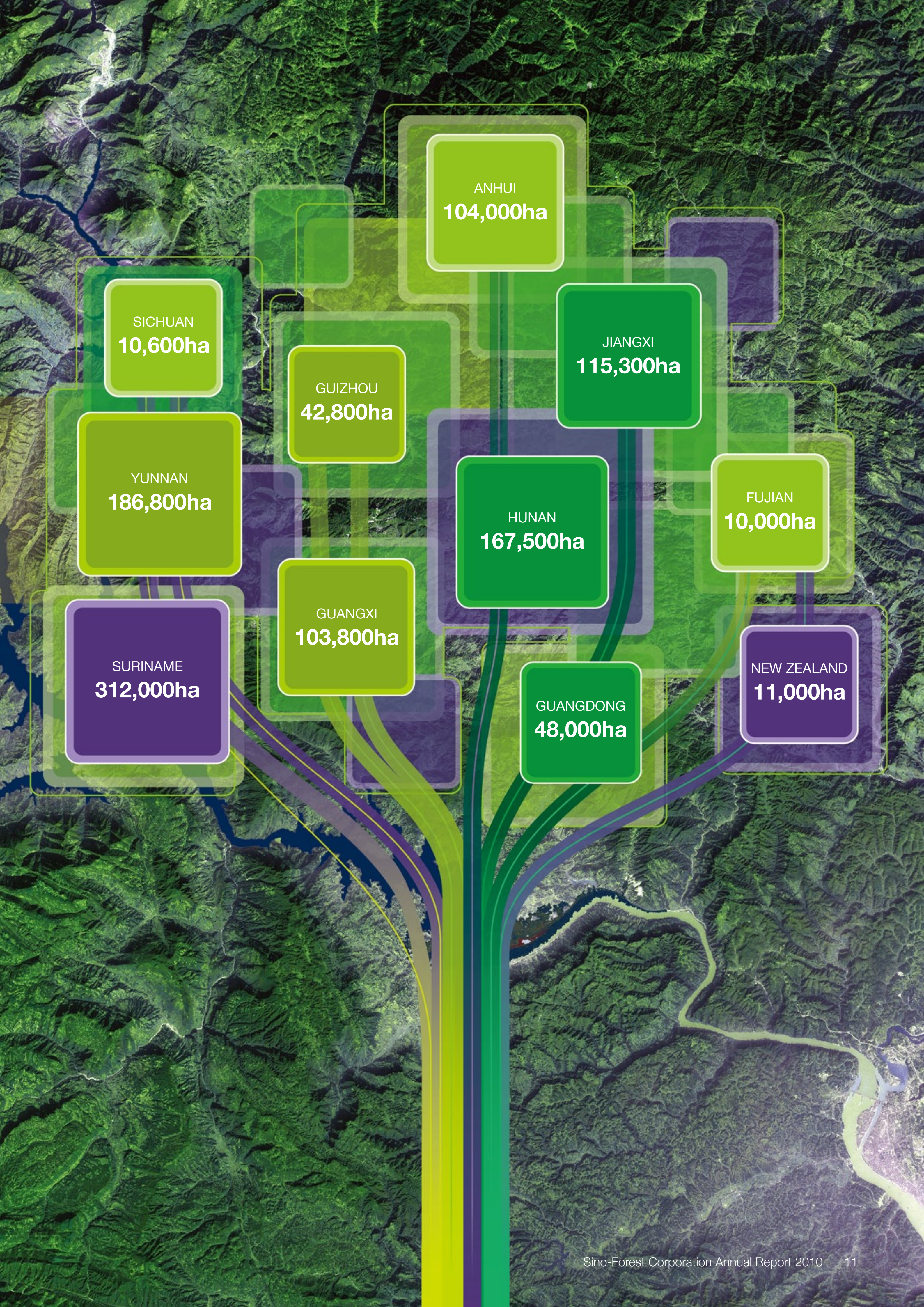
GROWING PRESENCE

"In response to China's widening wood deficit, Sino-Forest is significantly and intelligently expanding its plantation portfolio. Back in 2005, we initiated a visionary strategy of moving into third tier and inland rural regions where forests were abundant and dense but markets were not yet developed.

Now these inland regions are growing rapidly with the PRC government's plans for rural development, urbanization and construction of affordable housing. As it turns out, we were "plantation pioneers" – establishing unique positions in inland markets with strong demand for wood products.

We believe that our fast-growing, high-yielding plantations will attract wood processors and create more effective regional wood markets. Simply put: we are bringing new markets to the forests."

Allen T.Y. Chan, Chairman & Chief Executive Officer, Sino-Forest


ANHUI
104,000ha
SICHUAN
10,600ha
GUIZHOU
42,800ha
JIANGXI
115,300ha
YUNNAN
186,800ha
HUNAN
167,500ha
FUJIAN
10,000ha
SURINAME
312,000ha
GUANGXI
103,800ha
NEW ZEALAND
11,000ha
GUANGDONG
48,000ha

Growing Presence

Capturing Opportunities

As a leading commercial plantation operator working closely with key industry players, we regularly monitor and analyze forestry market conditions to fully understand key trends. Based on our insight and foresight, we develop strategies and allocate resources accordingly. We know that making well-informed decisions and adapting quickly to change spurs Sino-Forest's sustainable growth and prosperity in the long term. Building on our competitive advantages, Sino-Forest is executing a unique long-term strategy to capture the opportunities presented by China's market dynamics and our strategic positioning.

Strategy	Sustainable Benefits
1. Geographic Expansion: create an extensive plantation portfolio in strategically significant regions that span across China, including the execution of long-term agreements that ensure sustainable growth	• Acquisition cost for fibre capped over agreement period • Secured access to land for replanting • Large inventory of fibre growing naturally • Predictability and geographic diversification of income streams
2. Upstream Input Value Enhancement: develop innovative and advanced planting and silviculture techniques through a team of internal and external scientists	• Genetically improved seedlings • Faster-growing, higher-yielding trees • Healthy fibre growth and better quality fibre • Higher profit margin
3. Downstream Output Value Enhancement: invest in suitable technology for efficient manufacturing operations	• Minimize residue and wastage • Maximize use of small-diameter logs • Generate new revenue streams • Local job creation
4. Integrated Regional Markets: create wood baskets, bringing wood manufacturers to the new markets	• Increased efficiency and cost effectiveness • Better use of upstream fibre and value-added products • Attraction of downstream manufacturers to create more jobs and improve rural livelihood • Industry leadership in pioneering the establishment of regional wood markets

1. Geographic Expansion

China Presence

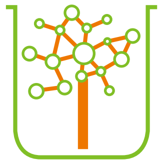
Sino-Forest selects the most strategically promising provinces to expand its plantation area under management, which increased by 54% to 788,700 hectares at year-end 2010 in China. They are located in provinces where climatic conditions are conducive to growing trees and there is high potential for the development of wood product markets and relatively low operating costs.

In six of those provinces, we have long-term fibre purchase agreements with expiries between 2012 and 2020 that give us access to 1.25 million to 1.4 million hectares of plantation trees. The progress of our **Phase 1 acquisition** has thus far been smooth and faster than anticipated. We have so far acquired 625,500 hectares of plantations as at December 31, 2010, and we anticipate acquiring the remaining 624,500 to 774,500 hectares by 2016. Our **Phase 2 long-term sustainable replanting** commenced in 2009 after harvesting and leasing the underlying land for 30 to 50 years from holders of plantation rights or collective landowners. We have replanted approximately 30,000 hectares under these new areas.

International Presence

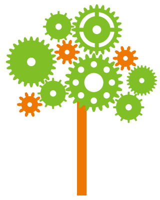
Sino-Forest is expanding its global sourcing network through its subsidiary, Greenheart Group. It is involved in log harvesting, lumber processing, and marketing and sale of logs and lumber products to China and other counties. Greenheart owns harvesting rights and manages approximately 312,000 hectares of hardwood forest concessions in Suriname, South America and approximately 13,000 hectares of freehold land with a net harvestable plantation area of approximately 11,000 hectares in New Zealand.

2. Upstream Input Value Enhancement



Over the past decade, we have invested considerable time and effort in research and development, especially to create a vast gene pool that allows us to plant genetically superior eucalyptus trees in a variety of growing conditions. We have also developed advanced silviculture techniques to increase the fibre quality of our genetically modified trees.

3. Downstream Output Value Enhancement



Sino-Forest currently owns nine manufacturing facilities in six provinces, which complement our core plantation business. These facilities maximize the use of our fibre, minimize residue waste, and sustain over 2,000 local jobs. The strategic acquisition of HOMIX Limited and its patented technologies further extends the market for our fibre to a larger variety of downstream customers.

4. Creation of Integrated Regional Markets

Our long-term vision is to develop regional wood markets in strategically selected locations. We plan to establish these markets in rural areas, where we can vertically integrate operations up and down the supply chain. We believe that our regional wood “baskets” will attract downstream wood product manufacturers requiring a consistent supply of wood fibre, while increasing cost effectiveness and bolstering local economies. Rather than transport small-diameter logs to coastal wood processing mills, we believe it is more efficient and economical to have our mills and other mills operating close to their source of fibre. This also helps to create much-needed local jobs and encourages support from local governments.

Research and Development

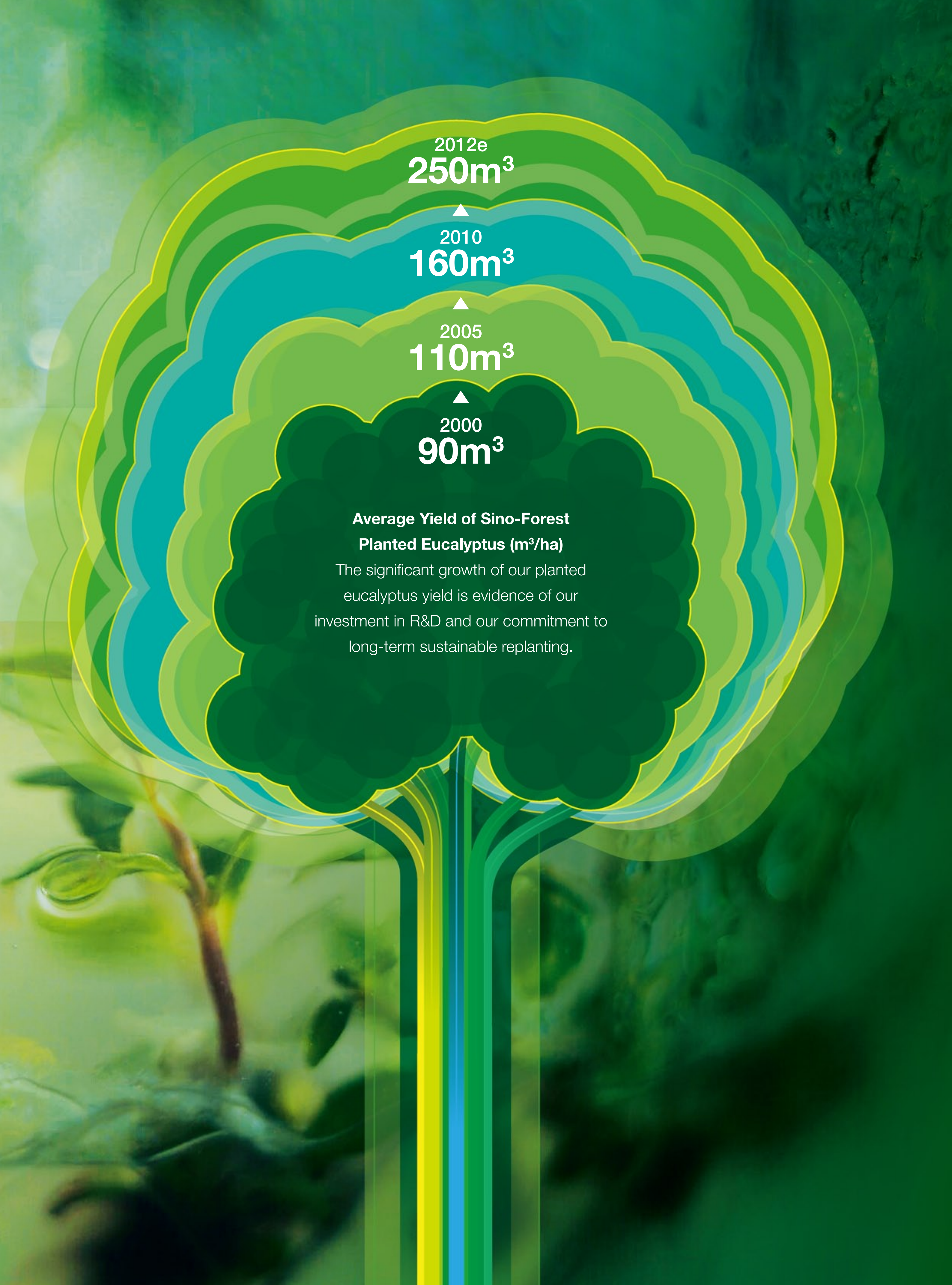
GROWING BREAKTHROUGHS

"Sino-Forest's continuous investment in forest product technologies is proving to be a major differentiating advantage within our industry. Unlike other peer operators in China, for over 10 years we have invested in the research and development of fast-growing, high-yielding species and plantation silviculture. The fibre from our trees is adaptable for many wood manufacturing uses.

Our R&D laboratories and nurseries focus on many aspects of plantation silviculture.

These include genetic modification, propagation technology, soil nutrition management, regeneration methods and harvesting techniques. At Sino-Forest, we look at things from the ground up."

R&D team, Sino-Forest



Average Yield of Sino-Forest Planted Eucalyptus (m^3/ha)
The significant growth of our planted eucalyptus yield is evidence of our investment in R&D and our commitment to long-term sustainable replanting.

Growing Breakthroughs

We have achieved scientific breakthroughs with the continuous and intelligent development of silviculture technologies and techniques.

Our in-house R&D team is creating a large gene pool for our trees to grow in a wide variety of soil and climatic conditions.

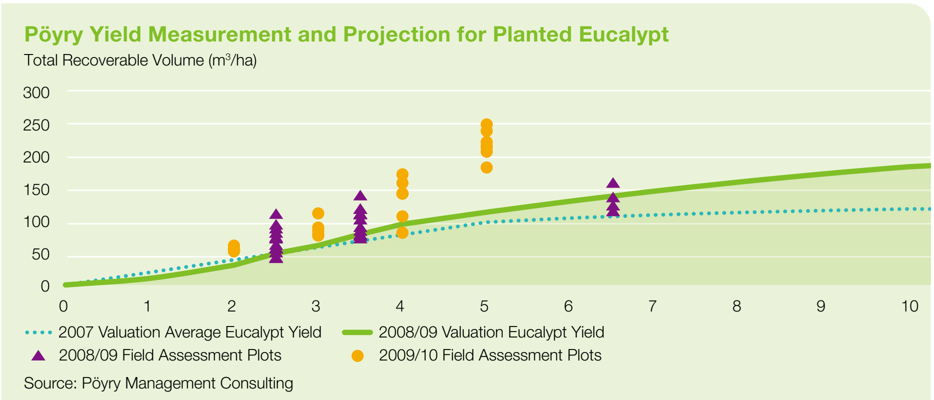
Mastering the Science of Trees

The intelligent application of modern science to growing trees has become one of Sino-Forest's most valuable competitive advantages. For many years, our in-house R&D team has collaborated with academic institutions and other experts to advance the science that can help alleviate China's wood supply deficit. Now we can celebrate and capitalize on the significant breakthroughs we have achieved in our productive yield per hectare.

Rising Yield

A key solution to China's growing fibre deficit is accelerated planting of highly productive tree species with short growth cycles. Although our planted eucalyptus have smaller diameters than trees from natural forests, manufacturers are increasingly using eucalyptus to produce a variety of engineered wood products, which ultimately broadens demand and increases its selling price.

We have measurements that prove our unique expertise in applying specialized science to growing eucalyptus trees. The average yield of our planted plantations has reached approximately 160 m^3 per hectare for six-year-old eucalyptus, compared to only 60 m^3 per hectare when we first started. With even more improved seedlings, we anticipate reaching a yield of approximately 250 m^3 per hectare in certain location in 2012.



This chart shows the average eucalypt yield measured and forecasted by Pöyry. The tree growth data was collected by Pöyry during its field assessments in 2008/09 and 2010. Pöyry measured and calculated what it considered to be extremely high volume growth at certain plots, with yields of more than 200 m^3/ha achievable by age six. These measurements are significantly higher compared to 12-year-old pine trees that are currently grown by farmer-collectives that yield 100 to 120 m^3/ha. Our objective is to shorten tree growth cycles and double or triple plantation fibre output to help reduce China's chronic fibre deficit.

Accelerating Replanting

Over the past decade, we have steadily planted our genetically improved seedlings and cultivated them with increasing silviculture expertise. By year-end 2010, we had approximately 78,000 hectares of area under management at our planted plantations spanning several provinces.

Now that we have achieved high yields, we are accelerating our replanting program. We are negotiating leases for land and deploying thousands of workers to prepare large tracts of land to plant up to 200,000 hectares between 2011 and 2012.

Acquisition of Intellectual Capital

To increase the versatility of our wood fibre, we acquired HOMIX Limited last year, along with its valuable patented technologies. Applying these leading technologies to our eucalyptus fibre will allow us to produce quality recomposed lumber – an environment-friendly product that increases the value of our upstream fibre. The use of such technologies will also reduce China's need to log ecological forests.

Chairman & CEO
Letter to Investors

Reinforcing Our Track Record

In 2010, we systematically executed our long-term strategy to enable Sino-Forest to increase its hectares under management by 55% to 788,700 hectares in China, sell over 17 million m^3 of plantation fibre, reach nearly $2 billion in revenue, and complete the year with almost $6 billion in assets. These key achievements bolstered our solid track record of 16 years as a forest industry leader in China.

With our ability to lock in large-scale wood resources at capped prices, we believe that investors can expect us to deliver a strong performance in 2011. Our plantation portfolio is expected to grow through Phase 1 acquisition and Phase 2 long-term sustainable replanting. We intend to concurrently acquire new plantations and replant harvested lands.

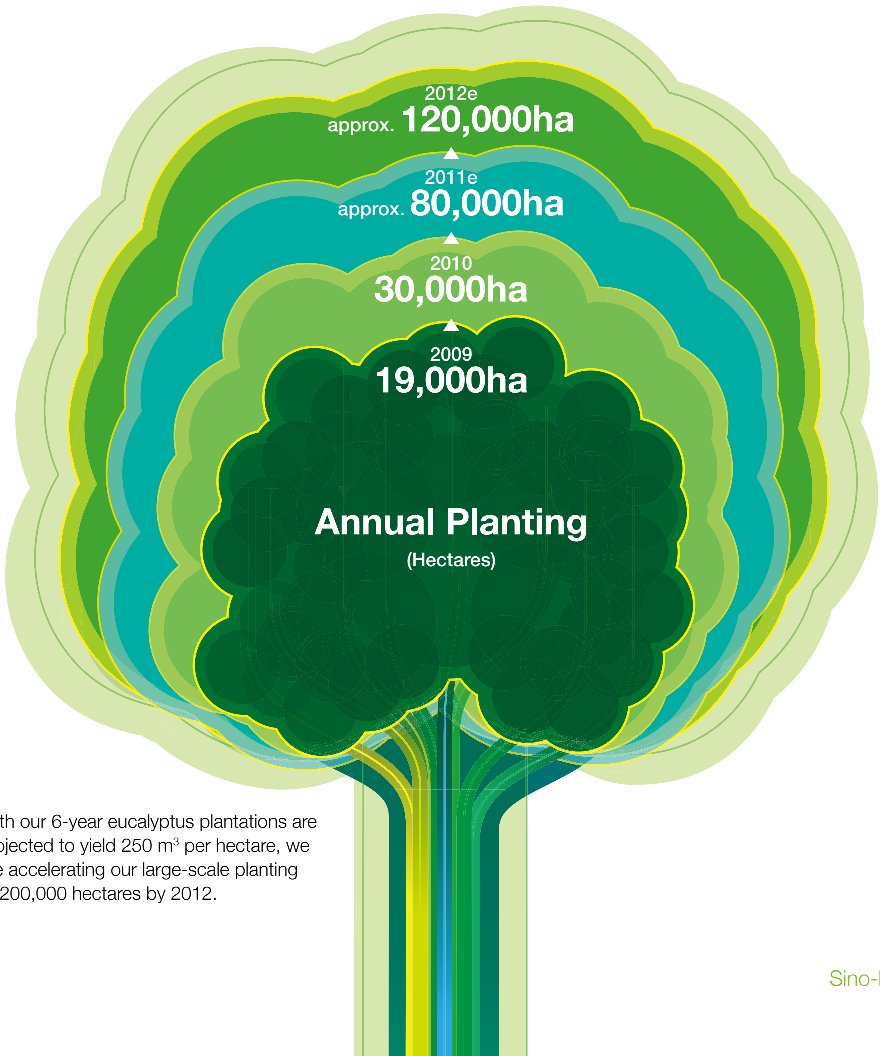
Outpacing Our Competitors

Since first setting foot in China's forestry sector back in 1994, we have established substantial competitive advantages over peers operating in China. We have a knowledgeable management team with valuable market insights, business relations, long-term commitment and investment to the industry.

Sino-Forest has significant intellectual capital invested in the science of fast-growing, high-yielding ("FGHY") trees, particularly in improving the yield and fibre quality of eucalyptus species. In fact, our planted eucalyptus has a projected yield of 250 m^3 per hectare. Now is the right time to accelerate the pace of our plantation program to plant 200,000 hectares by 2012.

We have global access to capital to finance additional major fibre acquisitions as well as faster planting. With our solid track record and reputation, we believe that we are better positioned to foresee and seize opportunities as they arise.

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.



With our 6-year eucalyptus plantations are projected to yield 250 m^3 per hectare, we are accelerating our large-scale planting to 200,000 hectares by 2012.

INTERNATIONAL YEAR OF FORESTS • 2011

The United Nations General Assembly declared 2011 as the International Year of Forests to raise awareness on sustainable management, conservation and sustainable development of all types of forests worldwide. Sino-Forest is pleased to support the UN and contribute to a more sustainable world by accelerating our planting of trees in 2011 and beyond.

Boldly Moving Forward

As described on previous pages of this report, market dynamics support our ongoing success in China. Robust economic growth, increasing middle-class incomes and massive urbanization are factors driving up demand for wood products and their prices. While rising inflation will put some upward pressure on our costs of acquiring fibre and operating plantations, we believe that we have the economies of scale, yield improvement technology and management expertise to preserve our gross margins.

With a mounting national wood deficit, governments in China will continue to financially support the rapid development of commercial plantations. We will continue to align our plans with government policies in order to maximize our returns on investment and increase China's wood supply self-sufficiency.

Allen Chan inspects Sino-Forest's fast-growing, high-yielding eucalyptus plantations.

There are millions of hectares of designated plantation lands in inland regions of the country where the productive yields and labour costs are relatively low. This offers us opportunities to negotiate more long-term agreements to acquire fibre, co-manage state-owned plantations, and extend our reach into more provinces.

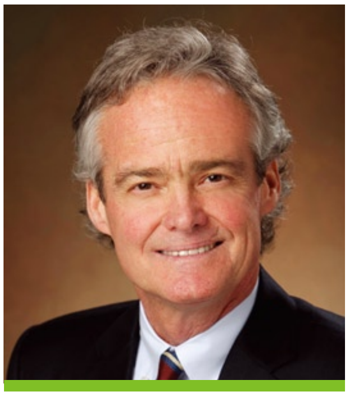
Our primary focus will be on building a cross-country portfolio of FGHY plantations capable of providing a steady annual stream of quality fibre and cash for re-investment. Where appropriate, we will create regional wood baskets, where our FGHY plantations are operationally integrated with complementary facilities that manufacture downstream wood products.

More doors are opening for us to sustainably source wood fibre from foreign countries for China's ever-growing fibre markets. We plan to pursue these opportunities through Greenheart Group, our primary entity for importing foreign wood products.

We can only pursue these opportunities and achieve our goals with the determination and support of our key stakeholders. So to our customers, shareholders, Board of Directors, employees and suppliers, I extend my sincere thanks for sharing and shaping our vision.

Allen T.Y. Chan
Chairman and Chief Executive Officer
March 31, 2011

Vice Chairman
Letter to Investors



I am honored to report to you for the first time as Vice Chairman of Sino-Forest and Chief Executive Officer of Greenheart Group.

For Greenheart, 2010 was a year of taking root for a bright new future. We restructured Omnicorp Limited to create Greenheart and developed a new vision and strategies to improve our financial results in 2011 and beyond as we ramp up our existing operations and add new assets. Greenheart's substantive transaction during the year was our structural change in ownership that occurred on August 3, 2010 which resulted in Sino-Forest becoming Greenheart's controlling shareholder now owning approximately 64% of Greenheart's common shares. Subsequently, we strengthened Greenheart's management team with the re-appointment of Daphne Tse as Chief Financial Officer and in January 2011, we appointed Andrew Fyfe as Chief Operating Officer. The three of us form the Company's Executive Management Committee from which substantive management policies and decisions are made.

Greenheart's strategy is to be Sino-Forest's international growth vehicle for acquiring sustainable and profitable forestry assets located outside China to serve the growing wood deficit within China while at the same time maintaining the ability to manage and operate in other markets around the world. At the end of 2010, Greenheart had three primary assets; a 60% interest in a 184,000 hectare hardwood concession located in western Suriname (Sino-Forest currently owns the remaining 40% minority interest); a commitment to acquire 13,000 hectares of freehold land including 11,000 hectares of softwood radiata pine plantations in New Zealand (which was completed subsequent to year end); and US$78 million in cash.

The Greenheart Tree – a tropical hardwood native to Suriname and Guyana.

In the first quarter of 2011, we acquired 60% of Vista Marine Services N.V., which holds certain harvesting rights to a 128,000-hectare concession in eastern Suriname. This acquisition expands Greenheart's land under management in Suriname to approximately 312,000 hectare. We are currently building two large-scale wood processing facilities, which we expect to complete late this year, which will allow us to process logs into lumber and other value-added products such as flooring, decking and special millwork. Greenheart's strategy in Suriname is to continue to expand our concession footprint and be the leader in the sustainable timber industry. We are committed to low-impact harvesting and silviculture methods as prescribed by Suriname's Centre for Agricultural Research ("CELOS"), and we will be working towards Forest Stewardship Council ("FSC") certification in all our operations. The responsible care of people and the environment is our corporate policy but also our state of mind.

We are evaluating a substantial pipeline of forestry related assets around the world including countries in North, Central and South America, and we are currently reviewing potential acquisition opportunities in Brazil, Peru, Africa and the Asia-Pacific region. Our investments will strengthen our position as a global forestry player – acting as Sino-Forest's international growth vehicle and we will expand to other markets when appropriate.

On behalf of Greenheart Group, I wish to thank the shareholders of both Sino-Forest and Greenheart for your support over the past year of positive change. We are working hard to meet your expectations.

Greenheart Group
always growing

W. Judson Martin
Vice Chairman, Sino-Forest Corporation
Chief Executive Officer, Greenheart Group Limited
March 31, 2011

Lead Director
Letter to Shareholders

Shareholders can take comfort with the fact that Sino-Forest has a clear vision of its promising future.

The past year has again been one of significant growth and progress for Sino-Forest. In my new role as Lead Director, I have worked closely with management and have been very impressed with the attention directed to business decisions and their focus on continuously improving the way plantations are managed. In addition to maximizing results from existing plantations, significant effort is being directed to R&D with the goal of developing new forestry methods, which in the future will yield increased productivity and fibre and will provide substantial long-term value for our shareholders. Furthermore, the increased investment in Greenheart Group is expected to provide a significant opportunity to source timber and fibre worldwide for import into China. Sino-Forest aligns several of its strategies with PRC government policies, and is therefore regarded as one of the leading forestry companies in China.

The Directors continue to stay abreast of new governance trends and, where appropriate, assimilate them into the organization. The Corporate Governance Committee, based on input from shareholders as well as our own research, recommended to the Board the adoption of a "majority vote" policy to be included in Sino-Forest's 2011 proxy. The Board unanimously endorsed and approved this recommendation.

Recognizing the need to align compensation with shareholder expectations of value creation, the Board will review Sino-Forest's current compensation practices, benchmarked against comparable organizations. We expect that the results of this review will be completed this year.

With the imminent transition in 2011 to the International Financial Reporting Standards ("IFRS"), the Board participated in seminars to ensure that Sino-Forest is well prepared for the transition and that no issues would impede our ability to meet IFRS guidelines.

Last year, the Board of Directors determined that with the company's ambitious growth plans and the introduction of IFRS, it would be appropriate to increase the breadth of skills of the Board. As a result we are delighted with the recent additions of Garry West and Jamie Bowland, who bring significant accounting and capital markets experience to our team. Sino-Forest's management will be well guided by its Board as the company continues to chart a promising future.

Shareholders can take comfort with the fact that Sino-Forest has a clear vision of its future, which is to support sustainable growth in a manner that respects the environment, to develop and explore new forestry techniques and technologies, and to provide significant growth potential for its investors.

William (Bill) Ardell
Lead Director
March 31, 2011

Chief Financial Officer
Letter to Investors

In 2010, Sino-Forest reported very strong operating and financial results including double-digit increases for almost all our key performance metrics. China's strong economic growth and government stimulus spending, along with rising demand for fibre for both domestic and imported wood products, collectively drove up our top and bottom lines. In addition, the company's increase in share price by 20% during the year created substantial value for investors.

By year end, we had acquired about half of the 1.3 million hectares of plantation area covered by our six master agreements. These agreements, together with our 788,700 hectares under management in China, are expected to provide Sino-Forest with enough fibre to sustainably sell for an estimated nine years to come (based on 17.6 million m^3 volume of fibre sold in 2010).

Sino-Forest also had a solid balance sheet at year end 2010, especially with cash on hand increasing 11% to $1.2 billion. One of our most important financial objectives has been to maintain an optimal capital structure, to control our overall cost of capital and to deploy the capital we need to execute our growth strategy and provide attractive returns to investors. We are working to diversify Sino-Forest's sources of financing by signing a $1.5-billion framework agreement with China Development Bank ("CDB") – one of China's policy banks that supports the country's primary industries. In the first quarter 2011, we accepted a first Renminbi loan offer by CDB of RMB350 million (approximately $50 million) to fund our long-term replanting. The CDB financing, with a competitive interest rate and long repayment tenure, represents a strong endorsement of Sino-Forest as a leading commercial plantation operator committed to increasing China's wood supply self-sufficiency. That said, we remain committed to maintaining conservative debt leverage ratios.

This year, we are projecting capital expenditures of approximately $1.9 billion, primarily for plantation tree acquisitions, replanting and maintenance. In addition, we expect to maintain attractive operating margins. While our revenues are expected to increase with the rising prices of fibre, our costs of fibre and land leasing will be largely capped by long-term agreements and we will increasingly benefit from economies of scale.

We believe that Sino-Forest's intrinsic value is higher than its market value for several reasons. As an early entrant in China's plantation sector, we have strong market positions in many large markets. We have a unique ability to acquire sizeable plantation areas through long-term master agreements that allow us to lock up fibre and secure strategic locations for long-term replanting. Furthermore, we have significant expertise in developing and cultivating scientifically improved seedlings and trees.

Finally, we thank our investors for their trust and financial support as we continue to build a solid foundation to sustain Sino-Forest's growth and success in China, a huge country full of promising opportunities.

David J. Horsley
Senior Vice President and Chief Financial Officer
March 31, 2011

We have a proven ability to raise capital globally, acquire substantial volumes of plantation fibre, deliver outstanding results and maintain a strong balance.

Environmental Stewardship

FSC
www.fsc.org
FSC™ C005232
The mark of responsible forestry

We strive to conduct our operations in harmony with nature, and to enrich the lives in communities where we operate.

Sino-Forest is one of the first companies in China to receive the Forest Stewardship Council™ ("FSC™") Forest Management/Chain of Custody certification at one of its plantations. FSC™ is recognized globally as having one of the most respected forest certification systems. A plantation area of 9,154 hectares managed by a subsidiary of Sino-Forest in Gaoyao City, Guangdong Province is FSC™ certified. In addition, one of our wood processing facilities located in the province of Heilongjiang has FSC™ Chain of Custody certification. We hope to expand FSC™ certification to our other plantations and operate in accordance with the following FSC™ Principles and Criteria for Forest Stewardship over time:

FSC™ Principles & Criteria	Examples of Common Sino-Forest Operating Practices
Compliance with Laws and International Treaties	We ensure that our operations respect applicable environmental and forestry laws and regulations at international, national, provincial and municipal levels.
Land Tenure and Use Rights	We operate commercial plantations only in areas officially designated by the government, and lease land long-term at fair market rates from those who hold the land use rights or their representatives.
Indigenous Peoples' Rights	We consult with indigenous peoples regularly and respect their rights to use and manage forest lands and resources.
Well-being of Workers and Local Communities; ILO Workers' Rights	We strive to protect the health and safety of Sino-Forest employees, including part-time and seasonal contract workers. We offer employment and training opportunities first to local communities and villagers at our plantations. Gaoyao Jiayao Forestry Development Co. Ltd. ("JFDC"), one of our subsidiaries based in Gaoyao, has established frequent communications to enable staff to express their opinions, conducts regular public meetings and opinion surveys with local residents and interested agencies, and educates and promotes environmental protection practices to encourage the care and protection of forests and their natural resources. Both JFDC and contracted forest workers are trained with respect to FSC™ practices and occupational health & safety matters before they work in the field. We comply with International Labour Organization's Conventions endorsed by China.
Efficient Use of Forest Economic, Environmental and Social Benefits	In any given year, the number of our trees that we harvest is generally no greater than the number of our trees that reach maturity. We harvest within the harvest quota set out by the local forestry authority. Through our operations, we contribute to rural economic development and employment, and strive to educate and enhance their knowledge in forestry management.

	We provide silviculture support to local communities, and help manage ecological forests. Cultural sites such as fengshui, and recreation areas within our plantations, are fully respected and protected for community enjoyment.
Environmental Impact; Maintenance of Forest Ecology	To minimize the environmental impact of logging, we control soil erosion by avoiding harvesting during the rainy season. We try to conserve rare species of wildlife and plants, and natural vegetation within our plantations. We identify and protect special habitats and ecologically sensitive areas to sustain biodiversity. Sino-Forest fertilizes prescriptively, using environment -friendly materials that comply with World Health Organization preferences, and we distance our plantations from drinking water supplies. We also use conservation areas or buffer zones as barriers from riparian zones.
Appropriate, Updated Management Plan	We regularly review and update our long-term forest management plan and annual operation plan for continuous improvement.
Monitoring & Assessment	Sino-Forest believes it is important to continuously monitor our forest plantations and improve plantation management. Therefore, we regularly assess soil conditions, track seedling growth and evaluate the impacts of our operations on the environment and social.
Maintenance of High Conservation Value Forests	To help preserve natural ecosystems, we implement our “Management Technical Guidelines for Ecologically Sensitive Areas”, which are designed to minimize the potential adverse environmental impacts of forest plantations on adjacent water bodies, riparian zones and steep slopes. One of our subsidiaries voluntarily cooperates with local forest bureaus to protect “ecological protection forest” by providing patrols to help prevent forest fires and illegal cutting, identify disease and pest problems, and offer scientific assistance when needed.
Plantations Preserving Natural Forests	We manage secondary natural forests in Yunnan Province. In order to preserve the diversity of indigenous species, after selective harvesting, we re-generate the forest rather than replant with only one specie. By significantly increasing productive yields at the commercial plantations we manage, we reduce the need for China to log its natural forests. We are also significantly accelerating our planting of trees to increase the long-term sustainability of our portfolio of plantations.

Our eucalyptus plantations and their underbrush provide wildlife habitats.

Our eucalyptus trees typically grow in six years to 13 to 15 metres in height and 13 to 18 centimeters in diameter.

Our nurseries and plantations increase carbon dioxide absorption.

Management's Discussion and Analysis

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

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements which reflect management's expectations regarding Sino-Forest's future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are forward-looking statements. These forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sino-Forest. These statements are not historical facts but instead represent only Sino-Forest's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors Sino-Forest currently believes to be material such as, but not limited to, our ability to acquire rights to additional standing timber, our ability to meet our expected plantation yields, the cyclical nature of the forest products industry and price fluctuation in and the demand and supply of logs, our reliance on the relationship with local plantation land owners and/or plantation land use rights holders, authorized intermediaries, key customers, suppliers and third party service providers, our ability to operate our production facilities on a profitable basis, changes in currency exchange rates and interest rates, our evaluation of the provision for income and related taxes and economic, political and social conditions and government policy in the PRC, the Republic of Suriname ("Suriname") and New Zealand 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 the 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 required by law.

OVERVIEW OF BUSINESS

About Sino-Forest

We are 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 Limited (formerly known as Omnicorp Limited) ("Greenheart Group"), a Hong Kong-listed company (HKSE: 00094), which together with its subsidiaries, owns certain rights and manages approximately 184,000 hectares of hardwood forest concessions in Suriname and, subject to the completion of certain conditions, is expected to manage 11,000 hectares of radiata pine plantation on 13,000 hectares of freehold land in New Zealand (see "Significant Business Activities – Acquisition of New Zealand Plantation Assets"). 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.

Strategic Business Units

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

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

Plantation Fibre

- we acquire, cultivate and sell standing timber or logs from our purchased and planted plantation business models in nine provinces and municipalities 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;
- block-board produced in Hunan Province;
- engineered veneer products in Jiangsu Province and Guangdong Province;
- plywood produced in Guangxi and Guangdong Provinces; and
- greenery and nursery operations based in Jiangsu Province.

Our Vision and Strategy

Our vision is to become the leading commercial forest plantation operator and 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.

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

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

Other Key Factors Affecting our Business

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

The demand for wood products is also affected by the level of interior decoration activity. These activities are, in turn, subject to fluctuations due to, among other factors:

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

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

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

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

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

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

We are subject to regulation under a variety of national and local laws and regulations in the jurisdictions in which we and our subsidiaries operate, including the PRC, Suriname and New Zealand. Violations of PRC laws or regulations that we may be subject to, 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.

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

Our manufacturing plants are in an early stage of development and have a short operating history. Our manufacturing plants are subject to the risks inherent in establishing a new business, including competitive pressures, which could have a material adverse effect on our business, financial condition and results of operations.

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

SIGNIFICANT ACCOUNTING POLICIES AND INTERPRETATION

Costs of Sales

Our costs of sales consist of: (1) depletion of timber holdings as they are sold; (2) the costs of logs acquired in the domestic PRC market; (3) the costs of imported logs and wood products acquired in our sales and trading activities of these products; (4) the costs incurred at our manufacturing plants; (5) amortization of timber concession licenses and cutting rights; (6) the provision for plantation and inventory losses; and (7) depreciation of capital assets.

Depletion of Timber Holdings

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

EBITDA

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

SIGNIFICANT BUSINESS ACTIVITIES

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

Acquired HOMIX Limited

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

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

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

Acquisition of Mandra and Issuance of Additional 2014 Senior Notes

The Company 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 in February 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), the Company initially paid $2.0 million in cash followed by a second $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") are 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, the Company issued 147,908 common shares as the Initial First Supplemental Payment, at an issuance price of Cdn.$15.60 per common share. At the date of this MD&A, these negotiations with the vendor are in process and are expected to be finalized in March 2011, 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, the Company completed an exchange with holders of certain notes issued by Mandra Forestry Finance Limited ("Mandra Finance") for additional guaranteed senior notes issued by the Company which are governed by the indenture dated July 27, 2009 (the "2014 Senior Notes") in the aggregate principal amount of $187,187,000.

Acquisition of Shares of Greenheart Resources

On June 1, 2010, the Company acquired 2,638,469,000 ordinary shares of Greenheart Resources Holdings Limited ("Greenheart Resources"). Total consideration was approximately $33 million paid by the issuance of 1,990,566 common shares of the Company at a price of Cdn.$17.49 per common share. One of the vendors, Forest Operations Limited, which is beneficially owned by a director of the Company, owned approximately 5.3% of the ordinary shares of Greenheart Resources that were sold. As a result of this share acquisition, the Company increased its direct voting interest in Greenheart Resources from 5.2% to 39.6% of Greenheart Resources issued share capital.

Acquisition of Shares of Greenheart Group

On June 22, 2010, the Company 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 $53.9 million. At a special general meeting held on July 29, 2010, the independent shareholders of Greenheart Group approved the share acquisition and on August 3, 2010, the acquisition of the Greenheart Group shares was completed. As a result of this share acquisition, the Company increased its voting interest in Greenheart Group from 19.8% to approximately 53.5% of Greenheart Group's enlarged issued share capital.

On September 27, 2010, the Company exercised the convertible bonds issued by Greenheart Group for 106.2 million ordinary shares of Greenheart Group. As a result of the conversion, the Company increased its voting interest in Greenheart Group to 59.1% of Greenheart Group's enlarged issued share capital.

Co-operative Framework Agreement with China Development Bank Corporation

On July 2, 2010, the Company entered into a co-operative framework agreement with the China Development Bank Corporation, a financial institution set up by the PRC State Council in 1994 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, the Company may be able to obtain from the China Development Bank Corporation up to RMB10.0 billion (equivalent to approximately $1.5 billion) of project financing to support the Company's wholly-owned subsidiaries' projects in the PRC.

Completed $600 million Senior Notes Offering

On October 21, 2010, the Company completed an offering of an aggregate of $600.0 million principal amount of guaranteed senior notes (the "2017 Senior Notes"). The 2017 Senior Notes bear interest at a rate of 6.25% per annum, payable semi-annually and shall mature on October 21, 2017. The net proceeds of the offering will be used primarily for general corporate purposes including, but not limited to, the acquisition and replanting of tree plantations.

Acquisition of New Zealand Plantation Assets

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

On January 7, 2011, the Company entered into a sales and purchase agreement to dispose of the Mangakahia Forest to Greenheart Group for a consideration of approximately $71 million, subject to adjustments upon the completion of the sale. The consideration will be settled partly in cash and partly in the form of ordinary shares of Greenheart Group.

SELECTED ANNUAL FINANCIAL INFORMATION

The following selected financial information has been derived from our consolidated financial statements for the three years ended December 31, 2010, 2009 and 2008:

Years ended December 31, (in thousands, except earnings per share and common shares outstanding)	2010 $	2009 $	2008 $
Operating Results			
Revenue	**1,923,536**	1,238,185	896,045
Cost of sales	**(1,252,023)**	(797,800)	(530,083)
Gross profit [1]	**671,513**	440,385	365,962
Net income from continuing operations	**383,924**	278,787	241,322
Net income	**395,426**	286,370	228,593
EBITDA [2]	**1,328,275**	898,802	597,122
Earnings per share from continuing operations [3]			
Basic	**1.59**	1.35	1.32
Diluted	**1.57**	1.34	1.31
Earnings per share [3]			
Basic	**1.62**	1.39	1.25
Diluted	**1.60**	1.38	1.24
Financial Position			
Current assets	**2,079,295**	1,586,761	811,457
Non-current assets	**3,649,738**	2,377,138	1,792,467
Total assets	**5,729,033**	3,963,899	2,603,924
Current liabilities (including current portion of long-term debt)	**755,784**	373,780	290,692
Long-term debt (excluding current portion)	**1,659,682**	925,466	714,468
Total shareholders' equity (net assets)	**3,198,121**	2,664,653	1,598,764
Cash dividends declared per share	**Nil**	Nil	Nil
Common shares outstanding	**245,740,889**	242,129,062	183,119,072

Over the past three fiscal years, we have focused on expanding our wood fibre operations. Revenue has grown over these periods primarily due to increased sales of fibre from our plantation fibre operations. Our revenue from plantation fibre operations increased to $1.4 billion (17.6 million m^3 of fibre) in the year ended December 31, 2010 compared to $954.2 million (14.2 million m^3 of fibre) in 2009.

Non-current assets, primarily plantation investments, increased over the past three years as we continued to focus on expanding our plantation area under management. As at December 31 of each year, we had the following plantation area under management:

2008	347,000 hectares
2009	512,700 hectares
2010	**799,700 hectares** (including 11,000 hectares in New Zealand)

In 2009, we completed equity financings of $674 million through private placement and public offerings, exchanged $212 million senior notes for 2014 Senior Notes and issued $460 million convertible senior notes (the "2016 Convertible Senior Notes"). In 2010, we completed an issuance of $600 million guaranteed senior notes and an exchange with holders of certain guaranteed senior notes issued by Mandra Finance for $187 million 2014 Senior Notes. The proceeds from these financings have been or will be used mainly for the acquisition of plantation assets and for general corporate purpose.

RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2010 AND 2009

Revenue

The following table sets forth the breakdown of our total revenue for the years ended December 31, 2010 and 2009:

	2010		2009	
	$'000	**%**	$'000	%
Wood Fibre Operations				
Plantation Fibre	**1,401,172**	**72.8**	954,194	77.1
Trading of Wood Logs	**454,018**	**23.6**	237,921	19.2
Manufacturing and Other Operations	**68,346**	**3.6**	46,070	3.7
Total	**1,923,536**	**100.0**	1,238,185	100.0

Our revenue increased 55.4% to $1,923.5 million in the year ended December 31, 2010, compared to $1,238.2 million in 2009. The increase in revenue was mainly due to the increase in sales from our wood fibre operations.

Wood Fibre Operations Revenue

Plantation Fibre

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

	2010				2009			
	Hectares	**Volume of fibre sold**	**Average price per m³**	**Total revenue**	Hectares	Volume of fibre sold	Average price per m³	Total revenue
		'000 m³	**$**	**$'000**		'000 m³	$	$'000
Standing timber	**37,347**	**6,713**	**76**	**507,907**	65,132	9,254	61	567,599
Logs	**83,110**	**10,920**	**82**	**893,265**	44,057	4,982	78	386,595
Total	**120,457**	**17,633**	**79**	**1,401,172**	109,189	14,236	67	954,194

Revenue from sales of plantation fibre increased 46.8% to $1.4 billion in the year ended December 31, 2010, compared to $954.2 million in 2009, mainly due to an increased average selling price and an increased volume of fibre sold in 2010.

The increase in the average selling price of standing timber was mainly due to a difference in sales mix. The average selling price of pine and Chinese fir in the year ended December 31, 2010 was $66 per m^3, compared to $62 per m^3 in 2009. In addition, we sold broadleaf in Yunnan as standing timber at an average selling price of $102 per m^3 in the year ended December 31, 2010, compared to $64 per m^3 in 2009. The revenue from broadleaf in Yunnan accounted for approximately 45.5% of standing timber revenue in the year ended December 31, 2010, compared to 4.6% in 2009.

The average sales per hectare increased 33.1% to approximately $11,600 per hectare in the year ended December 31, 2010, compared to approximately $8,700 per hectare in 2009.

The average yield per hectare sold as standing timber was 180 m^3 for the year ended December 31, 2010 and 142 m^3 in 2009. The average yield per hectare sold as logs was 131 m^3 for the year ended December 31, 2010 and 113 m^3 in 2009.

During the year ended December 31, 2010, we sold approximately 64,200 hectares of plantations which were acquired under the master agreements, mainly in Yunnan, Hunan and Guangxi.

Plantation fibre sales comprised 72.8% of total revenue in the year ended December 31, 2010, compared to 77.1% in 2009.

Trading of Wood Logs

Revenue from trading of imported and domestic wood products and logs increased 90.8% to $454.0 million in the year ended December 31, 2010, compared to $237.9 million in 2009. This increase was primarily due to higher volume of Russian logs sold.

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

Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations increased 48.4% to $68.3 million in the year ended December 31, 2010, compared to $46.1 million in 2009. The increase was mainly due to increased revenue from the sale of engineered wood flooring products and from the sale of recomposed wood products of the newly acquired Homix operation.

Gross Profit

Gross profit increased 52.5% to $671.5 million in the year ended December 31, 2010, compared to $440.4 million in 2009. Gross profit margin, being gross profit expressed as a percentage of revenue, decreased from 35.6% in the year ended December 31, 2009 to 34.9% in 2010.

Wood Fibre Operations Gross Profit

Plantation Fibre

Gross profit margin from sales of standing timber increased to 55.1% or $42 per m^3 in the year ended December 31, 2010, compared to 50.1% or $31 per m^3 in 2009, mainly due to the increase in average selling price of standing timber.

The gross profit margin from sales of logs was 40.4% or $33 per m^3 in the year ended December 31, 2010, compared to 36.0% or $28 per m^3 in 2009. The increase was mainly due to the increase in average selling price of logs in the year ended December 31, 2010.

Trading of Wood Logs

Gross profit margin from trading of imported and domestic wood products and logs decreased from 5.7% in the year ended December 31, 2009 to 5.2% in 2010.

Manufacturing and Other Operations Gross Profit

Gross profit margin from the manufacturing and other operations increased to 11.2% in the year ended December 31, 2010, compared to 7.4% in 2009. The increase was mainly due to improvement in the engineered wood flooring business segment.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 40.2% to $89.7 million in the year ended December 31, 2010, compared to $64.0 million in 2009. The increase was primarily due to increased staff costs, additional leasing charges, and incremental costs of newly acquired subsidiaries in 2010 including Mandra and Greenheart Group.

Depreciation and Amortization

Depreciation and amortization increased 9.6% to $5.1 million in the year ended December 31, 2010, compared to $4.7 million in 2009.

Income from Operations

Income from operations increased 55.1% to $576.7 million in the year ended December 31, 2010, compared to $371.7 million in 2009, due to the factors explained above. Our income from operations as a percentage of revenue was 30.0% in each of the years ended December 31, 2010 and 2009.

Interest Expense

Interest expense increased 80.5% to $128.1 million in the year ended December 31, 2010, compared to $71.0 million in 2009, mainly due to the interest on the additional 2014 Senior Notes and the 2017 Senior Notes issued in 2010.

Interest Income

Interest income increased 9.5% to $10.6 million in the year ended December 31, 2010, compared to $9.7 million in 2009.

Exchange Losses

The Company recorded an exchange loss of $3.1 million in the year ended December 31, 2010.

Loss on Changes in Fair Value of Financial Instrument

The Company recorded a loss of $4.4 million on the change in fair value of embedded conversion option of the convertible bonds issued by Greenheart Group for the period from January 1, 2010 to August 3, 2010 (being the date that the Company acquired control of Greenheart Group).

EBITDA

EBITDA increased 47.8% to $1.3 billion in the year ended December 31, 2010, compared to $898.8 million in 2009, as a result of the increase in revenue in 2010.

Provision for Income Taxes

The provision for income taxes was $70.6 million in the year ended December 31, 2010 compared to $27.9 million in 2009. The increase was the result of a $46.3 million tax provision due to higher earned income and an increase in the deemed profit percentage rate to 15% used in recording the income tax provision in the year ended December 31, 2010 compared to a 10% rate in the year ended December 31, 2009, as a result of changes to PRC tax laws and the Company's interpretation thereof. Furthermore, due to such changes, an additional $24.3 million provision was recorded in the third quarter of 2010 by the Company which applied a deemed profit percentage rate of 15% in certain provinces of the PRC where the Company did business in 2007, 2008 and 2009 rather than the previously applied 10% rate.

Net Income for the Year

As a result of the foregoing, net income for the year increased 38.1%, to $395.4 million in 2010, compared to $286.4 million in 2009. Overall net income for the year as a percentage of revenue decreased from 23.1% in the year ended December 31, 2009 to 20.6% in 2010.

Cash Flows

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

Years ended December 31, (in millions)	2010 $	2009 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations [4]	**1,173.6**	825.7
Net change in working capital [5]	**(333.5)**	(41.2)
Total	**840.1**	784.5
Cash flows used in operating activities of discontinued operations	**(0.6)**	(0.8)
Cash flows used in investing activities	**(1,403.1)**	(1,092.6)
Cash flows from investing activities of discontinued operations	**1.5**	24.1
Cash flows from financing activities	**680.8**	952.0
Cash flows used in financing activities of discontinued operations	**-**	(6.0)
Effect of exchange rate changes on cash and cash equivalents	**2.3**	-
Net increase in cash and cash equivalents	**121.0**	661.2

Cash flows from operating activities of continuing operations

Net cash provided from operating activities increased to $840.1 million in the year ended December 31, 2010, compared to $784.5 million in 2009. The increase in net cash provided by operating activities was due to an increase in cash provided by operations, offset by the increase in cash used in working capital that mainly resulted from the increase of accounts receivable in the year ended December 31, 2010.

Cash flows used in investing activities

In the years ended December 31, 2010 and 2009, cash flows used in investing activities were primarily used for capital expenditures to purchase additional forestry plantations, investments in manufacturing facilities and other assets. Our cash outlays for our forestry plantations amounted to $1.4 billion in the year ended December 31, 2010 and $1.0 billion in 2009. Our cash outlays for our manufacturing facilities and other capital assets amounted to $25.2 million in the year ended December 31, 2010 and $11.6 million in 2009. Our cash outlays for other assets amounted to $43.3 million in the year ended December 31, 2010 and $38.0 million in 2009. Our non-pledged short-term deposits decreased by $21.9 million in the year ended December 31, 2010 and increased by $10.9 million in 2009. We also received $296,000 and $216,000 from the proceeds of disposal of capital assets in the years ended December 31, 2010 and 2009, respectively. In addition, we obtained a net cash inflow of $2.1 million related to our business acquisitions in the year ended December 31, 2010. We paid $200,000 during the acquisition of convertible bonds of Greenheart Group in the year ended December 31, 2009.

Cash flows from financing activities

In the year ended December 31, 2010, cash flows from financing activities consisted of net proceeds from the issuance of common shares of $8.6 million, an increase in bank indebtedness of $48.0 million, a decrease in pledged short-term deposits of $17.2 million, an increase in long-term debt of $624.8 million and net proceeds from the exercise of share options of a subsidiary of $3.0 million, offset by the payment on deferred financing costs from the issuance of the 2014 Senior Notes of $20.3 million and the repayment of a long-term debt of $0.5 million. In the year ended December 31, 2009, cash flows from financing activities consisted of the net proceeds from the issuance of common shares of $652.5 million, an increase in bank indebtedness of $36.5 million and an increase in long-term debt of $460.0 million, offset by the payment on derivative financial instrument of $5.8 million, the payment on deferred financing costs from the issuance of the 2014 Senior Notes and the 2016 Convertible Senior Notes of $27.6 million, repayment of long-term debt of $150.0 million and an increase in pledged short-term deposits of $13.6 million.

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

The following table sets forth the selected financial information for the three months ended December 31, 2010 and 2009:

Three months ended December 31, (in thousands, except earnings per share)	2010 $	2009 $
Revenue	**767,273**	469,570
Cost of sales	**(535,212)**	(321,594)
Gross profit [(1)]	**232,061**	147,976
Net income from continuing operations	**160,368**	97,349
Net income	**170,905**	112,699
EBITDA [(2)]	**553,060**	356,526
Earnings per share from continuing operations [(3)]		
Basic	**0.66**	0.43
Diluted	**0.62**	0.43
Earnings per share [(3)]		
Basic	**0.70**	0.50
Diluted	**0.65**	0.49

Revenue

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

	2010		2009	
	$'000	%	$'000	%
Wood Fibre Operations				
Plantation Fibre	**581,432**	**75.8**	371,497	79.1
Trading of Wood Logs	**163,064**	**21.2**	82,992	17.7
Manufacturing and Other Operations	**22,777**	**3.0**	15,081	3.2
Total	**767,273**	**100.0**	469,570	100.0

Our revenue increased 63.4% to $767.3 million in the three months ended December 31, 2010, compared to $469.6 million in the same period in 2009. The increase in revenue was mainly due to the increase in sales from our wood fibre operations.

Wood Fibre Operations Revenue

Plantation Fibre

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

	Three months ended December 31, 2010				Three months ended December 31, 2009			
	Hectares	Volume of fibre sold	Average price per m^3	Total revenue	Hectares	Volume of fibre sold	Average price per m^3	Total revenue
		'000 m^3	$	$'000		'000 m^3	$	$'000
Standing timber	**10,612**	**1,561**	**63**	**97,953**	12,435	1,719	60	103,814
Logs	**47,658**	**5,789**	**84**	**483,479**	33,286	3,506	76	267,683
Total	**58,270**	**7,350**	**79**	**581,432**	45,721	5,225	71	371,497

Revenue from sales of plantation fibre increased 56.5% to $581.4 million in the three months ended December 31, 2010, compared to $371.5 million in the same period in 2009, mainly due to an increase in the revenue from logs.

The average sales per hectare increased 22.8% to $9,978 per hectare in the three months ended December 31, 2010, compared to $8,125 per hectare in the same period in 2009.

The average yield per hectare sold as standing timber was 147 m^3 for the three months ended December 31, 2010 and 138 m^3 in the same period in 2009. The average yield per hectare sold as logs was 121 m^3 for the three months ended December 31, 2010 and 105 m^3 in the same period in 2009.

During the three months ended December 31, 2010, we sold approximately 38,500 hectares of plantations which were acquired under the master agreements, mainly in Hunan and Guangxi.

Plantation fibre sales comprised 75.8% of total revenue in the three months ended December 31, 2010, compared to 79.1% in the same period in 2009.

Trading of Wood Logs

Revenue from trading of imported and domestic wood products and logs increased 96.5% to $163.1 million in the three months ended December 31, 2010, compared to $83.0 million in the same period in 2009. This increase was primarily due to higher volume of Russian wood logs sold.

Trading of wood logs sales comprised 21.2% of total revenue in the three months ended December 31, 2010, compared to 17.7% of total revenue in the same period in 2009.

Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations increased 51.0% to $22.8 million in the three months ended December 31, 2010, compared to $15.1 million in the same period in 2009, mainly due to the increase in revenue from the sale of engineered wood flooring and from the sale of recomposed wood products of the newly acquired Homix operations.

Gross Profit

Gross profit increased 56.8% to $232.1 million in the three months ended December 31, 2010, compared to $148.0 million in the same period in 2009. Gross profit margin, being gross profit expressed as a percentage of revenue, decreased from 31.5% in the three months ended December 31, 2009 to 30.2% in the same period in 2010.

Wood Fibre Operations Gross Profit

Plantation Fibre

Gross profit margin from sales of standing timber increased to 48.1% or $30 per m^3 in the three months ended December 31, 2010, compared to 46.2% or $28 per m^3 in the same period in 2009, mainly due to the increase in average selling price of standing timber.

The gross profit margin from sales of logs was 38.6% or $32 per m^3 in the three months ended December 31, 2010, compared to 35.0% or $27 per m^3 in the same period in 2009. The increase was mainly due to an increase in average selling price of logs in the three months ended December 31, 2010.

Trading of Wood Logs

Gross profit margin from trading of imported and domestic wood products and logs decreased from 5.9% in the three months ended December 31, 2009 to 4.7% in the same period in 2010.

Manufacturing and Other Operations Gross Profit

Gross profit margin from our manufacturing and other operations increased to 11.9% in the three months ended December 31, 2010, compared to 9.8% in the same period in 2009.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 57.0% to $30.0 million in the three months ended December 31, 2010, compared to $19.1 million in the same period in 2009. The increase was primarily due to increased staff costs, additional leasing charges and incremental costs of newly acquired subsidiaries in 2010.

Depreciation and Amortization

Depreciation and amortization increased 35.3% to $1.7 million in the three months ended December 31, 2010, compared to $1.2 million in the same period in 2009.

Income from Operations

Income from operations increased 57.0% to $200.3 million in the three months ended December 31, 2010, compared to $127.6 million in the same period in 2009, due to the factors explained above. Our income from operations as a percentage of revenue decreased from 27.2% in the three months ended December 31, 2009 to 26.1% in the same period in 2010.

Interest Expense

Interest expense increased 96.2% to $38.9 million in the three months ended December 31, 2010, compared to $19.8 million in the same period in 2009, mainly due to the interest on the 2017 Senior Notes issued in 2010 and the full quarter interest on the 2016 Convertible Senior Notes issued in December 2009.

Interest Income

Our interest income decreased 42.1%, from $2.9 million in the three months ended December 31, 2009 to $1.7 million in the same period in 2010.

Exchange Losses

The Company recorded an exchange loss of $0.7 million in the three months ended December 31, 2010.

EBITDA

EBITDA increased 55.1% to $553.1 million in the three months ended December 31, 2010, compared to $356.5 million in the same period in 2009, as a result of the increase in revenue in the three months ended December 31, 2010.

Provision for Income Taxes

The provision for income taxes was $4.1 million in the three months ended December 31, 2010, compared to $5.3 million in the same period in 2009.

Net Income for the Period

As a result of the foregoing, net income for the period increased 51.6% to $170.9 million in the three months ended December 31, 2010, compared to $112.7 million in the same period in 2009. Overall net income for the period as a percentage of revenue decreased from 24.0% in the three months ended December 31, 2009 to 22.3% in the same period in 2010.

Cash Flows

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

Three months ended December 31, (in millions)	2010 $	2009 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations [4]	**523.1**	337.3
Net change in working capital [5]	**(158.2)**	(111.2)
Total	**364.9**	226.1
Cash flows (used in) from operating activities of discontinued operations	**(0.1)**	1.5
Cash flows used in investing activities	**(575.2)**	(327.4)
Cash flows from financing activities	**616.1**	642.9
Cash flows used in financing activities of discontinued operations	**-**	(5.9)
Effect of exchange rate changes on cash and cash equivalents	**1.1**	-
Net increase in cash and cash equivalents	**406.8**	537.2

Cash flows from operating activities of continuing operations

Net cash provided from operating activities increased to $364.9 million in the three months ended December 31, 2010, compared to $226.1 million in the same period in 2009. The increase in net cash provided by operating activities was due to an increase in cash provided by operations, offset by the increase in cash used in working capital that mainly resulted from a net effect of the increase in accounts receivable and prepaid expenses and others, partially offset by the increase in accounts payable and accrued liabilities.

Cash flows used in investing activities

In the three months ended December 31, 2010 and 2009, cash flows used in investing activities were primarily used for capital expenditures to purchase additional forestry plantations, investments in manufacturing facilities and other assets. Our cash outlays for our forestry plantations amounted to $575.8 million in the three months ended December 31, 2010 and $302.3 million in the same period in 2009. Our cash outlays for our manufacturing facilities and other capital assets amounted to $2.8 million in the three months ended December 31, 2010 and 2009. Our cash outlays for other assets amounted to $4.4 million in the three months ended December 31, 2010 and $18.0 million in the same period in 2009. Our non-pledged short-term deposits decreased by $8.7 million in the three months ended December 31, 2010 and increased by $4.3 million in the same period in 2009. We received $154,000 and $105,000 from the proceeds of disposal of capital assets in the three months ended December 31, 2010 and 2009, respectively. We also incurred, in relation to business acquisitions, a net cash outflow of $1.0 million in the three months ended December 31, 2010.

Cash flows from financing activities

In the three months ended December 31, 2010, cash flows from financing activities consisted of net proceeds from the issuance of common shares of $3.7 million, an increase in long-term debt of $600.0 million, an increase in bank indebtedness of $31.4 million and net proceeds from the exercise of share options of a subsidiary of $3.0 million, offset by an increase in pledged short-term deposits of $7.7 million, and the payment on deferred financing costs from the issuance of long-term debt of $14.4 million. In the three months ended December 31, 2009, cash flows from financing activities consisted of an increase in long-term debt of $460.0 million, net proceeds from the issuance of common shares of $328.5 million and an increase in bank indebtedness of $32.7 million, offset by the repayment of long-term debt of $150.0 million, payment on deferred financing costs from the issuance of the 2016 Convertible Senior Notes of $13.6 million and an increase in pledged short-term deposits of $14.7 million.

ISSUED AND OUTSTANDING SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preference shares issuable in series, of which 245,740,889 common shares are issued and outstanding as of the date of this MD&A. On a diluted basis, the Company has 287,350,382 common shares outstanding as of the date of this MD&A, assuming the exercise of 2,861,416 outstanding stock options and the issuance of 17,007,603 and 21,740,474 common shares upon the conversion of the 2013 convertible senior notes in the aggregate principal amount of $345.0 million (the "2013 Convertible Notes") and the 2016 Convertible Senior Notes, respectively.

LIQUIDITY AND CAPITAL RESOURCES

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

We expect that cash and cash equivalents of $1.2 billion as at December 31, 2010 will allow us to manage the pace of our vision and strategies during the current global economic conditions. The Company continually assesses the quality of its accounts receivable, cash and cash equivalents and other assets and will take appropriate actions in response to changing market conditions.

FINANCING ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

As of December 31, 2010, we had secured and unsecured short-term borrowings of $154.0 million, comprising $47.1 million of short-term bank loans and $106.9 million of trust receipt loans. We had long-term debt, including short-term portion, of $1.7 billion. Our borrowings were mainly denominated in U.S. dollars and Renminbi.

Short-Term Borrowings

As of December 31, 2010, we had $242.6 million short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. As of December 31, 2010, $154.0 million in respect of bank indebtedness and $5.8 million in respect of other bank instruments were utilized. Pursuant to the amended provisions of the indenture governing the 9.125% guaranteed senior notes due 2011 and the indentures governing the 2014 Senior Notes and the 2017 Senior Notes, the maximum aggregate amount of the short-term borrowings which is at any time outstanding may not exceed an amount equal to 10.0% of total consolidated assets of the Company, but in any case may not exceed $400.0 million. Interest is payable on these short-term borrowings at a weighted average rate of 3.8% per annum, and the borrowings are either repayable on demand or due in less than one year. As of December 31, 2010, the short-term credit facilities were secured by certain of our land-use rights, buildings and timber holdings having an aggregate net book value of approximately $43.1 million and certain bank deposits of $13.0 million.

Other Contractual Obligations

As of December 31, 2010, we had other contractual obligations relating to: (1) approximately $51.6 million in respect of capital contributions to our Wholly Foreign Owned Enterprises ("WFOEs"); (2) $85.5 million of capital commitments in respect of land, buildings and plant and machinery; (3) $194.0 million of purchase commitments mainly regarding logs; (4) commitments under operating leases of approximately $243.8 million; and (5) $1.9 billion principal amount of long-term convertible and non-convertible guaranteed senior notes and Greenheart Group convertible notes.

Scheduled Maturity of Contractual Obligations

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

		Payment Due by Period			
	Total	Within one year	In the second and third year	In the fourth and fifth year	After the fifth year
	$'000	$'000	$'000	$'000	$'000
Long-term debt [6]	**1,917,187**	**87,670**	**345,000**	**424,517**	**1,060,000**
Capital contributions	**51,600**	**14,000**	**37,600**	**-**	**-**
Capital commitments [7]	**85,460**	**85,460**	**-**	**-**	**-**
Purchase commitments	**193,987**	**193,987**	**-**	**-**	**-**
Operating leases [8]	**243,796**	**28,491**	**21,782**	**16,263**	**177,260**
Total contractual obligations	**2,492,030**	**409,608**	**404,382**	**440,780**	**1,237,260**

Under the assignment agreement entered in May 2010, of which the former agreement was entered in July 2006 to secure at least 1.5 million m^3 of wood fibre annually in Inner Mongolia up to July 2018, the Company has acquired 913,480 m^3 of wood fibre as at December 31, 2010.

Under the agreement entered in July 2010 to secure at least 600,000 m^3 of wood fibre annually for a period not longer than 10 years in Russia, the Company has acquired 168,722 m^3 of wood fibre as at December 31, 2010.

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, the Company has acquired approximately 226,300 hectares of plantation trees for $926.5 million as at December 31, 2010.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has acquired approximately 190,300 hectares of plantation trees for $925.9 million as at December 31, 2010.

Under the master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, the Company has acquired approximately 127,000 hectares of plantation trees for $646.6 million as at December 31, 2010.

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

Under the master agreement entered in June 2009 to acquire between 150,000 to 300,000 hectares of plantation trees over a 3-year period in Jiangxi, the Company has acquired approximately 59,700 hectares of plantation trees for $269.1 million as at December 31, 2010.

Under the master agreement entered in January 2010 to acquire 150,000 hectares of plantation trees over a 3-year period in Guizhou, the Company has acquired approximately 22,200 hectares of plantation trees for $122.9 million as at December 31, 2010.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of December 31, 2010, we had provided guarantees of approximately $178.3 million to banks in connection with credit facilities granted to our subsidiaries. These guarantees expire at the maturity of the underlying debt, which are for varying terms of less than one year, unless the underlying debt is renewed.

HISTORICAL AND PLANNED CAPITAL EXPENDITURES

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

	Three months ended December 31,				**Twelve months ended December 31,**			
	2010		2009		**2010**		2009	
	Hectares	**$'million**	Hectares	$'million	**Hectares**	**$'million**	Hectares	$'million
Tree acquisition	**99,323**	**475.9**	76,431	338.6	**244,976**	**1,328.0**	255,503	1,016.4
Re-planting and maintenance of plantations		**17.8**		8.1		**42.7**		36.3
Tree acquisition – acquisition of subsidiaries	**-**	**-**		-	**86,786**	**283.1**		-
Panel manufacturing and others		**2.2**		8.3		**19.7**		19.1
Panel manufacturing and others – acquisition of subsidiaries		**-**		-		**10.2**		-
Tree and freehold land acquisitions – New Zealand	**11,000**	**70.5**		-	**11,000**	**70.5**		-
Total		**566.4**		355.0		**1,754.2**		1,071.8

Capital expenditures incurred at our plantations were for the acquisition of a variety of mature and immature trees, various plantation management costs, including land lease costs, the costs of planting, developing seedlings, fertilization, insecticide, labour and plantation maintenance service fees. Capital expenditures for manufacturing plants included the costs of constructing the facilities and purchasing and installing production line equipment. The difference between the cash outlays for our forestry plantations in the consolidated statements of cash flows and the above capital expenditure on plantations was due to non-cash transactions such as the movement of accounts payable and capitalization of deposit paid for the acquisition of plantations from other assets to timber holdings. The "Tree Acquisition – acquisition of subsidiaries" represents the number of hectares acquired upon completion of the acquisition of Mandra that were fully paid for and therefore recorded for accounting purposes in the financial statements. The difference between the 147,179 hectares and the 86,786 hectares above represents the number of hectares acquired and under management for which deposits on the purchase of the plantations were paid. The remaining purchase price will be paid when the hectares in question are harvested.

For fiscal 2011, capital expenditures are expected to be approximately $1.9 billion for plantation acquisitions, replanting and maintenance, and approximately $25.0 million for the development of manufacturing facilities integrated with plantation operations. These acquisition levels will be adjusted as necessary, based on several factors some of which are beyond our control, including changes in the macroeconomic environment in the PRC.

AGING OF ACCOUNTS RECEIVABLE

Plantation Fibre Operations

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

		Aging Analysis					
	Total Accounts Receivable $'000	0-30 Days $'000	31-60 Days $'000	61-90 Days $'000	91-180 Days $'000	181-360 Days $'000	Over One Year $'000
At December 31, 2010	**467,659**	**258,483**	**-**	**158,488**	**8,998**	**17,534**	**24,156**
At December 31, 2009	192,674	159,636	32,749	3	-	286	-

Trading of Wood Logs Operations, Manufacturing and Other Operations

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

		Aging Analysis					
	Total Accounts Receivable $'000	0-30 Days $'000	31-60 Days $'000	61-90 Days $'000	91-180 Days $'000	181-360 Days $'000	Over One Year $'000
At December 31, 2010	**168,967**	**97,917**	**30,570**	**21,531**	**3,195**	**13,173**	**2,581**
At December 31, 2009	89,632	38,260	25,947	16,360	6,123	2,874	68

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

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

Pursuant to the respective service agreements, Sino-Forest pays the salaries of the Chairman and Chief Executive Officer and the President in the form of consultancy fees to companies controlled by the noted executive officers. The consultancy fees incurred in the three months and year ended December 31, 2010 amounted to $7,785,000 [three months ended December 31, 2009 – $7,110,000] and $8,242,000 [year ended December 31, 2009 – $7,569,000], respectively, and were recorded at an exchange amount as agreed upon by the related parties.

In addition, as at December 31, 2010, we had an aggregate amount of $7,632,000 [December 31, 2009 – $6,958,000] accrued for consultancy fees payable to these related companies.

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

In June 2010, the Company acquired 2,638,469,000 ordinary shares of Greenheart Resources. Total consideration was approximately $33 million. One of the vendors, Forest Operations Limited, which is beneficially owned by a director of the Company, owned approximately 5.3% of the ordinary shares of Greenheart Resources that were sold.

On August 17, 2010, Greenheart Group issued an aggregate principal amount of $25,000,000 convertible notes for gross proceeds of $24,750,000. The sole subscriber to the convertible notes is a company in which a director of the Company has an indirect interest.

NON-GAAP MEASURES

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

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

QUARTERLY FINANCIAL INFORMATION

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

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

(in thousands, except per share amounts)	Revenue from continuing operations	Net Income from continuing operations	Net Income (Loss) from discontinued operations	Earnings Per Share [(3)] from continuing operations		Earnings (Loss) Per Share [(3)] from discontinued operations	
				Basic	Diluted	Basic	Diluted
	$	$	$	$	$	$	$
2010							
December 31	**767,273**	**160,368**	**9,149**	**0.66**	**0.62**	**0.04**	**0.03**
September 30	599,490	116,374	(274)	0.48	0.47	(0.00)	(0.00)
June 30	305,758	63,989	(277)	0.26	0.26	(0.00)	(0.00)
March 31	251,015	43,193	(419)	0.18	0.18	(0.00)	(0.00)
2009							
December 31	469,570	97,349	15,350	0.43	0.43	0.07	0.06
September 30	366,962	106,497	(880)	0.48	0.48	(0.00)	(0.00)
June 30	224,419	47,019	(1,970)	0.24	0.24	(0.01)	(0.01)
March 31	177,234	27,922	(4,917)	0.15	0.15	(0.03)	(0.03)

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Sino-Forest's significant accounting policies are described in note 1 to the consolidated financial statements for the year ended December 31, 2010. Each policy involves a number of estimates and assumptions made by management. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. On an on-going basis, the Company evaluates its estimates. Different accounting policies, or changes in estimates or assumptions, could potentially have a material impact, positive or negative, on Sino-Forest's financial position and results of operations. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates. The Company believes its most critical policies and estimates are those related to revenue recognition of standing timber, asset impairment of timber holdings, and capital assets and income tax provision.

Asset Impairment

Timber Holdings

Timber holdings represented 54.5% of the Company's consolidated total assets as at December 31, 2010. Timber holdings are carried on the Company's consolidated balance sheet at cost which includes cost of young trees, standing timber, and planting and maintenance costs. The Company reviews the recoverability of the carrying value of its timber holdings on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on timber holdings are measured as the amount by which the carrying value of the asset exceeds its fair value.

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

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

Capital and Intangible Assets

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

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

Revenue Recognition

Plantation Fibre

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

In situations where the Company is harvesting the plantation fibre and is responsible for all such related harvesting costs, revenue is recognized at the point in time when the logs are delivered to the buyer.

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

Provision and Contingencies for Tax Related Liabilities

The provision for income taxes and tax related liabilities and whether tax filings are required in a particular jurisdiction is subject to a number of different factors, estimates and judgments made by management. A change in the facts or in these estimates and judgments could have a material impact on the Company's tax expense.

The Company has operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates and that are subject to audit by all relevant tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions, changes in tax laws and administrative practice in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company operates. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions.

In particular, the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and in earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with 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 AI, the AI 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 also subject to enterprise income tax because of the Authorized Sales Activities. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales

Activities for up to a period from four to six years in practice (including the current year). Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to triple amount of the tax underpaid.

Management has concluded that based on all available evidence it is appropriate to recognize in these financial statements a provision representing management's estimate, based upon 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. The Company has been assessing the effect of the Circular on the BVI Subsidiaries and monitoring its interpretation and its application by the PRC tax authorities. Based upon the Company's analysis to date, the Company has recorded income tax based on a deemed profit rate of 15% for 2010. It has also applied the 15% rate in computing taxable income for operations in certain provinces where it does 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. The Company records its best estimate based upon the information available to it at each reporting date and actively revisits and adjusts this estimate if required as it updates its analysis. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of related contingencies in a period. In particular, if, as a result of administrative practices of the PRC tax authorities, the Company 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 the Company 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.

FUTURE ACCOUNTING STANDARDS

Canadian reporting issuers will cease reporting under Canadian GAAP and commence reporting under International Financial Reporting Standards ("IFRS") effective January 1, 2011, including providing IFRS-compliant comparative information for 2010.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

(1) Project Overview

Canadian reporting issuers will cease reporting under Canadian GAAP and commence reporting under International Financial Reporting Standards ("IFRS") effective January 1, 2011, including providing IFRS-compliant comparative information for 2010. IFRS uses a conceptual framework similar to Canadian GAAP, but significant differences exist in many aspects of recognition, measurement and disclosure. The transition from Canadian GAAP to IFRS first applies to the Company for the first quarter of 2011, for which it will prepare both the current and comparative financial information using IFRS. In those financial statements, the Company will also present an opening IFRS statement of financial position as at January 1, 2010, the date of its transition to IFRS. The Company's consolidated financial statements for the year ending December 31, 2011 will be its first annual financial statements complying with IFRS.

The Company will apply IFRS retrospectively as of January 1, 2010 as if it had always been in effect, subject to certain mandatory exceptions applying to and optional exemptions made available to first-time adopters, discussed below. Senior management has approved the Company's IFRS accounting policies, but IFRS standards are evolving and may be different at the time of transition. The International Accounting Standards Board (IASB) has several projects in progress that could affect the differences currently identified between Canadian GAAP and IFRS.

The Company commenced its IFRS conversion project in 2008. The project consists of four phases: diagnostic, design and planning, solution development and implementation. The diagnostic phase was completed during the latter part of 2008, and the design and planning phase was completed during the first half of 2009. During 2010, the Company completed the solution development phase, during which issue-specific work teams analyzed areas of possible impact, set out options and made recommendations. The implementation phase will continue through 2011 and 2012 as the Company issues its initial IFRS interim and annual financial statements.

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

Key Activities	Milestones	Status
Accounting policies and procedures:		
• Identify differences between IFRS and the Company's existing policies and procedures • Analyze and select ongoing policies where alternatives are permitted • Analyze and determine whether the Company will select any of the exemptions available to first-time adopters of IFRS • Implement revisions to accounting and procedures manuals	• Senior management approval and audit committee review of accounting policy decisions by Q4 2010 • Revised accounting policy and procedures manuals in place by changeover date	• Accounting policy alternatives have been analyzed and recommendations made as work progresses in each area. As at December 31, 2010, this work is substantially complete. • Revisions to accounting policy and procedures manuals are being drafted as work progresses in each area.
Financial statement preparation:		
• Prepare financial statements and note disclosures in compliance with IFRS • Quantify the effects of converting to IFRS • Prepare first-time adoption reconciliations required under IFRS 1	• Senior management approval and audit committee review of pro forma financial statements and disclosures by Q4 2010	• Draft IFRS-compliant financial statements, including required note disclosures, have been prepared and are in the process of being updated. • The effects of the conversion are being quantified as work progresses in each area. The most significant outstanding quantification issues are described below under *Financial Reporting Impact*.
Training and communication:		
• Provide topic-specific training to key employees involved with implementation • Provide training on revised policies and procedures to affected personnel, and develop awareness of IFRS throughout the organization • Provide timely communication of the impacts of converting to IFRS to our external stakeholders	• Broader training and internal awareness initiatives implemented prior to changeover date • Impact of converting to IFRS communicated prior to changeover	• Broader training and internal awareness initiatives to be developed by Q1 2011. • The Company has been providing increasingly detailed IFRS-related MD&A disclosures during 2010.
Business impacts:		
• Identify impacts of conversion on contracts including financial covenants and compensation arrangements • Identify impacts of conversion on tax matters	• Impacts on contracts identified by Q2 2010	• The adoption of IFRS is not currently expected to have any material impact on the Company's contracts. • Work on tax-related matters is progressing as planned.
IT systems and control environment:		
• Identify changes required to IT systems and implement solutions • For all identified changes to policies and procedures, assess impact on internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") and implement any necessary changes	• Necessary changes to IT systems and controls implemented by changeover date	• Required changes to IT systems, data collection mechanisms and controls are being identified as work has progressed in each area; these changes are not currently expected to be significant.

(2) Financial Reporting Impact

The Company has identified a variety of changes to its existing accounting policies; however, the following are the most significant. The Company is continuing to calculate the quantitative impact of some of these changes.

Timber holdings Under Canadian GAAP, the Company accounts for its planted and purchased plantations on the cost basis. At the time of preparing its previous MD&A disclosures on the financial reporting impact of adopting IFRS, the Company anticipated measuring these holdings under IAS 41 *Agriculture* at their fair value less costs to sell, reflecting changes as part of profit or loss.

Subsequent to its most recent MD&A, the Company reconsidered its analysis of IAS 41, focusing in particular on the characteristics of its purchased plantations. The Company holds the trees in these plantations only for a brief period of their total lifespan, during which they undergo minimal biological transformation. It earns revenue by identifying opportunities for reparceling the purchased plantations for resale as standing timber, for sale as harvested logs, or by otherwise capitalizing on its unique position in the market.

The Company has concluded that the trees held within the purchased plantations do not fall within the scope of IAS 41, because its use of the trees does not constitute agricultural activity (managing the biological transformation and harvesting of biological assets for sale or for conversion into agricultural produce or into additional biological assets). The Company has concluded instead that these trees fall within the scope of IAS 2 *Inventories,* as it holds them for sale in the ordinary course of business or when it sells them as harvested logs in the process of production for such sale. Consequently, it now anticipates measuring these trees under IFRS at the lower of cost and net realizable value. In most cases, this will generate the same carrying value as the Company currently applies in measuring the assets under Canadian GAAP.

The Company's planted plantations do fall within the scope of IAS 41 and, as previously disclosed, will be measured at their fair value less costs to sell, reflecting changes as part of profit or loss. Sino-Forest already receives fair value information through an annual valuation report prepared by an internationally recognized third party valuator and has disclosed this value in the MD&A for previous years, without reflecting it in the financial statements. For IFRS purposes, the Company will engage such valuator to provide fair value information at each interim reporting date for planted plantations. Historically, this valuator has provided information for trees that are older than 3 or 4 years while trees younger than 3 or 4 years are not saleable, thus carried at cost.

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

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

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

In addition, the "cash-generating units" into which assets are organized for impairment-testing purposes under IFRS might be identified at a lower level than the asset groups identified under Canadian GAAP, possibly also leading to additional asset impairments under IFRS. On the other hand, unlike Canadian GAAP, IFRS allows reversing previously-recognized impairment losses where the circumstances have changed. The Company does not currently expect these differences in methodology to generate additional impairment losses on transaction to IFRS.

Business combinations The Company has made several business acquisitions during 2010 and has accounted for these transactions under Canadian GAAP in accordance with Section 1581, rather than early-adopting Section 1582 (which is consistent with IFRS). In presenting IFRS-compliant comparative information for 2010, the Company will restate certain aspects of this accounting to conform with IFRS 3 *Business Combinations.* Among other things, under IFRS 3:

- The Company will reflect the contingent element of purchase consideration in the acquisition equation at its fair value at that date, rather than treating it as an additional cost of the purchase when the contingencies are resolved and the consideration becomes issuable.
- The Company will also reflect its previously-held equity interests in the acquired entities at their fair value in the acquisition equation, recognizing a gain in profit or loss; this previously held interest is not revalued under Canadian GAAP.
- The Company will elect not to apply IFRS 3 retrospectively to business combinations that occurred before the transition date.

Other elections and exemptions available to first-time adopters The Company's opening IFRS statement of financial position will also reflect the impact of the following expected elections (subject to final approval by the audit committee) available to entities adopting IFRS for the first time:

- **Foreign currency** The Company will elect to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS.
- **Borrowing costs** The Company will elect not to apply IAS 23 Borrowing Costs retrospectively to qualifying assets for which the commencement date for capitalization was before the transition date.
- **Leases** The Company will revisit the determinations it previously made under Canadian GAAP of whether various arrangements contain a lease based on facts and circumstances existing on the transition date.
- **Financial instruments** The Company has elected at the transition date to designate certain financial assets as available-for-sale and others at fair value through profit or loss.

The Company will use estimates under IFRS consistent with those it applied under Canadian GAAP (adjusting where necessary for accounting policy differences), as no objective evidence exists that those estimates were in error.

RISK AND UNCERTAINTIES

Other than as described above under "Critical Accounting Estimates – Provision and Contingencies for Tax Related Liabilities", there are no significant changes to the risk and uncertainties as described in the most recent annual information form of the Company, which is available on SEDAR at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

The Company acquired the Greenheart Group in August 2010. Although the CEO and CFO have not identified any material weaknesses relating to the Greenheart Group's controls and procedures, they have not completed evaluating these controls and procedures or designing and implementing any necessary changes. Therefore, they have concluded it is appropriate to apply the provision in National Instrument 52-109 whereby acquisitions made within 365 days of the year end may be excluded from the scope of the design of DC&P and ICFR, provided appropriate disclosure is made. Accordingly, the CEO and CFO have limited the scope of the design of DC&P and ICFR at December 31, 2010 to exclude controls and procedures of the Greenheart Group. These will be included within the design of DC&P and ICFR during 2011. Summary financial information of the Greenheart Group included in the Company's consolidated financial statements is as follows:

As of December 31, 2010 and for the period from August 3, 2010 to December 31, 2010 (in millions)	$
Revenue	**1.0**
Net loss before non-controlling interests	**(8.5)**
Current assets	**80.6**
Non-current assets	**134.1**
Current liabilities	**(1.4)**
Non-current liabilities	**(37.2)**

Except as described above, the design and effectiveness of internal controls over financial reporting was assessed as of December 31, 2010. Based on that evaluation, the Company concluded that the design and effectiveness of the Company's DC&P and ICFR were ineffective due to the weakness discussed below with respect to ICFR.

The success of the Company's vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. As such, senior management plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. By taking additional steps in 2011 to address this deficiency, management will continue to monitor and work on mitigating this weakness.

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

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

OUTLOOK

China's National People's Congress meeting, which was concluded on March 14, 2011, laid out the country's Twelfth Five-year Plan (2011-2015) ("Plan"). The main policy themes and guidelines of this Plan include the taming of inflation, rebalancing of economic growth, improvement of peoples' livelihoods through income distribution, faster income growth, social security improvements, construction of affordable housing, and acceleration of inland and rural region development. Allen Chan said, "we remain very optimistic about the potential for China's domestic growth and demand for wood fibre." In order to cultivate and supply an increasing share of the country's wood fibre, Sino-Forest will continue to focus on "planting trees for China". At the same time, our subsidiary, Greenheart Group, will focus on "importing foreign fibre into China in a sustainable and environment-friendly manner".

We are committed to running sustainable, long-term plantation operations in China. To support our long-term goal, in the third quarter 2010, we announced our plans to plant 200,000 hectares by 2012 with our scientifically advanced seedlings, of which we anticipate planting 80,000 to 100,000 hectares in 2011. Allen Chan concluded, "we are confident in our ability to reach this significant target, given our 16-year track record, scientific advantages and plantation silviculture expertise."

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

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

EBITDA is calculated as follows:

	Years ended December 31,			Three months ended December 31,	
	2010	2009	2008	**2010**	2009
	$'000	$'000	$'000	**$'000**	$'000
Income from continuing operations	**576,656**	371,712	309,384	**200,340**	127,602
Plus: depreciation	**5,145**	4,693	3,206	**1,682**	1,243
depletion of timber holdings	**746,474**	522,397	284,532	**351,038**	227,681
	1,328,275	898,802	597,122	**553,060**	356,526

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

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

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

(6) Represents the U.S. dollar denominated debts due in 2011, 2013, 2014, 2015, 2016 and 2017.

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

(8) These represent mainly leases of plantation land.

Management's Report

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the Annual Report is consistent with the consolidated financial statements.

Management maintains systems of internal accounting and administrative controls to provide reasonable assurance as to the reliability of the financial records and the safeguarding of the Company's assets.

The Audit Committee, which is mainly comprised of outside directors, meets periodically with management to discuss the adequacy of the system of internal controls and the integrity of the Company's financial reporting.

The consolidated financial statements have been reviewed by the Audit Committee prior to submission to the Board of Directors. The consolidated financial statements have also been audited by Ernst & Young LLP, who have full access to the Audit Committee, with and without the presence of management.

Allen T.Y. Chan
Chairman and Chief Executive Officer
March 14, 2011

David J. Horsley
Senior Vice President and Chief Financial Officer

Independent Auditors' Report

To the shareholders of Sino-Forest Corporation

We have audited the accompanying consolidated financial statements of **Sino-Forest Corporation,** which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Sino-Forest Corporation** as at December 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada,
March 14, 2011.

Consolidated Statements of Income and Retained Earnings

Years ended December 31, (Expressed in thousands of United States dollars, except for earnings per share information)	2010 $	2009 $
Revenue	**1,923,536**	1,238,185
Costs and expenses		
Cost of sales	**1,252,023**	797,800
Selling, general and administration	**89,712**	63,980
Depreciation and amortization	**5,145**	4,693
	1,346,880	866,473
Income from operations before the undernoted	**576,656**	371,712
Interest expense	**(128,124)**	(70,977)
Interest income	**10,609**	9,691
Exchange losses	**(3,086)**	(4,958)
Loss on changes in fair value of financial instruments	**(4,419)**	(417)
Other income	**2,932**	1,600
Income before income taxes	**454,568**	306,651
Provision for income taxes (note 17)	**(70,644)**	(27,864)
Net income from continuing operations	**383,924**	278,787
Net income from discontinued operations (note 9)	**8,179**	7,583
Net income before non-controlling interests	**392,103**	286,370
Non-controlling interests	**3,323**	-
Net income for the year	**395,426**	286,370
Earnings per share (note 19)		
Basic	**1.62**	1.39
Diluted	**1.60**	1.38
Earnings per share from continuing operations		
Basic	**1.59**	1.35
Diluted	**1.57**	1.34
Earnings per share from discontinued operations		
Basic	**0.03**	0.04
Diluted	**0.03**	0.04
Retained earnings		
Retained earnings, beginning of year	**1,054,257**	769,557
Net income for the year	**395,426**	286,370
Transfer to statutory reserve (note 16)	**(318)**	(1,670)
Retained earnings, end of year	**1,449,365**	1,054,257

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31, (Expressed in thousands of United States dollars)	2010 $	2009 $
Net income for the year	**395,426**	286,370
Other comprehensive income (loss):		
Unrealized gains on foreign currency translation of self-sustaining operations	**97,030**	3,819
Unrealized gains on financial assets designated as available-for-sale	**2,490**	8,498
Reversal of unrealized gains on financial assets designated as available-for-sale	**(8,756)**	-
Other comprehensive income	**90,764**	12,317
Comprehensive income	**486,190**	298,687

See accompanying notes

Consolidated Balance Sheets

As at December 31, (Expressed in thousands of United States dollars)	2010 $	2009 $
ASSETS		
Current		
Cash and cash equivalents	**1,223,352**	1,102,366
Short-term deposits (note 3(a))	**32,101**	70,387
Accounts receivable (note 4)	**636,626**	282,306
Inventories (note 5)	**61,978**	45,978
Prepaid expenses and other	**125,238**	54,747
Convertible bonds	**-**	29,446
Assets of discontinued operations (note 9)	**-**	1,531
Total current assets	**2,079,295**	1,586,761
Timber holdings	**3,122,517**	2,183,489
Capital assets, net (note 6)	**113,150**	77,377
Intangible assets (note 7)	**139,910**	636
Other assets (note 8)	**274,161**	115,636
	5,729,033	3,963,899
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 3(b))	**153,959**	103,991
Current portion of long-term debt (note 12)	**87,670**	-
Accounts payable and accrued liabilities (note 18)	**499,854**	250,287
Income taxes payable	**10,602**	7,346
Liabilities of discontinued operations (note 9)	**3,699**	12,156
Total current liabilities	**755,784**	373,780
Long-term debt (note 12)	**1,659,682**	925,466
Future income tax liabilities	**63,906**	-
Total liabilities	**2,479,372**	1,299,246
Non-controlling interests	**51,540**	-
Shareholders' equity		
Equity portion of convertible senior notes (note 12(c) and 12(d))	**158,883**	158,883
Share capital (note 13)	**1,261,300**	1,213,495
Contributed surplus (note14)	**11,673**	12,200
Accumulated other comprehensive income (note 15)	**314,912**	224,148
Statutory reserve (note16)	**1,988**	1,670
Retained earnings	**1,449,365**	1,054,257
Total shareholders' equity	**3,198,121**	2,664,653
	5,729,033	3,963,899

Commitments and Contingencies (note 18 and 24)

See accompanying notes

On behalf of the Board:

Allen T.Y. Chan
Director

James M.E. Hyde
Director

Consolidated Statements of Cash Flows

Years ended December 31, (Expressed in thousands of United States dollars)	2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**395,426**	286,370
Net income from discontinued operations	**(8,179)**	(7,583)
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	**746,474**	522,397
Depreciation and amortization	**7,919**	4,693
Accretion of convertible senior notes	**26,555**	13,689
Stock-based compensation	**3,573**	4,601
Loss on changes in fair value of financial instruments	**4,419**	417
Unrealized exchange (gains) losses	**(2,089)**	1,880
Other	**(511)**	(751)
	1,173,587	825,713
Net change in non-cash working capital balances (note 20)	**(333,502)**	(41,196)
Cash flows from operating activities of continuing operations	**840,085**	784,517
Cash flows used in operating activities of discontinued operations	**(562)**	(826)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	**(1,358,878)**	(1,032,009)
Increase in other assets	**(43,331)**	(38,041)
Additions to capital assets	**(25,240)**	(11,649)
Decrease (increase) in non-pledged short-term deposits	**21,872**	(10,942)
Business acquisition, net of cash acquired of $63,829,000 (note 10)	**2,139**	-
Proceeds from disposal of capital assets	**296**	216
Acquisition of convertible bonds	**-**	(200)
Other	**75**	-
Cash flows used in investing activities	**(1,403,067)**	(1,092,625)
Cash flows from investing activities of discontinued operations	**1,478**	24,120
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term debt	**624,750**	460,000
Increase in bank indebtedness	**47,962**	36,534
Decrease (increase) in pledged short-term deposits	**17,255**	(13,633)
Issuance of shares, net of issue costs	**8,555**	652,474
Proceeds from exercise of share options of a subsidiary	**3,079**	-
Payment of financing costs	**(20,328)**	(27,591)
Repayment of long-term debt	**(530)**	(150,000)
Payment on derivative financial instrument	**-**	(5,781)
Cash flows from financing activities	**680,743**	952,003
Cash flows used in financing activities of discontinued operations	**-**	(5,972)
Effect of exchange rate changes on cash and cash equivalents	**2,309**	(22)
Net increase in cash and cash equivalents	**120,986**	661,195
Cash and cash equivalents, beginning of year	**1,102,366**	441,171
Cash and cash equivalents, end of year	**1,223,352**	1,102,366
Supplemental cash flow information		
Cash payment for interest charged to income	**82,447**	52,363
Interest received	**5,569**	3,723

See accompanying notes

Notes to Consolidated Financial Statements

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

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries.

All significant intercompany accounts and transactions have been eliminated on consolidation.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses for the periods reported. Areas where the nature of estimates makes it reasonably possible that the actual results could materially differ from amounts estimated include allowance for doubtful accounts receivable, allowance for product warranty, estimated useful lives of assets for depreciation and amortization, asset impairment assessments of timber holdings, capital assets, intangible assets, timber concession licenses and cutting rights and other assets, wood product contracts and provision for income taxes.

Revenue recognition

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

Revenue from wood product contracts is recorded based on the percentage-of-completion method, determined based on total costs incurred to expected total cost of the project and work performed. Revenues and costs begin to be recognized when progress reaches a stage of completion sufficient to reasonably determine the probable results. Any losses on such projects are charged to operations when determined.

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

Foreign currency translation

The Company's reporting and functional currency is U.S. dollars. The assets and liabilities of subsidiaries denominated in functional currencies other than U.S. dollars are translated into U.S. dollars at the year end exchange rate. Revenue and expense items are translated at average exchange rates for the year. The resulting net translation adjustment is included in the accumulated other comprehensive income account in shareholders' equity.

Other foreign currency transactions are translated using the temporal method. Exchange gains or losses are included in the consolidated statement of income.

Financial instruments

Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity or loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method.

The Company has made the following classifications:

- Cash and cash equivalents and short-term deposits are classified as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in the statement of income and retained earnings.
- Accounts receivable, subordinated loans and interest receivable, convertible bonds receivable and deposit for purchase of logs are classified as "loans and receivables" and are initially recorded at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

- Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Investments are classified as available for sale and are recorded at fair value based on quoted market prices. Gains or losses resulting from periodic revaluation are recorded in other comprehensive income. No revaluation is recorded where an investment does not have a quoted market price.

Derivative financial instruments

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The fair value of quoted derivatives is equal to their positive or negative market value. If a market value is not available, the fair value is calculated using standard financial valuation models, such as discounted cash flow or option pricing models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in fair value are recorded in income at each reporting period. The Company does not enter into derivative financial agreements for trading or speculative purposes.

Convertible Bonds

Convertible bonds receivable contain embedded derivative instruments that are bifurcated and accounted for as assets. The total disbursement allocated to the convertible hybrid instrument is first allocated to the fair value of all the derivative instruments to be bifurcated determined using the Black Scholes model. The remaining disbursements, if any, are then allocated to the host instruments, usually resulting in those instruments being recorded at a discount from their face amount.

To the extent that the total disbursement paid exceeds the fair values of any bifurcated derivative instrument assets, an immediate charge to income is recognized in order to initially record the derivative instrument assets at their fair value. The bifurcated embedded derivatives are then revalued at each reporting date, with changes in the fair value reported as charges or credits to income.

The discount from the face value of the convertible bonds, together with the stated interest on the instrument, is amortized over the life of the instrument through periodic charges to income, using the effective interest rate method.

Convertible Senior Notes

The Company's convertible senior notes are segregated into their debt and equity components at the date of issue, in accordance with the substance of the contractual agreements. The debt component of the instruments is classified as a liability, and recorded as the present value of the Company's obligation to make future interest payments and settle the redemption value of the instrument. The carrying value of the debt component is accreted to the original face value of the instruments, over the term of the convertible senior notes, using the effective interest method. The value of the conversion option makes up the equity component of the instruments. The conversion option is recorded using the residual value approach.

Inventories

Raw materials, timber logs, finished goods and nursery are valued at the lower of cost, determined on a weighted average cost basis, and net realizable value. Work in progress and finished goods are valued at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of raw materials, direct labour and applicable production overheads, excluding borrowing costs, based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Timber holdings

Timber holdings comprise planted and purchased plantations which include acquisition costs of young trees and standing timber, planting and maintenance capitalized over the growth cycle of the type of tree. Timber holdings from plantations sales are depleted when the significant risks and rewards of ownership have been transferred to the buyer, based on the area of timber sold or harvested.

Investments

Investments where the Company does not have significant influence or control are accounted for at fair value, or on the cost basis if there is no quoted market price available. Investments are written down only when there is evidence that a decline in value that is other than temporary has occurred.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting carrying value and tax basis of assets and liabilities. Future income tax liabilities and assets are calculated using the substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Future tax assets are evaluated and, if realization is not considered more-likely-than-not, a valuation allowance is provided.

The Company evaluates a tax position for uncertainty in income taxes using a two step process.

Step 1 – Recognition requires the Company to determine whether a tax position, based solely on technical merits, has a likelihood of more than 50 percent ("more-likely-than-not") that the tax position taken will be sustained upon examination assuming the appropriate tax authority has full knowledge of all relevant facts.

Step 2 – Measurement, which is only addressed if Step 1 has been satisfied, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement.

The Company recognizes interest and penalties as an income tax expense.

Capital assets

Capital assets are recorded at cost including interest capitalized on assets under construction. Repairs and maintenance expenditures are charged to income; major betterments and replacements are capitalized. Depreciation and amortization are provided on a straight-line basis over the following estimated useful lives of capital assets:

Land-use rights	Over the term of the land-use rights
Buildings	20 years
Machinery and equipment	15 years
Office furniture and equipment	5 to 10 years
Vehicles	5 to 10 years

Forestry land

Forestry land is freehold land in New Zealand which is measured initially at cost, including transaction costs, and is not depreciated.

Asset impairment

Timber holdings, capital assets, intangible assets, timber concession licenses and cutting rights and other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses on long-lived assets are measured as the amount by which the carrying amount of an asset group exceeds its fair value, once it is determined that the undiscounted future cash flows of the asset group do not exceed its carrying amount.

Goodwill is subject to an annual assessment for impairment unless events or changes in circumstances indicate that the value may not be fully recoverable, in which case the assessment is done at that time. Goodwill is assessed primarily by applying a fair value-based test at the reporting unit level. The fair value is estimated using the present value of expected future cash flows.

Licenses and patent rights

Licenses and patent rights are recorded at cost on the date of acquisition. Licenses with indefinite useful lives are not amortized and are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The patent rights are stated at cost less accumulated amortization and any accumulated impairment losses. The patent rights are being amortized over their estimated useful life of 10 years.

Timber concession licenses and cutting rights

Timber concession licenses and cutting rights are stated at cost less accumulated amortization and any accumulated impairment losses. These licenses and cutting rights give the Company the right to harvest trees in the allocated concession forests in designated areas in the Republic of Suriname. Amortization is charged on a unit of production basis over the estimated useful lives of timber concession licenses and cutting rights.

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired and is not amortized.

Stock-based compensation plan

The Company has the following stock-based compensation plans as further described in note 13: the Company's Stock Option Plan ("SFC SOP"), the Company's Deferred Stock Unit Plan ("SFC DSU Plan") and the Greenheart Group Limited's Stock Option Plan ("Greenheart SOP").

Under the SFC SOP and Greenheart SOP, the Company measures and recognizes compensation expenses using the fair value method. Under this method, compensation expenses are measured at fair value at the grant date using the Black-Scholes option pricing model and recognized as a charge to selling, general and administrative expenses on a straight line basis over the vesting period with a corresponding credit included in equity as contributed surplus for the SFC SOP and in non-controlling interests for the Greenheart SOP. The contributed surplus balance is reduced as share options granted under the SFC SOP are exercised through a credit to share capital, along with the proceeds received upon exercise. In the event that options are forfeited prior to having vested, any previously recognized expense is reversed in the period of forfeiture.

Under the SFC DSU Plan, the Company issues deferred stock units ("DSUs") to non-executive directors that are intended to be settled in cash or in the form of common shares of the Company at the option of the holder. Upon issuance, the fair value of the DSUs is recorded as compensation expense and a corresponding liability is established using the fair value of the common shares. At all subsequent reporting dates, the liability is adjusted to the market value of the underlying shares and the adjustment is recorded as compensation cost.

Basic and dilutive earnings per share

Basic earnings per share are computed by dividing the net income available to the holders of the common shares of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common shares. The dilutive effect of options and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method.

Deferred financing costs

Financing costs incurred in connection with long-term debt have been deferred and are recorded as a reduction to the principal amount of the associated long-term debt. The costs are amortized over the term of the related long-term debt using the effective interest rate method.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are presented net when there is a legally enforceable right to set off the recognized amounts and the Company intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and short-term deposits with original maturities of less than three months at the date of acquisition.

2. FUTURE ACCOUNTING STANDARDS

Canadian reporting issuers will cease reporting under Canadian GAAP and commence reporting under International Financial Reporting Standards ("IFRS") effective January 1, 2011, including providing IFRS-compliant comparative information for 2010.

3. SHORT-TERM DEPOSITS AND BANK INDEBTEDNESS

[a] Short-term deposits

Short-term deposits were made for varying periods for more than three months to less than twelve months depending on the immediate cash requirements of the Company, and earn interest at rates of 0.36% to 2.25% per annum [2009 – 0.26% to 2.52% per annum].

[b] Bank indebtedness

Subsidiaries of the Company have established several credit facilities to a maximum of approximately $178,328,000 [2009 – $184,637,000]. These credit facilities bear interest at a weighted average rate of 3.8% per annum as at December 31, 2010 [2009 – 4.5%] and are repayable on demand or due in less than one year. Pursuant to the covenants set out in the indentures governing the non-convertible senior notes, the maximum amount of short-term borrowings allowed in both 2010 and 2009 was the lesser of $400,000,000 and 10% of the total consolidated assets of the Company.

As at December 31, the Company's bank indebtedness was:

	2010	2009
	$	$
Trust receipt loans	**106,865**	44,469
Bank loans	**47,094**	59,522
	153,959	103,991

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

[a] charges over certain of the Company's land-use rights, buildings and timber holdings which have an aggregate net book value at December 31, 2010 of $43,054,000 [2009 – $45,096,000]; and

[b] certain short-term deposits at December 31, 2010 of $12,996,000 [2009 – $30,242,000].

Total interest expense for the year on bank indebtedness was $5,027,000 [2009 – $3,481,000].

4. ACCOUNTS RECEIVABLE

The Company reviews its outstanding accounts receivable and records an allowance for doubtful accounts when the collections are in doubt. Accounts receivable are substantially from companies located in the People's Republic of China ("PRC") and are denominated in Renminbi and U.S. dollars. The Renminbi is not freely remittable out of the PRC and its conversion into other currencies is restricted under the current PRC foreign exchange regulations. As a result, the majority of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi.

5. INVENTORIES

The Company's inventories consist of the following:

	2010	2009
	$	$
Raw materials	**3,206**	2,411
Work in progress	**9,200**	6,641
Finished goods	**11,219**	5,793
Timber logs	**24,929**	21,675
Nursery	**13,424**	9,458
	61,978	45,978

The amount of inventories recognized as an expense and included in cost of sales in 2010 was $505,549,000 [2009 – $275,403,000]. The amount charged to the statements of income and retained earnings and included in cost of sales for the write-down of inventories in 2010 was $1,292,000 [2009 – $1,515,000].

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

6. CAPITAL ASSETS

The Company's capital assets consist of the following:

	2010		2009	
	Cost	**Accumulated depreciation, amortization and impairment**	Cost	Accumulated depreciation, amortization and impairment
	$	**$**	$	$
Machinery and equipment	**42,826**	**16,213**	28,449	13,742
Buildings	**63,919**	**7,131**	52,072	4,213
Forestry land	**12,744**	**-**	-	-
Land-use rights	**10,214**	**1,538**	9,714	1,297
Office furniture and equipment	**6,007**	**3,017**	4,059	2,040
Vehicles	**9,699**	**4,360**	7,326	2,951
	145,409	**32,259**	101,620	24,243
Less: accumulated depreciation, amortization and impairment	**(32,259)**		(24,243)	
Net book value	**113,150**		77,377	

Buildings, machinery and equipment of $5,295,000 [2009 – $2,533,000] are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation. No interest was capitalized to capital assets in the current and prior periods.

7. INTANGIBLE ASSETS

The Company's intangible assets consist of the following:

	2010		2009	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
	$	**$**	$	$
Patents	**10,703**	**845**	636	-
Timber concessions and cutting rights	**130,745**	**693**	-	-
	141,448	**1,538**	636	-
Less: accumulated amortization	**(1,538)**		-	
	139,910		636	

8. OTHER ASSETS

The Company's other assets consist of the following:

	2010 $	2009 $
Prepaid plantation costs and lease rentals [a]	**229,977**	59,172
Deposit for purchase of logs [b]	**30,500**	8,000
Investment in Greenheart Group and Greenheart Resources (note 10)	**-**	17,057
Investment in Mandra (note 10)	**-**	2
Subordinated loan and interest receivable (note 10)	**-**	20,567
Deposit for acquisition of long-term investment/capital assets	**3,233**	6,570
Rental deposit	**2,931**	-
Other	**7,520**	4,268
	274,161	115,636

[a] These represent prepaid land leases of plantation land in the PRC and prepaid planted plantations costs.

[b] The amount represents deposits paid to wood logs suppliers to secure long-term supply of wood logs from Inner Mongolia and Russia. The deposits will be utilized upon purchase of wood logs pursuant to the terms of the contracts.

9. DISCONTINUED OPERATIONS

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

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

The results of the discontinued operations are as follows:

	Year ended December 31,	
	2010 $	2009 $
Revenue	**-**	1,111
Cost and expenses		
Cost of sales	**-**	837
Selling, general and administration	**161**	1,047
Depreciation and amortization	**-**	240
	161	2,124
Loss from operations before the undernoted	**(161)**	(1,013)
Interest expenses	**-**	(234)
Exchange losses	**-**	(8)
Impairment of assets held for sale	**-**	(4,670)
Other income	**-**	281
Loss before income taxes	**(161)**	(5,644)
Recovery of income taxes	**8,340**	13,227
Net income from discontinued operations	**8,179**	7,583

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

Assets and liabilities of discontinued operations consist of the following:

	2010	2009
	$	$
Assets of discontinued operations		
Accounts receivable	**-**	12
Prepaid expenses and others	**-**	1,519
	-	1,531
Liabilities of discontinued operations		
Accounts payable and accrued liabilities [a]	**3,699**	12,156
	3,699	12,156

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

	Twelve months ended December 31,	
	2010	2009
	$	$
Cash flows used in operating activities	**(562)**	(826)
Cash flows from investing activities	**1,478**	24,120
Cash flows used in financing activities	**-**	(5,972)
	916	17,322

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

[b] Included in accounts payable and accrued liabilities as at December 31, 2010 is a tax provision for the tax related contingency of $618,000 [2009 – $8,717,000] provided on the income and commission earned from the sale of wood chips in prior years (see note 18).

10. BUSINESS ACQUISITIONS

[a] On January 4, 2010, the Company, through a wholly-owned subsidiary, acquired a 100% equity interest in Homix Limited ("Homix") and subsidiaries, which are principally engaged in the research & development and manufacturing of recomposed wood products in China, for cash of $7,100,000 of which $6,326,000 was paid in 2009.

In accordance with the purchase method of accounting, the purchase price paid has been allocated based on fair values of the assets acquired and liabilities assumed as follows:

	$
Cash and bank balances	2,388
Accounts receivable	162
Inventories	3,228
Prepaid expenses and others	143
Capital assets	5,363
Patents	10,058
Bank indebtedness	(1,172)
Accounts payable and accrued liabilities	(10,905)
Income taxes payable	(9)
Future income tax liabilities	(1,956)
	7,300

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

The purchase price in excess of the identifiable net assets acquired was allocated to intangible assets, being acquired patent rights. The patent rights enable the Company to manufacture recomposed wood products with advanced production methods. The patent rights will be amortized over their estimated useful life of 10 years, and will be tested for impairment if events or changes in circumstances indicate that they may be impaired.

The revenue included in the consolidated statements of income and retained earnings since January 4, 2010 contributed by Homix was $8,831,000. Homix also contributed net profit of $877,000 over the same period.

[b] On February 5, 2010, the Company acquired an 84.99% equity interest in Mandra Forestry Holdings Limited ("Mandra") in which the Company previously held a 15% equity interest. Mandra is principally engaged in the operation of forest plantations in the PRC.

The Company paid initial consideration of $2,000,000 on February 5, 2010 and an additional fixed amount of $2,000,000 on August 5, 2010. Additional contingent consideration amounts of up to $5,000,000 (the "First Supplemental Payment") and $5,000,000 (the "Second Supplemental Payment") are 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, the Company issued 147,908 common shares as the Initial First Supplemental Payment at an issuance price of Cdn.$15.60 per common share. At the date of these financial statements, negotiations with the vendor are in process and are expected to be finalized in March 2011, with the remaining 50% of the First Supplemental Payment and the Second Supplemental Payment to be paid shortly thereafter, subject to the reduction in the event that any of the milestones are not met.

The Company accounts for the contingent amounts as an additional cost of the purchase when the contingencies are resolved and the consideration becomes issuable.

Concurrently on February 5, 2010, the Company completed an exchange with holders of 99.7% of the $195,000,000 of 12% guaranteed senior notes due in 2013 issued by Mandra Forestry Finance Limited ("Mandra Notes") and 96.7% of the warrants issued by Mandra, for an aggregate principal amount of $187,177,375 of new guaranteed senior notes issued by the Company (the "New 2014 Senior Notes"), bearing interest at a rate of 10.25% per annum, with a maturity date of July 28, 2014. On February 11, 2010, the holders of the New 2014 Senior Notes exchanged their notes with the Company in consideration of the issuance by the Company of additional 2014 Senior Notes with an aggregate principal amount of $187,187,000. On the acquisition date, the Mandra Notes assumed by the Company were valued at the fair value of the 2014 Senior Notes. The remaining 0.3%, or $530,000 principal amount, of the Mandra Notes was redeemed pursuant to the terms of the indenture governing the Mandra Notes on June 2, 2010.

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

The purchase price allocation for the equity interest in Mandra is preliminary and the Company is continuing to evaluate the assets acquired and liabilities assumed due to the timing of the agreement and the extensive work required to complete the independent valuation of the assets and liabilities acquired. There may be adjustments to the estimated purchase date fair values which may affect timber holdings, goodwill, non-controlling interests, income taxes and the identification and recognition of other intangibles and other liabilities. The Company intends to finalize the purchase price allocation in the first quarter of 2011. In accordance with the purchase price method of accounting, the preliminary purchase price allocation based on estimated fair values of assets acquired and liabilities assumed is as follows:

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

	$
Cash and bank balances	6,022
Accounts receivable	404
Inventories	486
Prepaid expenses and others	1,068
Timber holdings	164,577
Capital assets	1,294
Other assets	128,122
Accounts payable and accrued liabilities	(50,594)
Future income tax liabilities	(40,121)
Long-term debt	(198,849)
Non-controlling interests	(1,211)
	11,198

	$
Purchase consideration	
Cash paid	4,000
Transfer from other assets	2
Issue of common shares	5,000
Transaction costs	2,196
Total purchase price	11,198

The revenue included in the consolidated statements of income and retained earnings since February 5, 2010 contributed by Mandra was $1,363,000. Mandra also incurred net loss of $6,974,000 over the same period.

[c] The Company acquired control over Greenheart Group Limited (formerly known as Omnicorp Limited) (“Greenheart Group”) and Greenheart Resources Holdings Limited (“Greenheart Resources”) during 2010.

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

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

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

In accordance with the purchase price method of accounting, the purchase price paid has been allocated to the assets acquired and liabilities assumed based on estimated fair values on the closing date. As the Company acquired control over Greenheart Resources at the same time as it acquired the control over Greenheart Group, it has aggregated the two transactions for purposes of accounting and disclosure. The fair value of assets acquired and liabilities assumed is as follows:

	$
Cash and bank balances	55,419
Accounts receivable	184
Inventories	578
Prepaid expenses and others	225
Timber concession licenses and cutting rights	131,452
Capital assets	3,746
Other assets	1,567
Accounts payable and accrued liabilities	(4,916)
Future income tax liabilities	(13,026)
Long-term debt	(1,799)
Non-controlling interests	(45,749)
	127,681

	$
Purchase consideration	
Cash paid	53,912
Issue of common shares	33,328
Transfer from convertible bonds and available-for-sale financial assets	39,833
Transaction costs	608
Total purchase price	127,681

The timber concession licenses and cutting rights are accounted for as intangible assets and amortized on a unit of production basis over the estimated life of the timber concession licenses and cutting rights.

The revenue included in the consolidated statements of income and retained earnings since August 3, 2010 contributed by Greenheart Group was $966,000. Greenheart Group also incurred net loss before non-controlling interests of $8,515,000 over the same period.

11. DILUTION GAIN

During the period of August 3, 2010 to December 31, 2010, Greenheart Group issued approximately 27,246,000 ordinary shares under its stock-based compensation plan and as a result of the conversion of certain convertible notes by the noteholders. The Company recognized an unrealized gain of $496,000 from its ownership dilution arising from the issue of these shares.

12. LONG-TERM DEBT

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

	2010	2009
	$	$
2011 Senior Notes [a]	**87,670**	87,670
2014 Senior Notes [a]	**399,517**	212,330
2017 Senior Notes [b]	**600,000**	-
2013 Convertible Notes [c]	**303,059**	289,560
2016 Convertible Notes [d]	**379,527**	369,306
2015 Greenheart Group Convertible Notes [e]	**24,334**	-
Unamortized deferred financing costs	**(46,755)**	(33,400)
	1,747,352	925,466
Less: Current portion	**(87,670)**	-
	1,659,682	925,466

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

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

On August 16, 2004, the Company entered into a currency swap contract. Under the terms of the contract, the Company hedged RMB113,290,070 on each of August 17 and February 17 in exchange for $13,687,500. The contract matured on August 16, 2009. The loss on change in fair value of $567,000 has been recorded in losses on changes in fair value of financial instruments in the statements of income and retained earnings.

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

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

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

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

On February 5, 2010, the Company completed an exchange of the Mandra Notes with the 2014 Senior Notes. As a result, the Company issued an aggregate principal amount of $187,187,000 of 2014 Senior Notes.

Total interest expense on the 2011 Senior Notes for the year was $8,588,000 [2009 – $18,602,000].

Total interest expense on the 2014 Senior Notes for the year was $42,820,000 [2009 – $11,917,000].

[b] On October 21, 2010, the Company issued $600,000,000 non-convertible guaranteed senior notes (the "2017 Senior Notes"). The 2017 Senior Notes bear interest at a rate of 6.25% per annum and are payable semi-annually. The 2017 Senior Notes will mature on October 21, 2017. The 2017 Senior Notes are:

- general obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs the 2017 Senior Notes) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and
- secured by pledge of the shares of the Subsidiary Guarantors.

Total interest expense on the 2017 Senior Notes for the year was $7,615,000.

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

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

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

Total interest expense on the 2013 Convertible Notes for the year was $32,024,000 [2009 – $30,456,000].

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

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

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

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

Total interest expense on the 2016 Convertible Notes for the year was $30,855,000 [2009 – $1,264,000].

[e] The 2015 Greenheart Group Convertible Notes (as defined below) are presented in the consolidated balance sheets as follows:

	2010	2009
	$	$
Long-term debt	**24,334**	-
Non-controlling interests	**939**	-
	25,273	-

On August 17, 2010, Greenheart Group issued convertible notes with an aggregate principal amount of $25,000,000 for gross proceeds of $24,750,000 (the “2015 Greenheart Group Convertible Notes”). The 2015 Greenheart Group Convertible Notes will mature on August 17, 2015 and bear interest at a rate of 5.0% per annum, payable semi-annually in arrears.

The 2015 Greenheart Group Convertible Notes are convertible into ordinary shares of Greenheart Group, at the option of the holder, at any time after six months from the issuance date and prior to the maturity date at a conversion price of HK$2.002 per ordinary share. A maximum of 97,077,922 ordinary shares will be allotted and issued, assuming full conversion price of HK$2.002.

The sole subscriber to the 2015 Greenheart Group Convertible Notes is a company in which a director of the Company has an indirect interest.

Greenheart Group has allocated $23,811,000 of the face value of the 2015 Greenheart Group Convertible Notes to the liability component and $939,000 to the equity component, based on an independent external valuation. Accordingly, the equity component of the 2015 Greenheart Group Convertible Notes is classified as part of the non-controlling interests in the Company’s consolidated balance sheets as at December 31, 2010.

Total interest expense on the 2015 Greenheart Group Convertible Notes was $1,160,000.

[f] Under the terms of the above referenced indentures, the Company has met the financial and non-financial covenants affecting the Company and the restricted subsidiaries (as defined in the applicable indentures).

13. SHARE CAPITAL

The Company's share capital consists of the following:

	2010		2009	
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
		$		$
Authorized				
Unlimited common shares, without par value				
Unlimited preference shares, issuable in series, without par value				
Issued				
Balance, beginning of year	**242,129,062**	**1,213,495**	183,119,072	539,315
Issue of shares	**2,138,474**	**35,501**	59,009,990	674,180
Exercise of options	**1,473,353**	**8,555**	-	-
Transfer from contributed surplus (note 14)	**-**	**3,749**	-	-
Balance, end of year	**245,740,889**	**1,261,300**	242,129,062	1,213,495

The legal stated capital of the Company's common shares differs from the carrying value reflected in these consolidated financial statements. The legal stated capital as at December 31, 2010 is Cdn.$1,484,925,319 [2009 – Cdn.$1,434,952,367].

During the years ended December 31, 2009 and 2010, the movements in share capital were as follows:

[a] In February 2009, the Company completed the issuance of 2,659,990 common shares to acquire approximately $21,706,000 (equivalent to approximately HK$167,631,000) of 4% secured convertible bonds of Greenheart Group.

[b] In June 2009, the Company completed a public offering and international private placement of 34,500,000 common shares (including 4,500,000 common shares issued upon the exercise of the underwriters' over-allotment option) at Cdn.$11.00 per share for gross proceeds of Cdn.$379,500,000 (equivalent to approximately $339,810,000 as at June 8, 2009) less share issue costs of approximately $15,864,000.

[c] In December 2009, the Company completed a public offering of 21,850,000 common shares (including 2,850,000 common shares issued upon the exercise of the underwriters' over-allotment option) at Cdn.$16.80 per share for gross proceeds of Cdn.$367,080,000 (equivalent to approximately $345,318,000 as at December 17, 2009) less share issue costs of approximately $16,791,000.

[d] During the year ended December 31, 2010, 1,473,353 common shares were issued upon the exercise of stock options for proceeds of approximately $8,555,000.

[e] In June 2010, the Company completed the issuance of 1,990,566 common shares to acquire approximately 2,638,469,000 ordinary shares of Greenheart Resources. Total consideration was approximately $33,269,000, net of issue costs of approximately $59,000.

[f] In August 2010, the Company issued 147,908 common shares as the Initial First Supplemental Payment relating to the acquisition of Mandra at an issue price of Cdn.$15.60 per share.

Authorized

Each holder of common shares is entitled to one vote per common share at meetings of the Company's shareholders. Each holder of common shares is entitled to receive dividends if, as and when declared by the Company's board of directors. The holders of the common shares are entitled to receive the remaining property of the Company upon dissolution.

The preference shares may from time to time be issued in one or more series, each series of which will have the rights and other features determined by the board of directors of the Company. The preference shares of each series will rank equally with the preference shares of every other series with respect to priority in payment of dividends and return of capital in the event of the liquidation, dissolution or winding-up of the Company and have a preference over the common shares.

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

Stock options

The SFC SOP provides for the issuance of up to a maximum of 10,000,000 common shares at an exercise price equal to the closing market price of the Company's common shares on the day prior to the date of the grant. The exercise period of options granted pursuant to the SFC SOP is five years. Options granted may be vested over certain time periods within the option period, which will limit the number of options exercisable during each option year. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option. As at December 31, 2010, options to purchase 9,209,102 common shares have been granted and options to purchase 790,898 common shares remain available to be granted under the SFC SOP.

During the year ended December 31, 2010, options to acquire up to 216,143 [2009 – 654,618] common shares were granted to executives and employees at exercise prices ranging from Cdn.$17.41 to Cdn.$19.56. The options granted will vest over three years and expire in five years. The total fair value of the stock options granted was estimated to be $1,932,000 [2009 – $2,219,000] on the respective dates of grant using the Black Scholes option-pricing model with the following input:

	May 13, 2010	June 21, 2010
Number of options (in number)	187,289	28,854
Exercise price (in Cdn.$)	$19.56	$17.41
Date of expiry	May 13, 2015	June 21, 2015
Dividend Yield	0.0%	0.0%
Volatility	58.1%	57.7%
Risk-free interest rate	2.8%	2.28%
Option's expected life (in years)	5.0	5.0

	January 5, 2009	March 10, 2009	March 31, 2009
Number of options (in number)	75,000	75,000	504,618
Exercise price (in Cdn.$)	$10.12	$8.20	$8.01
Date of expiry	January 5, 2014	March 10, 2014	March 31, 2014
Dividend Yield	0.0%	0.0%	0.0%
Volatility	60.2%	60.8%	58.7%
Risk-free interest rate	1.61%	1.85%	1.69%
Option's expected life (in years)	5.0	5.0	5.0

The compensation expense recorded for the year ended December 31, 2010 with respect to options granted amounted to $3,222,000 [2009 – $4,601,000].

The following table summarizes the changes in stock options outstanding during the years ended December 31, 2010 and 2009.

	2010		2009	
	Number of options	Weighted average exercise price Cdn.$	Number of options	Weighted average exercise price Cdn.$
Balance, beginning of year	4,118,626	8.59	3,464,008	8.65
Granted	216,143	19.27	654,618	8.27
Exercised	(1,473,353)	5.90	-	-
Balance, end of year	2,861,416	10.79	4,118,626	8.59
Exercisable at year-end	2,183,862	10.37	2,945,676	7.62

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2010:

Range of exercise prices	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price of options outstanding	Options exercisable	Options non-exercisable	Weighted average exercise price of options exercisable
Cdn.$4.00 – Cdn.$4.99	70,925	0.65 years	Cdn.$4.36	70,925	-	Cdn.$4.36
Cdn.$5.00 – Cdn.$5.99	750,000	0.62 years	Cdn.$5.50	750,000	-	Cdn.$5.50
Cdn.$8.00 – Cdn.$8.99	517,265	3.24 years	Cdn.$8.03	130,854	386,411	Cdn.$8.01
Cdn.$10.00 – Cdn.$10.99	50,000	3.02 years	Cdn.$10.12	-	50,000	-
Cdn.$13.00 – Cdn.$13.99	1,055,002	1.43 years	Cdn.$13.15	1,055,002	-	Cdn.$13.15
Cdn.$14.00 – Cdn.$14.99	2,081	1.64 years	Cdn.$14.01	2,081	-	Cdn.$14.01
Cdn.$17.00 – Cdn.$17.99	103,854	3.14 years	Cdn.$17.62	50,000	53,854	Cdn.$17.70
Cdn.$19.00 – Cdn.$19.99	312,289	3.38 years	Cdn.$19.34	125,000	187,289	Cdn.$19.00

Deferred Stock Unit Plan

On March 10, 2009, the Company approved the SFC DSU Plan, which became effective on March 31, 2009. Under the SFC DSU Plan, non-executive directors of the Company shall receive an amount equal to their annual retainer (but not in substitution for) in the form of DSUs and may also elect to receive all or a part of their annual retainer in the form of DSUs. On the last business day of each three months period commencing June 1 of each year, such number of DSUs that is equal to: (a) 25% of the aggregate of: (i) the annual awarded amount as determined by the Compensation and Nominating Committee (which shall initially be equal to the amount of annual retainer fees earned by the respective non-executive director); and (ii) the amount of annual retainer fees, if any, that such non-executive director has elected to receive in the form of DSUs; divided by (b) the Fair Market Value (defined in the DSU Plan as the closing price of the Company's common shares on the Toronto Stock Exchange), shall be credited to the participants' deferred stock unit account. The DSUs can be redeemed for cash or, at the election of the non-executive director, in the form of common shares of the Company acquired by the Company on the open market on such director's behalf through an independent broker, when the holder ceases to be a director of the Company.

The DSUs are recognized as a compensation expense over the vesting period. Vested DSUs are re-measured at each reporting period until settlement, based on the Fair Market Value as described above. For the year ended December 31, 2010, $351,000 was recorded in selling, general and administrative as compensation expense (including $87,000 related to the revaluation to the market value of the underlying shares as at December 31, 2010). At December 31, 2010, there were 22,380 DSUs with a market value of $520,000 issued and outstanding.

14. CONTRIBUTED SURPLUS

The contributed surplus represents stock-based compensation and options granted:

	2010	2009
	$	$
Balance, beginning of year	**12,200**	7,599
Stock-based compensation	**3,222**	4,601
Transfer to share capital (note 13)	**(3,749)**	-
Balance, end of year	**11,673**	12,200

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

15. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

	2010 $	2009 $
Balance, beginning of year	224,148	211,831
Other comprehensive income	90,764	12,317
Balance, end of year	**314,912**	224,148

As at December 31, 2010, accumulated other comprehensive income comprises the following amounts:

	2010 $	2009 $
Unrealized gains on translation of financial statements of self-sustaining foreign operations	314,912	217,882
Unrealized gains on financial assets designated as available-for-sale	8,756	6,266
Reversal of unrealized gains on financial assets designated as available-for-sale	(8,756)	-
Balance, end of year	**314,912**	224,148

Unrealized translation adjustments arise on the translation to U.S. dollars of assets and liabilities of the Company's self-sustaining foreign operations. For the year ended December 31, 2010, the Company incurred unrealized foreign currency translation gains of $97,030,000 [2009 – $3,819,000], primarily from the strengthening of Renminbi against U.S. dollars.

16. STATUTORY RESERVE

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

	2010 $	2009 $
Balance, beginning of year	1,670	-
Transfer from retained earnings	318	1,670
Balance, end of year	**1,988**	1,670

17. INCOME TAXES

[a] Temporary differences

	2010 Future Income Tax Assets (Liabilities) $	2009 Future Income Tax Assets (Liabilities) $
Tax losses carried forward	**48,298**	30,847
Unrealized foreign exchange on external debt	**(3,961)**	(3,961)
Unrealized foreign exchange on receivables	**6,074**	6,715
Unrealized gain on Greenheart Group shares	**-**	(1,403)
Financing costs	**4,348**	7,779
Net future tax asset	**54,759**	39,977
Valuation allowance	**(54,759)**	(39,977)
Future tax liability on fair market value increments on acquisitions	**(63,906)**	-
Net future tax liability	**(63,906)**	-

[b] Canadian and foreign income taxes

	2010 $	2009 $
Provision for income taxes		
Current tax provision		
Foreign	**69,305**	29,267
	69,305	29,267
Future tax provision (recovery)		
Canadian	**1,403**	(1,403)
Foreign	**(64)**	-
	1,339	(1,403)
Total	**70,644**	27,864

The Canadian and foreign components of the provision for income taxes are based on the jurisdiction in which income is taxed. Foreign taxes mainly relate to the PRC.

The provision for income taxes differs from that obtained by applying the statutory tax rate as a result of the following:

	2010 $	2009 $
Income before income taxes	**454,568**	306,651
Expected statutory tax rate of Canada	**31.0%**	33.0%
Expected income tax expense	**140,916**	101,195
Recovery related to unrecognized tax loss carryforwards	**(924)**	(5,154)
Unrecognized income tax benefit arising from losses of the Company and its subsidiaries	**924**	5,134
Losses for which there is no tax benefit [d]	**66,526**	26,400
Income tax at lower rates in foreign jurisdiction [c]	**(136,798)**	(99,711)
Income tax expense	**70,644**	27,864
Effective rate	**15.5%**	9.1%

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

[c] Income tax rates of major tax jurisdictions in which the Company's subsidiaries operate

PRC wholly foreign owned enterprises ("WFOE") are governed by the Income Tax Law of the PRC and various local and state supplementary regulations (the "Income Tax Laws"). Pursuant to the new Enterprise Income Tax Law effective January 1, 2008 ("New EIT Law"), WFOE and Sino-Foreign Equity and Co-operative Joint Venture Enterprises ("CJV") are subject to PRC enterprise income tax at an effective rate of 25% [2009 – 25%] on taxable income as reported. Pursuant to the old Income Tax Laws, qualifying PRC WFOE and CJV engaged in agriculture and manufacturing could be eligible for an exemption from PRC enterprise income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward from prior years, followed by a 50% exemption for the next three years. If the tax holiday had not yet commenced, it will be deemed to begin on January 1, 2008. Pursuant to the New EIT Law, the PRC WFOE and CJV engaged in forestry plantation if eligible could apply for an exemption from PRC enterprise income tax.

Hong Kong profits tax has been provided at the rate of 16.5% [2009 – 16.5%] on the estimated assessable profits arising in and sourced to Hong Kong during the year.

In addition, various BVI Subsidiaries have operations in PRC as described in Note 18 below. The tax provided on these earnings is at an effective tax rate lower than the Canadian statutory tax rate.

[d] Losses carried forward

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

The losses will expire as follows:

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

In addition, as at December 31, 2010, the Company's PRC WFOE and CJV have incurred tax losses on a legal entity basis in aggregate of approximately $67,417,000 [2009 – $36,576,000]. Losses incurred by PRC WFOE and CJV can be carried forward for a maximum of five years. The benefit of these losses has not been reflected in the financial statements as management does not consider it to be more-likely-than-not that the related future income tax asset will be realized. There are no other material temporary differences in the Company's PRC WFOE and CJV.

18. PROVISION AND CONTINGENCIES FOR TAX RELATED LIABILITIES

The provision for income taxes and tax related liabilities and whether tax filings are required in a particular jurisdiction is subject to a number of different factors, estimates and judgments made by management. A change in the facts or in these estimates and judgments could have a material impact on the Company's tax expense.

The Company has operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates and that are subject to audit by all relevant tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions, changes in tax laws and administrative practice in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company operates. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions.

In particular, the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and in earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with the current PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC, are more-likely-than-not subject to enterprise income tax on a deemed profit basis 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. This also applied to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007.

Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements ("AI Agreements") made with the AI, the AI are responsible for withholding and remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are also subject to enterprise income tax because of the Authorized Sales Activities. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities for up to a period from four to six years in practice (including the current year). Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to triple amount of the tax underpaid.

Management has concluded that based on all available evidence it is appropriate to recognize in these financial statements a provision representing management's estimate, based upon 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. The Company has been assessing the effect of the Circular on the BVI Subsidiaries and monitoring its interpretation and its application by the PRC tax authorities. Based upon the Company's analysis to date, the Company has recorded income tax based on a deemed profit rate of 15% for 2010. It has also applied the 15% rate in computing taxable income for operations in certain provinces where it does 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. The Company records its best estimate based upon the information available to it at each reporting date and actively revisits and adjusts this estimate if required as it updates its analysis. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of related contingencies in a period. In particular, if, as a result of administrative practices of the PRC tax authorities, the Company 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 the Company 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.

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

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

19. EARNINGS PER SHARE

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

	2010			2009		
	Earnings	**Weighted average no. of shares**	**Earnings per share**	Earnings	Weighted average no. of shares	Earnings per share
	$'000	**'000**	**$**	$'000	'000	$
Basic earnings per share from continuing operations after non-controlling interests	**387,247**	**244,193**	**1.59**	278,787	205,980	1.35
Effect of dilutive securities:						
- stock options	**-**	**1,188**		-	1,435	
- 2013 Convertible Notes	**32,024**	**17,008**		30,456	17,008	
- 2016 Convertible Notes	**30,855**	**21,740**		1,264	893	
	450,126	**284,129**		310,507	225,316	
Deduct anti-dilutive impact:						
- 2013 Convertible Notes	**(32,024)**	**(17,008)**		(30,456)	(17,008)	
- 2016 Convertible Notes	**-**	**-**		(1,264)	(893)	
Diluted earnings per share from continuing operations after non-controlling interests	**418,102**	**267,121**	**1.57**	278,787	207,415	1.34

20. STATEMENTS OF CASH FLOWS

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

	Years ended December 31,	
	2010	2009
	$	$
Cash (used for) provided by:		
Accounts receivable	**(345,793)**	(59,351)
Inventories	**(3,307)**	(3,682)
Prepaid expenses and other	**(68,751)**	(31,358)
Accounts payable and accrued liabilities [a]	**82,218**	53,639
Income taxes payable	**2,131**	(444)
	(333,502)	(41,196)

[a] As at December 31, 2010, the Company had an aggregate amount of $123,233,000 [2009 – $39,273,000] payable in respect of timber holdings during the year which was included in accounts payable and accrued liabilities. In addition, certain additions of capital assets and plantation investments of approximately $4,527,000 were transferred from other assets during the year ended December 31, 2010.

21. FINANCIAL INSTRUMENTS

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

	2010 $	2009 $
Held for trading [a]	**1,255,453**	1,172,753
Loans and receivables [b]	**643,420**	338,421
Available for sale assets [c]	**-**	17,059
Other financial liabilities [d]	**2,212,997**	1,168,025
Embedded derivative [e]	**-**	8,459

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

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

[c] In 2009, the investment in Greenheart Group was measured at fair value; investments in Greenheart Resources and Mandra were measured at cost.

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

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

Fair Value of Financial Instruments

The financial instruments recorded at fair value on the balance sheet are cash and cash equivalents, short-term deposits, and for 2009, investment in Greenheart Group (included in available for sale assets) and the embedded derivative. These have been categorized into one of three categories, based on a fair value hierarchy, in accordance with CICA Handbook Section 3862. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are either directly or indirectly observable. Level 3 valuations are based on significant inputs that are unobservable (not based on observable market data). All of the Company's financial assets and liabilities recorded at fair value are included in Level 1. The Company did not move any instruments between levels of the fair value hierarchy during the year ended December 31, 2010.

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

The fair value of the embedded derivative instrument of $8,459,000 as at December 31, 2009 was determined using the Black-Scholes pricing model.

The investment in Greenheart Group as at December 31, 2009, included in available for sale assets, was recorded at fair value based on quoted prices.

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

The fair values of the 2011 Senior Notes, 2014 Senior Notes, 2017 Senior Notes, 2013 Convertible Notes and 2016 Convertible Notes are based on quoted market prices. The Company has no plans to prepay these instruments prior to maturity. The fair value and carrying amounts, excluding deferred financing costs, of the 2011 Senior Notes as at December 31, 2010 were $90,432,000 and $87,670,000, respectively [2009 – $92,054,000 and $87,670,000, respectively]. The fair value and carrying amounts, excluding deferred financing costs, of the 2014 Senior Notes as at December 31, 2010 were $460,443,000 and $399,517,000, respectively [2009 – $231,334,000 and $212,330,000, respectively]. The fair value and carrying amounts, excluding deferred financing assets, of the 2017 Senior Notes as at December 31, 2010 were $608,250,000 and $600,000,000, respectively. The fair value and carrying amounts, excluding deferred financing costs, of the 2013 Convertible Notes as at December 31, 2010 were $466,397,000 and $303,059,000, respectively [2009 – $407,747,000 and $289,560,000, respectively]. The fair value and carrying amounts, excluding deferred financing costs, of the 2016 Convertible Notes as at December 31, 2010 were $604,038,000 and $379,527,000, respectively [2009 – $502,838,000 and $369,306,000, respectively]. The fair value and carrying amounts, excluding deferred financing costs, of the 2015 Greenheart Group Convertible Notes were $31,250,000 and $24,334,000, respectively.

Foreign currency swap contract and convertible bonds

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

Risks arising from financial instruments and risk management

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

Exchange Rate Risk

The Company conducts its business primarily in Renminbi, and partly in U.S. dollars and Euro. In 2010 and 2009, 77.9% and 83.9% of the revenue from continuing operations were received in Renminbi, respectively and 22.1% and 16.1% of the sales were received in U.S. dollars and Euro, respectively. It is expected in the future that substantially all of the sales will be received in Renminbi. The majority of the Company's operating expenses are denominated in Renminbi and Hong Kong dollars. The Company translates its results of self-sustaining foreign operations into U.S. dollars using the current rate method. Substantial exposure to currency risk is on its net investment in self-sustaining foreign operations, for which foreign currency translation gains or losses have been recorded under accumulated other comprehensive income.

A portion of the Company's revenue in Renminbi is converted into other currencies to meet financial obligations denominated in currencies other than Renminbi. The Company has a substantial amount of indebtedness denominated in U.S. dollars. Foreign currency based earnings are translated into U.S. dollars each period. As a result, fluctuations in the value of the U.S. dollar relative to other currencies will impact reported net income. Such exchange rate fluctuations have historically not been material year over year relative to the overall earnings or financial position of the Company. A fluctuation of +/-1%, provided as an indicative range in currency movement, on financial instruments that are denominated in foreign currency other than U.S. dollars, would, everything else being equal, have an effect on net income after tax and other comprehensive income in 2010 of approximately $4,840,000 and $Nil, respectively.

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

As of December 31, 2010, the Company had Renminbi denominated bank accounts of RMB646.1 million (equivalent to $97.6 million) [2009 – RMB621.2 million, equivalent to $91.0 million], U.S. dollar denominated bank accounts of $1.1 billion [2009 – $1.1 billion], Canadian dollar denominated bank accounts of Cdn.$10.0 million (equivalent to $10.0 million) [2009 – Cdn.$ 9.8 million, equivalent to $9.3 million], Hong Kong dollar denominated bank accounts of HK$620.8 million (equivalent to $79.8 million) [2009 – HK$4.1 million, equivalent to $0.5 million] and Euro denominated bank accounts of €113,000 (equivalent to $150,000) [2009 – €113,000, equivalent to $161,000]. The Company also had U.S. dollar denominated accounts receivable of $137.3 million [2009 – $58.2 million] and Renminbi denominated accounts receivable of RMB3.3 billion (equivalent to $499.2 million) [2009 – RMB1.5 billion, equivalent to $224.1 million].

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

Credit Risk

The Company is exposed to credit risk with respect to accounts receivable from customers. Accounts receivable from continuing operations as at December 31, 2010 included $254,604,000 due from three customers [2009 – $108,327,000 due from three customers] representing 40% [2009 –38.4%] of outstanding receivables. The Company undertakes credit evaluations on customers as necessary and has monitoring processes intended to mitigate credit risks and maintain appropriate provisions for potential credit losses. Historically the Company has made arrangements with its debtors to settle accounts payable by purchasing additional standing timber on behalf of the Company. As at December 31, 2010, $69,637,000 [2009 – $9,351,000] or 10.9% [2009 – 3.3%] of accounts receivable from continuing operations, were aged more than 90 days. The Company has no significant allowance for doubtful accounts in 2010.

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

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

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. The Company's growth strategy requires significant financial resources which are derived from cash flows provided by operations, additional debt, the issuance of equity or a combination thereof. As at December 31, 2010, the Company was holding cash and cash equivalents of $1,223,352,000. The Company expects that continued cash flow from operations in 2011 together with the cash and cash equivalents from previous financings will be more than sufficient to fund its requirements for investments in working capital, timber holdings and capital assets.

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

	Payment Due by Period				
	Within one year	In the second and third year	In the fourth and fifth year	After the fifth year	Total
	$	$	$	$	$
Bank indebtedness	153,959	-	-	-	153,959
Accounts payable and accrued liabilities (1)(2)	311,686	-	-	-	311,686
Long-term debt	87,670	345,000	424,517	1,060,000	1,917,187
Interest obligations of long-term debt	121,544	225,860	139,798	86,548	573,750
	674,859	570,860	564,315	1,146,548	2,956,582

(1) Including continuing and discontinued operations.
(2) Excluding the tax provision for tax related contingency.

Interest Rate Risk

The Company is exposed to interest rate risk resulting from fluctuations in interest rates on its debts, primarily on its bank indebtedness. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. As at December 31, 2010, $107.4 million or 5.6% of the Company's total debt is subject to variable interest rates. A +/-1% change in interest rates, which is indicative of the change in the prime lending rate over the preceding twelve-month period, would have an impact on income after taxes for the period of approximately $1.1 million. The Company does not currently use any derivative instruments to manage its interest rate risk.

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

Commodity Price Risk

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

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

22. CAPITAL MANAGEMENT

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

In the management of capital, the Company includes bank indebtedness of $153,959,000, long-term debt (including short-term portion) of $1,747,352,000 and shareholders' equity of $3,198,121,000. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. There were no changes in the Company's approach to capital management during the year.

The Company is subject to externally imposed minimum capital requirements relating to the bank credit facilities and senior notes and exceeds the minimum requirements during the year. The Company's capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As of December 31, 2010, the Company has retained earnings of approximately $1.4 billion which may be restricted.

23. SEGMENTED INFORMATION

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

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

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

[b] the other fibre segment engages in the sale of domestic and imported wood products;

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

[d] the Greenheart segment engages in the ownership of concession rights or plantations in Suriname and New Zealand and the sale and export of harvested logs and other wood products.

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

By Industry Segment

	2010					
	Plantation Fibre $	Other Fibre $	Manu-facturing $	Greenheart $	Corporate $	Total $
Revenue						
Sale of standing timber and logs	1,401,172	-	-	-	-	1,401,172
Sale of imported wood products	-	451,371	-	-	-	451,371
Sale of wood logs	-	2,647	-	-	-	2,647
Sale of manufacturing operations' products and other	-	-	67,339	-	-	67,339
Sale of logs and other wood products from the ownership of concession rights in Suriname and plantations in New Zealand	-	-	-	1,007	-	1,007
	1,401,172	454,018	67,339	1,007	-	1,923,536
Income (loss) from continuing operations before interest, other income, exchange losses and changes in fair value of financial instruments	620,246	15,826	(8,715)	(6,559)	(44,142)	576,656
Net income (loss) from discontinued operations	-	8,340	(161)	-	-	8,179
Interest income	82	39	626	178	9,684	10,609
Interest expense	1,121	2,327	722	1,161	122,793	128,124
Depreciation and amortization	557	386	5,786	263	927	7,919
Provision for income taxes	63,203	4,747	450	833	1,411	70,644
Total assets	3,890,525	329,375	256,767	295,943	956,423	5,729,033
Intangible assets	-	-	9,858	130,052	-	139,910
Depletion of timber holdings included in cost of sales	746,474	-	-	-	-	746,474
Additions to timber holdings, capital assets and intangible assets	1,657,828	551	31,728	215,088	1,944	1,907,139

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

	2009				
	Plantation Fibre $	Other Fibre $	Manu-facturing $	Corporate $	Total $
Revenue					
Sale of standing timber and harvested logs	954,194	-	-	-	954,194
Sale of imported wood products	-	233,540	-	-	233,540
Sale of wood logs	-	4,381	-	-	4,381
Sale of manufacturing operations' products and other	-	-	46,070	-	46,070
	954,194	237,921	46,070	-	1,238,185
Income (loss) from continuing operations before interest, other income, exchange losses and changes in fair value of financial instruments	412,410	6,611	(10,328)	(36,981)	371,712
Net income (loss) from discontinued operations	-	13,227	(5,644)	-	7,583
Interest income	166	543	960	8,022	9,691
Interest expense	841	1,654	763	67,719	70,977
Depreciation and amortization	390	221	3,655	427	4,693
Provision for (recovery of) income taxes	26,087	1,945	695	(863)	27,864
Total assets	2,477,598	215,059	196,726	1,074,516	3,963,899
Intangible assets	-	-	636	-	636
Depletion of timber holdings included in cost of sales	521,889	-	-	-	521,889
Additions to timber holdings, capital assets and intangible assets	1,053,191	472	17,145	1,026	1,071,834

Revenue from continuing operations from the Company's largest customer for the year amounted to approximately 17% [2009 – 16%] of total revenue. During the year, there were five [2009 – five] customers who each individually accounted for more than 10% of the Company's total revenue from continuing operations and these customers in aggregate accounted for approximately 71% [2009 – 72%] of total revenue.

Purchases from continuing operations from the Company's largest vendor for the year amounted to approximately 20% [2009 – 15%] of total purchases. During the year, two [2009 – three] vendors accounted for more than 10% of the Company's total purchases from continuing operations and these vendors accounted for approximately 37% [2009 – 42%] of total purchases.

By Geographic Segment

The Company conducts substantially all of its operations in the PRC. During the year, sales to customers, including discontinued operations, in the PRC amounted to approximately $1,872,286,000 [2009 – $1,229,842,000].

During the year, sales to customers in other countries, including discontinued operations, amounted to approximately $51,250,000 [2009 – $9,454,000].

As at December 31, 2010, approximately $3,055,004,000 of timber holdings and $96,454,000 of capital assets of the Company were located in the PRC, and approximately $67,513,000 of timber holdings and $12,755,000 of capital assets of the Company were located in New Zealand.

As at December 31, 2009, all of the Company's timber holdings and approximately $76,472,000 of the Company's capital assets were located in the PRC.

24. CAPITAL CONTRIBUTIONS AND COMMITMENTS

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

[a] Capital contributions

As at December 31, 2010, the Company has capital commitments in respect of capital contributions to its WFOEs of $51,600,000 [2009 – $15,450,000].

[b] Capital commitments

As at December 31, 2010, the Company has capital commitments in respect of land, buildings and plant and machinery of $85,460,000 [2009 – $8,703,000].

[c] Purchase commitments

As at December 31, 2010, the Company has purchase commitments mainly regarding logs of $193,987,000 [2009 – $26,687,000].

[d] Operating leases

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

	$
Within 1 year	**28,491**
In the second year	**11,405**
In the third year	**10,377**
In the fourth year	**9,140**
In the fifth year	**7,123**
Thereafter	**177,260**
	243,796

[e] Wood fibre

Under the assignment agreement entered in May 2010, of which the former agreement was entered in July 2006 to secure at least 1.5 million m^3 of wood fibre annually in Inner Mongolia up to July 2018, the Company has acquired 913,480 m^3 of wood fibre as at December 31, 2010.

Under the agreement entered in July 2010 to secure at least 600,000 m^3 of wood fibre annually for a period not longer than 10 years in Russia, the Company has acquired 168,722 m^3 of wood fibre as at December 31, 2010.

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, the Company has acquired approximately 226,300 hectares of plantation trees for $926,507,000 as at December 31, 2010.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has acquired approximately 190,300 hectares of plantation trees for $925,929,000 as at December 31, 2010.

Under the master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, the Company has acquired approximately 127,000 hectares of plantation trees for $646,562,000 as at December 31, 2010.

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

Under the master agreement entered in June 2009 to acquire between 150,000 to 300,000 hectares of plantation trees over a 3-year period in Jiangxi, the Company has acquired approximately 59,700 hectares of plantation trees for $269,117,000 as at December 31, 2010.

Under the master agreement entered in January 2010 to acquire 150,000 hectares of plantation trees over a 3-year period in Guizhou, the Company has acquired approximately 22,200 hectares of plantation trees for $122,855,000 as at December 31, 2010.

25. RELATED PARTY TRANSACTIONS

[a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the year amounted to $8,242,000 [2009 – $7,569,000] and were recorded at an exchange amount as agreed by the related parties.

[b] In addition, as at December 31, 2010, $7,632,000 [2009 – $6,958,000] was accrued for consultancy fees payable to these related companies. The amount was included in accounts payable and accrued liabilities in the financial statements.

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

[d] In June 2010, the Company acquired 2,638,469,000 ordinary shares of Greenheart Resources. Total consideration was approximately $33 million. One of the vendors, Forest Operations Limited, which is beneficially owned by a director of the Company, owned approximately 5.3% of the ordinary shares sold.

[e] On August 17, 2010, Greenheart Group issued an aggregate principal amount of $25,000,000 2015 Greenheart Group Convertible Notes for gross proceeds of $24,750,000. The sole subscriber to the 2015 Greenheart Group Convertible Notes is a company in which a director of the Company has an indirect interest.

26. SUBSEQUENT EVENT

On January 7, 2011, the Company entered into a sales and purchase agreement to dispose of the Mangakahia Forest, a radiate pine plantation in New Zealand, to Greenheart Group for a consideration of approximately $71 million, subject to adjustments upon the completion of the sale. The consideration will be settled partly in cash and partly in the form of shares of Greenheart Group.

27. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2010 consolidated financial statements.

Directors, Officers and Executives

INDEPENDENT DIRECTORS

William (Bill) E. Ardell

Toronto 1, 2, 3 (chair)

Lead Director since 2010; nominated as Director since 2010; Previously President & CEO and a director of Southam Inc. Bill was director for a number of public and private sectors, including not-for-profit organizations, serving in varying capacities as Chairman, Director, or member of the board committees. He began his career with Touche Ross in Montreal.

James (Jamie) P. Bowland CA

Toronto 1, 3

Joined the Board in February 2011; Former Managing Director at BMO Capital Markets, Investment & Banking Group; extensive experience in mergers & acquisitions, capital markets and corporate banking. Jamie is a Director of a number of TSX-listed companies and not-for-profit organizations. He is a Chartered Accountant and holds the Institute of Corporate Directors designation.

James (Jamie) M.E. Hyde CA, C.Dir

Toronto 1 (chair), 2 (chair), 3

Director since 2004; Previously VP, Finance and CFO, GSW Inc.; EVP & CFO, Resolve Business Outsourcing Income Fund; Former Partner, Ernst & Young LLP, where he provided for 24 years a broad range of professional services to public and private companies

Edmund Mak MBA

Vancouver 2

Director since 1994; Associate Broker, Royal Pacific Realty Corporation; Over 30 years experience with public, multi-national and private corporations in North America and Hong Kong, in the real estate, computer and high technology equipment, transportation, construction, oil & gas, textile and China trade industries

Simon Murray CBE

Hong Kong

Director since 1999; Chairman, GEMS (General Enterprise Management Services (Int'l.) Ltd.); 35 years in Asia; previously Executive Chairman, Asia Pacific, Deutsche Bank Group; Independent non-executive director of a number of listed companies in HKG including Cheung Kong (Hldgs.) Ltd., Orient Overseas (Int'l.) Ltd., Wing Tai Properties Ltd., and non-executive director of Greenheart Group Ltd.

Peter Wang

Hong Kong

Director since 2007; Senior Commercial Consultant of Zijin Copper of Zijin Mining Group, a HKG-listed company; Has over 30 years experience in Sino-foreign business affairs, predominantly related to petrochemical and mining industries, as well as wood-based panel industries

Garry J. West FCA

Toronto 1, 2

Joined the Board in February 2011; Former Partner at Ernst & Young; With 35 years of extensive financial experience including, auditing, corporate restructuring, public financings and strategic planning initiatives for a number of major organizations; Director and Chair of the Audit Committee for two other TSX-listed companies; Fellow of the Ontario Institute Chartered Accountants

Notes:
1. **Audit Committee**
2. **Corporate Governance Committee**
3. **Compensation and Nominating Committee**

OFFICERS AND EXECUTIVES

Allen T.Y. Chan

Chairman & Chief Executive Officer

Director since 1994; co-founded the Company in 1992; With two decades of forestry management and industry experience; Prior to founding Sino-Forest, Allen specialised in new town development, project management and consultancy of manufacturing & hospitality industry; An academic and a columnist on management-related topics

W. Judson Martin

Vice Chairman

Vice Chairman since June 2010; Lead Director from 2007 to 2010; director since 2006; Previously Senior EVP & CFO of Alliance Atlantis Communications Inc., Senior EVP, CFO & Chief Operating Officer, MDC Communications Corporation, President & CEO, Trilon Securities Corporation, EVP & CFO, Brookfield Development Corporation, Vice President Finance and Treasurer, Trizec Corporation Ltd.

K.K. Poon

President

Director from 2004 to 2008; co-founded the Company in 1992; Former engineer with the Guangdong Forestry Bureau for 15 years. Engaged in forestry trading and wood product manufacturing since 1979; Graduated from Chungnam Forestry University, Guangdong, PRC

David J. Horsley CA, CBV, CF, C.Dir

Senior Vice President & Chief Financial Officer

Officially joined the Company in 2005; previously was board member of Sino-Forest's Audit, Compensation, and Corporate Governance Committees; Former CFO of Cygnal Technologies Corp; Member of Canadian Institute of Chartered Accountants, and Institute of Chartered Business Valuators

Chen Hua

Senior Vice President – Administration & Finance, China

Joined the Company in 2002; Previously board chair of Suzhou New District Economic Development Group, and worked in numerous large corporations; Rich experience in accessing capital markets in China

Albert Ip

Senior Vice President – Development & Operations, North-east & South-west China

Joined the Company in 1997; Specialised in project establishment and production management; Albert heads our Sino-Panel operations; Graduated from the University of Ottawa, Canada in 1984 with a degree in mechanical engineering and project management

Zhao Wei Mao (Albert)

Senior Vice President – Development & Operations, South & East China

Joined the Company in 2002; Previously General Manager of wood manufacturing arm of China Everbright Group, worked in numerous countries, accumulated extensive knowledge and experience in domestic and foreign downstream wood manufacturing; Prior to that was lecturer at Beijing Forestry University

Ten-Year Financial Highlights

(in millions, except earnings per share and share price)	**2010 $**	2009 $	2008 $	2007 $	2006 $	2005 $	2004 $	2003 $	2002 $	2001 $
Consolidated Statement of Income										
Revenue (1)	**1,923.5**	1,238.2	896.0	713.9	555.5	341.3	330.9	265.7	200.7	137.3
Gross profit (1)	**671.5**	440.4	366.0	243.0	175.0	104.0	101.5	64.9	42.7	30.2
Gross profit margin (1)	**34.9%**	35.6%	40.8%	34.0%	31.5%	30.5%	30.7%	24.4%	21.3%	22.0%
Net income (1)	**395.4**	286.4	228.6	152.3	113.5	76.2	52.8	30.2	20.6	18.6
Diluted earnings per share	**1.60**	1.38	1.24	0.90	0.81	0.55	0.43	0.32	0.27	0.21
Cash flow from operating activities (1)	**840.1**	784.5	487.2	482.5	264.2	152.9	119.4	69.6	12.6	12.9
Capital Expenditures	**1,754.2**	1,071.8	702.6	659.6	416.8	299.7	178.6	96.6	44.2	45.3
Consolidated Balance Sheets										
Total assets	**5,729.0**	3,963.9	2,603.9	1,837.5	1,207.3	895.3	756.0	418.9	336.9	281.6
Cash and cash equivalents	**1,223.4**	1,102.4	441.2	328.7	152.9	108.4	201.2	6.9	1.2	1.7
Working capital	**1,323.5**	1,213.0	520.8	330.0	154.6	122.0	236.9	(2.3)	26.1	5.5
Timber holdings	**3,122.5**	2,183.5	1,653.3	1,174.2	752.8	513.4	359.6	232.5	172.4	156.1
Long-term debt	**1,747.4**	925.5	714.5	442.0	450.0	300.0	300.0	56.0	82.3	47.2
Shareholders' equity	**3,198.1**	2,664.7	1,598.8	1,187.3	578.2	439.9	372.3	245.0	180.1	172.8
Shares										
Shares outstanding at year-end	**245.7**	242.1	183.1	182.6	138.0	137.8	136.6	96.2	80.3	80.3
- Common shares (2)	**245.7**	242.1	183.1	182.6	138.0	137.8	136.6	-	-	-
- Class A Subordinate-Voting Shares (2)	**-**	-	-	-	-	-	-	96.2	74.3	74.3
- Class B Multiple-Voting Shares (2)	**-**	-	-	-	-	-	-	-	6.0	6.0
Share Price at year end C$	**23.29**	19.38	9.87	21.44	7.83	4.94	3.43	5.16	1.17	1.19
Market Capitalization C$	**5,723**	4,692	1,807	3,915	1,081	681	469	496	94	96

(1) For comparison purpose, the results of 2005 and 2006 have been restated to exclude wood chips and commission operations but include the tax provision for tax contingency. The result of the wood chips and commission operations has been reclassified as discontinued operations in the Consolidated Financial Statements.

(2) Pursuant to articles of amendment filed by the Company on June 22, 2004, the Class A Subordinate-Voting Shares were reclassified as common shares and the Class B Multiple-Voting Shares were eliminated.

2010 Quarterly Highlights

		1st Q	2nd Q	3rd Q	4th Q	Total
Revenue	$'M	252	306	599	767	**1,924**
Gross profit	$'M	96	123	221	232	**672**
Gross profit margin		38%	40%	37%	30%	**35%**
EBITDA	$'M	146	174	455	553	**1,328**
Net income	$'M	42	64	118	171	**395**
Diluted earnings per share	$	0.18	0.26	0.47	0.65	**1.60**
Cash flow from operating activities	$'M	50	100	325	365	**840**
Plantation Fibre						
Revenue	$'M	157	188	475	581	**1,401**
Hectares sold		12,401	9,336	40,450	58,270	**120,457**
Gross profit - Standing timber	$/m^3	57	64	33	30	**42**
- Logs	$/m^3	37	23	34	32	**33**
Trading of Wood Logs						
Revenue	$'M	83	101	107	163	**454**
Gross profit margin		6%	5%	5%	5%	**5%**
Manufacturing & Other Operations						
Revenue	$'M	12	17	17	23	**69**
Gross profit margin		13%	13%	8%	12%	**11%**
Common Shares						
High	C$	21.59	20.75	19.03	24.43	**24.43**
Low	C$	18.15	15.13	15.10	17.05	**15.10**
Close	C$	19.90	15.13	17.14	23.29	**23.29**
Average daily trading volume		1,261,524	1,207,281	1,040,916	1,270,954	**1,194,904**

Corporate and Shareholder Information

Auditors

Ernst & Young LLP
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222 Bay Street
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Exchange Listing

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol TRE.

Annual Shareholders Meeting

Monday, May 30, 2011 at 4:00 p.m.
The Fairmont Royal York Hotel
Territories Room, Main Mezzanine
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