SINO-FOREST CORPORATION
Management's Discussion and Analysis
June 14, 2011

This Management's Discussion and Analysis ("MD&A") relates to the financial position and results of operations of Sino-Forest Corporation and its subsidiaries for the three months ended March 31, 2011. 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 International Financial Reporting Standards ("IFRS") for Canadian publicly accountable enterprises. This MD&A should be read in conjunction with Sino-Forest's unaudited consolidated financial statements and notes thereto. The United States dollar is our reporting and functional currency and all figures contained herein are in United States dollars unless otherwise indicated.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements which reflect management's expectations regarding Sino-Forest's future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are intended to be forward-looking statements under the "safe harbour" provisions of applicable securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sino-Forest. These statements are not historical facts but instead represent only Sino-Forest's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors Sino-Forest currently believes to be material 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, the evaluation of our provision for income and related taxes, economic, political and social conditions and government policy in the People's Republic of China ("PRC"), the Republic of Suriname ("Suriname") and New Zealand, the risk factors referred under "Recent Developments" and other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although Sino-Forest has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements. Sino-Forest does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report, except as may be required by law.

RECENT DEVELOPMENTS

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

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

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

Risk Factors re Muddy Waters' Allegations

Class Action Suits
The damage claims being sought against the Company in the class action suits described above exceed both the value of the assets of the Company and the shareholders' equity as set forth in the accompanying unaudited interim consolidated financial statements. If the Company is unsuccessful in defending against such claims, either in whole or in part, the Company may have to pay significant damages which would materially affect the Company and its financial position or, potentially, result in the insolvency of the Company.

Harm to Reputation
The allegations set forth in the Report, even if the Independent Committee's examination concludes that the allegations contained in the Report are inaccurate, may have a serious adverse effect on the reputation of the Company. As a result, the ability of the Company to conduct its operations in the normal course of business could be materially affected including, without limitation, employee retention and effects on customer and supplier relationships.

Diversion of Operational Resources
The investigation being conducted by the OSC, the examination by the Independent Committee and the class action lawsuits against the Company will require significant resources to be expended by the directors, officers and employees of the Company. As a result, the diversion of such resources could materially affect the ability of the Company to conduct its operations in the normal course of business. Further, management expects that, at least until the completion of the Independent Committee's examination and the release of its report, the pace of tree acquisition by the Company will be negatively affected.

Additional Fees and Expenses
The Company will incur a substantial amount of fees and expenses in connection with the examination by the Independent Committee, the investigation by the OSC and the class action lawsuits. Further, pursuant to indemnification agreements between the Company and its directors and certain officers, the Company may be obligated to indemnify such individuals for additional legal and other expenses pursuant to such proceedings. The aggregate of such fees and expenses are expected to be substantial and could have a negative effect on the Company's future operating results. The Company may be able to recover certain costs and expenses incurred in connection with such matters from its insurer. However, there can be no assurance regarding when or if the insurer will reimburse the Company for such costs and expenses.

Access to Capital
The allegations set forth in the Report have resulted in a material decline in the market value of the Company's common shares and bonds. In the future, the Company may require additional funds and may attempt to raise additional funds through equity or debt financings or from other sources. The Company may be unable to obtain such additional financing. Further, if additional equity financing is available to the Company without an increase in the Company's share price, such financing may be materially dilutive to existing shareholders of the Company. If additional debt financing is available to the Company, the associated interest payable by the Company may be at an increased rate and subject to more onerous terms and conditions which could have a material impact on the Company's profits.

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ADOPTION AND IMPLICATIONS OF IFRS

The condensed interim consolidated financial statements ("interim financial statements") for the three months ended March 31, 2011 are our first financial statements prepared under IFRS. Note 22 to the interim financial statements, filed at the same time as this MD&A, contains a full explanation of the impact of IFRS on the accounting policies we previously applied under Canadian Generally Accepted Accounting Principles ("Canadian GAAP"), including a numerical reconciliation of the amounts reported under Canadian GAAP to IFRS as at our transition date to IFRS of January 1, 2010, as at and for the year ended December 31, 2010 and as at and for the three months ended March 31, 2010. Throughout this MD&A, we have amended the amounts we previously reported under Canadian GAAP to reflect the impact of adopting IFRS.

Although the adoption of IFRS has had a material impact on several aspects of our reporting, one aspect warrants particular attention in how we are required to depict a certain component of our financing strategy, introducing a heightened degree of volatility to the financial statements. Specifically, our outstanding 2013 convertible notes and 2016 convertible notes (as defined below; collectively, the "Convertible Notes") are convertible into our common shares, at the option of the holder, at a defined conversion rate; however, the indentures governing the terms of the Convertible Notes provide that we may elect to deliver, in lieu of our common shares, cash or a combination of cash and common shares. Under Canadian GAAP, the conversion feature was analyzed as equity, based on our unconditional ability to settle the instrument on conversion by issuing our common shares. Under IFRS however, the feature is analyzed as an embedded derivative liability, measured separately at fair value at the end of each reporting period because it is not closely related to the underlying Convertible Notes, recognizing changes in fair value through profit or loss.

This item alone generated a charge to our income statement of $53.0 million or EPS of $0.22 for the three months ended March 31, 2011, compared to a charge of $20.4 million for the same period in 2010. Consequently, our bottom-line result was a net loss for the period ended March 31, 2011 of $22.1 million, compared to a net profit of $15.9 million for the same period in 2010.

It is important to emphasize that the object of measuring the embedded derivative liability at fair value is to estimate what the transaction price for that instrument would have been in an arm's length exchange motivated by normal business considerations, but no such arm's length exchange will in fact occur. The change in fair value of the embedded derivative liability does not represent a realized loss, or a predicted cash outlay, or a measurement of future share price dilution. We fully retain the ability to respond to a conversion of the Convertible Notes by delivering common shares, and to avoid paying out any cash beyond our obligations relating to the principal amount of the Convertible Notes and to interest accruing on that amount.

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

The Company has obtained an opinion from legal counsel that the removal of the option does not adversely affect the holders' rights in any material respect pursuant to the indentures governing the Convertible Notes and therefore does not require approval of the holders or their agents. The requisite amendments to such indentures are expected to be completed prior to the end of the second quarter of 2011, and therefore management anticipates the accounting change described above will be implemented in its interim financial statements for that quarter. As of the effective date of the removal of the option, any unrealized gain or loss will be recognized in the income statement. Based upon the closing price of the Company's common shares on June 10, 2011, a gain of approximately $450 million would be recognized in the financial statements for the three months ended June 30, 2011.

OVERVIEW OF BUSINESS

About Sino-Forest

We are a leading commercial forest plantation operator in China. Our principal businesses include the ownership and management of forest plantation trees, the sale of plantation fibre and wood logs, and the complementary

manufacturing of downstream engineered-wood products. As at March 31, 2011, we had approximately 866,600 hectares of forest plantations under management which are located mainly in southern and eastern China.

In addition, we have a majority interest in Greenheart Group Limited ("Greenheart"), a company listed on the Hong Kong Stock Exchange (HKSE: 00094). Greenheart and its subsidiaries (collectively, "Greenheart Group") own certain rights and manage approximately 312,000 hectares of hardwood forest concessions in Suriname and 11,000 hectares of radiata pine plantation on 13,000 hectares of freehold land in New Zealand. We believe that our interest in Greenheart Group will strengthen our global sourcing network in supplying wood fibre for China in a sustainable and responsible manner.

SIGNIFICANT BUSINESS ACTIVITIES

In addition to the recent developments noted above on page 1 of the MD&A, the significant activities that occurred during the three months ended March 31, 2011 and to the date of this report were as follows:

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, a related party, for consideration of approximately $71 million, subject to adjustments upon the completion of the sale.

On March 31, 2011, the disposal of the Mangakahia Forest to a related party, Greenheart Group, was completed. Total consideration was approximately $73.2 million including the issuance of 96.5 million ordinary shares of Greenheart (equivalent to approximately $33.2 million) and the undertaking of an interest-bearing loan of $40 million by Greenheart Group to the Company.

Entered into master agreements to acquire up to an aggregate of 266,000 hectares of plantation forests in Shaanxi and Yunnan Provinces

In May 2011, the Company entered into master agreements to acquire up to approximately 200,000 hectares and 66,000 hectares of plantation forests in Shaanxi and Yunnan provinces, respectively, over a ten-year period with a price not to exceed RMB320 per m^3, to the extent permitted under the relevant PRC laws and regulations. The species are different kinds of pine, fir and other species including birch, spruce and cedar. The agreements also provide the Company with pre-emptive rights to lease the underlying plantation land at a price not to exceed RMB525 per hectare per annum for 30 years from the time of harvest, and the land lease may also be extended to 50 years, as permitted under the PRC laws and regulations.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

We have derived the following selected financial information from our unaudited consolidated financial statements for the three months ended March 31, 2011 and 2010 and our financial positions as at March 31, 2011 and December 31, 2010:

	Three months ended March 31,	
	2011	2010
(in thousands, except earnings per share)	**$**	$
Operating Results		
Revenue	**338,924**	251,015
Cost of sales	**(223,513)**	(163,219)
Change in fair value of timber holdings	**10,389**	10,418
Gross profit[1]	**125,800**	98,214
Operating profit for the period	**93,311**	75,443
Loss on changes in fair value of financial instruments	**(53,040)**	(21,118)
Net (loss) profit for the period	**(22,107)**	15,915
EBITDA[2]	**192,056**	142,883
(Loss) earnings per share from continuing operations[3]		
Basic	**(0.09)**	0.07
Diluted	**(0.09)**	0.07
(Loss) earnings per share[3]		
Basic	**(0.08)**	0.07
Diluted	**(0.08)**	0.07

	As at March 31, 2011	As at December 31, 2010
(In thousands, except cash dividends declared per share and common shares outstanding)	**$**	$
Financial Position		
Current assets	**4,982,660**	4,962,518
Non-current assets	**886,820**	834,438
Total assets	**5,869,480**	5,796,956
Current liabilities	**759,045**	775,201
Non-current liabilities	**2,105,038**	2,038,353
Total equity	**3,005,397**	2,983,402
Cash dividend declared per share	—	—
Common shares outstanding	**245,740,889**	245,740,889

RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31, 2011 AND 2010

REVENUE

The following table sets forth the breakdown of our total revenue for the three months ended March 31, 2011 and 2010:

	2011		2010	
	$'000	**%**	$'000	%
Wood fibre				
Plantation fibre	**218,248**	**64.4**	156,789	62.5
Trading of wood logs	**106,172**	**31.3**	82,938	33.0
Wood fibre, total	**324,420**	**95.7**	239,727	95.5
Manufacturing and other	**12,854**	**3.8**	11,288	4.5
Greenheart	**1,650**	**0.5**	-	-
Revenue, total	**338,924**	**100.0**	251,015	100.0

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Our revenue increased 35.0% to $338.9 million in the three months ended March 31, 2011 from $251.0 million in the same period in 2010. The increase in revenue was mainly due to the increase in revenue from our wood fibre operations.

Wood fibre operations revenue

Plantation fibre

The following table sets forth revenue from our plantation fibre operations for the three months ended March 31, 2011 and 2010:

	2011				2010			
	Area sold hectares	**Volume of fibre sold ’000 m^3**	**Average price per m^3 $**	**Total revenue $’000**	Area sold hectares	Volume of fibre sold ’000 m^3	Average price per m^3 $	Total revenue $’000
Standing timber	**15,009**	**2,400**	**90**	**215,250**	5,391	971	90	86,931
Logs	**758**	**55**	**54**	**2,998**	7,010	890	79	69,858
Total	**15,767**	**2,455**	**89**	**218,248**	12,401	1,861	84	156,789

Revenue from sales of plantation fibre increased 39.2% to $218.2 million in the three months ended March 31, 2011 from $156.8 million in the same period in 2010, mainly due to an increase in the revenue from the sales of standing timber, partially offset by the decrease in the revenue of logs.

The average sales per hectare increased 9.5% to $13,842 per hectare in the three months ended March 31, 2011 from $12,643 per hectare in the same period in 2010.

The average yield per hectare sold as standing timber was 160 m^3 for the three months ended March 31, 2011 and 180 m^3 in the same period in 2010. The average yield per hectare sold as logs was 73 m^3 for the three months ended March 31, 2011 and 127 m^3 in the same period in 2010.

During the three months ended March 31, 2011, we sold approximately 9,868 hectares of plantations which were acquired under the master agreements, mainly in the provinces of Guangxi, Yunnan and Hunan.

Plantation fibre sales comprised 64.4% of total revenue in the three months ended March 31, 2011, compared to 62.5% in the same period in 2010.

Trading of wood products and logs

Revenue from trading of imported and domestic wood products and logs increased 28.0% to $106.2 million in the three months ended March 31, 2011 from $82.9 million in the same period in 2010. This increase was primarily due to a different mix of species of wood logs traded with a relatively higher volume of logs at a higher average price sold.

Trading of wood logs sales comprised 31.3% of total revenue in the three months ended March 31, 2011, compared to 33.0% of total revenue in the same period in 2010.

Manufacturing and other operations revenue

Revenue from manufacturing and other operations increased 13.9% to $12.9 million in the three months ended March 31, 2011 from $11.3 million in the same period in 2010.

Greenheart operations revenue

Revenue from Greenheart operations was $1.7 million in the three months ended March 31, 2011.

GROSS PROFIT [(1)]

Gross profit increased 28.1% to $125.8 million in the three months ended March 31, 2011 from $98.2 million in the same period in 2010. Gross profit margin, being gross profit expressed as a percentage of revenue, decreased

to 37.1% in the three months ended March 31, 2011 from 39.1% in the same period in 2010, mainly due to the fall in gross profit margin of plantation fibre operations.

Wood fibre operations gross profit

Plantation Fibre

Gross profit margin from sales of standing timber decreased to 49.4% or $44 per m^3 in the three months ended March 31, 2011 from 54.8% or $49 per m^3 in the same period in 2010, primarily due to the sale of relatively more hectares of plantations which had a higher average cost per hectare in 2011, compared to 2010.

The gross profit margin from sales of logs was 79.3% or $43 per m^3 in the three months ended March 31, 2011, compared to 47.9% or $38 per m^3 in the same period in 2010. The increase was mainly due to the relatively lower average cost of plantations that we sold in 2011 compared to 2010, despite a fall in average selling price from 2010 to 2011.

Trading of wood logs

Gross profit margin from trading of imported and domestic wood products and logs decreased to 5.2% in the three months ended March 31, 2011 from 6.3% in the same period in 2010.

Manufacturing and other operations gross profit

Gross profit margin from our manufacturing and other operations decreased to 5.9% in the three months ended March 31, 2011 from 12.8% for the same period in 2010. The decrease was mainly due to a fall in average selling price as a result of increased competition in the wood flooring business segment.

Greenheart operations gross profit

Gross profit margin from our Greenheart operations was 22.6% for the three months ended March 31, 2011.

SELLING AND ADMINISTRATIVE EXPENSES

Our selling and administrative expenses increased 31.9% to $30.3 million in the three months ended March 31, 2011 from $23.0 million in the same period in 2010. The increase was mainly due to increased staff costs, incremental plantation maintenance fees as a result of increased plantation profile, and incremental costs of approximately $5.8 million relating to the newly acquired subsidiaries of Greenheart Group.

OTHER OPERATING EXPENSES

Our other operating expenses are normally comprised of exchange differences and gains or losses on disposal of capital assets and long-term assets. The increase was mainly due to the increase in exchange losses incurred in 2011.

OPERATING PROFIT

Our operating profit increased 23.7% to $93.3 million in the three months ended March 31, 2011 from $75.4 million in the same period in 2010, due to the factors explained above. Our operating profit as a percentage of revenue decreased to 27.5% in the three months ended March 31, 2011 from 30.1% in the same period in 2010.

EBITDA

EBITDA increased 34.4% to $192.1 million in the three months ended March 31, 2011 from $142.9 million in the same period in 2010, as a result of the increase in revenue in 2011.

LOSS FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

The losses for the three months ended March 31, 2011 and 2010 were mainly attributable to the fair value adjustment of the embedded derivatives relating to our outstanding Convertible Notes. See "Adoption and Implications of IFRS" above.

FINANCE COSTS

Our finance costs increased 45.2% to $44.4 million in the three months ended March 31, 2011 from $30.6 million in the same period in 2010, mainly due to the interest on the $600 million principal amount of senior notes issued in the fourth quarter of 2010.

FINANCE INCOME

Our finance income decreased 54.8% to $1.5 million in the three months ended March 31, 2011 from $3.4 million in the same period in 2010, mainly due to a decrease in average cash and bank balances as compared to 2010.

INCOME TAX EXPENSE

The income tax expense was $19.8 million in the three months ended March 31, 2011, compared to $10.7 million in the same period in 2010. Under IFRS, the Company has adopted the use of the probability-weighted average method in determining the provision and contingencies for tax related liabilities. The probability-weighted average method considers various scenarios under which the Company's tax liabilities are determined. The increase in tax expense is mainly due to an increase in probability assigned to the scenarios under which the same deemed profit rate (i.e. 15%) is used in all provinces in PRC for years prior to 2010 and a decrease in probability assigned to scenario under which different deemed profit rates (i.e. 10% to 15%) are used in different provinces (see note 21 to the condensed interim consolidated financial statements).

NET (LOSS) PROFIT FOR THE PERIOD

As a result of the foregoing, and primarily as a result of the fair value adjustment of the embedded derivatives of our outstanding Convertible Notes, our net (loss) profit for the period decreased 238.9% to a net loss of $22.1 million in the three months ended March 31, 2011 from a net profit of $15.9 million in the same period in 2010. See "Adoption and Implications of IFRS" above.

CASH FLOWS

The following table sets forth a condensed summary of our statements of cash flows for the three months ended March 31, 2011 and 2010:

(in millions)	**2011** **$**	2010 $
Net cash flows used in operating activities	**(121.5)**	(122.0)
Net cash flow (used in) from investing activities	**(12.9)**	8.7
Net cash flows used in financing activities	**(35.1)**	(8.9)
Effect of exchange rate changes on cash and cash equivalents	**1.0**	0.3
Net decrease in cash and cash equivalents	**(168.5)**	(121.9)

Net cash flows used in operating activities

(in millions)	**2011** **$**	2010 $
Cash flows from (used in) operating activities before movement in timber holdings, measured at cost	**247.4**	(5.3)
Net increase in timber holdings, measured at cost	**(368.9)**	(116.7)
Net cash flows used in operating activities	**(121.5)**	(122.0)

Cash flows from (used in) operating activities before movement in timber holdings, measured at cost increased from a cash outflow of $5.3 million to a cash inflow of $247.4 million, mainly as a result of a decrease in trade and other receivables. Net increase of timber holdings increased from $116.7 million to $368.9 million, resulting in net cash flow used in operating activities being relatively unchanged from the same period in 2010.

Net cash flows (used in) from investing activities

In the three months ended March 31, 2011 and 2010, cash used in investing activities was primarily used for capital expenditure to purchase additional planted plantations, investments in manufacturing facilities and other assets. Our net cash inflow for our planted plantations and nursery assets amounted to $0.3 million in the three months ended March 31, 2011 and $5.1 million in the same period in 2010. Our cash outlays for our manufacturing facilities and property plant and equipment amounted to $3.2 million in the three months ended March 31, 2011 and $8.8 million in the same period in 2010. Our cash outlays for investment properties amounted to $0.2 million in the three month period ended March 31, 2010. Our cash outlays for other assets amounted to $2.7 million in the three months ended March 31, 2011 and $0.2 million in the same period in 2010. Our cash outlays for prepaid lease payment amounted to $1.6 million in the three month period ended March 31, 2011 and $68,000 in the same period in 2010. Our cash outlays for intangible assets amounted to $5.0 million in the three months ended March 31, 2011. Our pledged short-term deposits increased by $0.7 million in the three months ended March 31, 2011 and decreased by $7.2 million in the same period in 2010. We also received $80,000 from the proceeds of disposal of property, plant and equipment in the three months ended March 31, 2011 compared to $37,000 in the same period in 2010. In addition, we had net cash inflow of $5.6 million from business acquisitions during the three month period ended March 31, 2010.

Net cash flows used in financing activities

In the three months ended March 31, 2011, cash flows from financing activities consisted of the net cash proceeds from an increase in interest-bearing loans of $119.3 million and proceeds from the exercise of share options of a subsidiary of $0.3 million offset by the repayment of interest-bearing loans of $119.9 million, interest payment of $34.7 million, and an increase in the pledged short-term deposits of $0.2 million. In the three months ended March 31, 2010, cash flows from financing activities consisted of the net cash proceeds from an increase in interesting-bearing loans of $92.6 million, proceeds from the exercise of share options of $1.9 million and a decrease in pledged short-term deposits of $137,000 offset by the repayment of interest-bearing loans of $72.9 million, interest payment of $24.8 million, and repayment of deferred financing costs of $5.9 million.

ISSUED AND OUTSTANDING SHARE CAPITAL

Our authorized capital consists of an unlimited number of common shares and an unlimited number of preference shares issuable in series, of which 246,095,926 common shares are issued and outstanding as of the date of this MD&A. On a diluted basis, we have 287,886,121 common shares outstanding as of the date of this MD&A, assuming the exercise of 3,042,118 outstanding stock options and the issuance of 17,007,603 and 21,740,474 common shares upon the conversion of the 2013 convertible notes in the aggregate principal amount of $345.0 million (the "2013 Convertible Notes") and the 2016 convertible notes in the aggregate principal amount of $460.0 million (the "2016 Convertible Notes"), respectively.

LIQUIDITY AND CAPITAL RESOURCES

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

We expect that cash and cash equivalents of $1.1 billion as at March 31, 2011 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 our 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 at March 31, 2011, we had secured and unsecured short-term borrowings of $155.2 million, consisting of $52.9 million of short-term bank loans and $102.3 million of trust receipt loans. We had long-term debt, including the current portion, of principal amount of $1.9 billion. Our borrowings were mainly denominated in U.S. dollars and Renminbi.

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Short-term borrowings

As at March 31, 2011, we had $274.6 million of short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. As at March 31, 2011, $155.2 million in respect of bank indebtedness and $21.8 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 10.25% guaranteed senior notes due 2014 (the "2014 Senior Notes") and the 6.25% guaranteed senior notes due 2017, the maximum aggregate amount of the short-term borrowings and other indebtedness which is at any time outstanding may not exceed an amount equal to 10.0% of our total consolidated assets, but in any case may not exceed $400.0 million. Interest is payable on these short-term borrowings at a weighted average rate of 3.4% per annum, and the borrowings are either repayable on demand or due in less than one year. As of March 31, 2011, 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 $51.0 million and certain bank deposits of $14.0 million.

Other contractual obligations

As of March 31, 2011, we had other contractual obligations relating to: (1) approximately $101.6 million in respect of capital contributions to our Wholly Foreign Owned Enterprises ("WFOEs"); (2) $155.7 million of capital commitments with respect to plantation investments, buildings and plant and machinery; (3) $264.8 million of purchase commitments mainly regarding logs; (4) commitments under operating leases of approximately $231.2 million; and (5) $1.9 billion principal amount of long-term convertible and non-convertible guaranteed senior notes and Greenheart convertible notes.

Scheduled maturity of contractual obligations

The following table presents the scheduled maturities of our contractual obligations as at March 31, 2011:

		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 (4)	1,917,187	87,670	345,000	424,517	1,060,000
Capital contributions	101,600	19,000	82,600	—	—
Capital commitments (5)	155,675	155,675	—	—	—
Purchase commitments	264,819	199,650	29,430	35,739	—
Operating leases (6)	231,224	16,078	21,359	18,595	175,192
Total contractual obligations	2,670,505	478,073	478,389	478,851	1,235,192

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, we have acquired approximately 1.1 million m^3 of wood fibre as at March 31, 2011.

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

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, we have acquired approximately 226,300 hectares of plantation trees for $926.5 million as at March 31, 2011.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, we have actually acquired approximately 230,200 hectares of plantation trees for $1.2 billion as at March 31, 2011.

Under the master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, we have acquired approximately 137,100 hectares of plantation trees for $690.6 million as at March 31, 2011.

Under the master agreement entered in August 2008 to acquire 200,000 hectares of plantation trees over a 10-year period in Fujian, we have not acquired any hectares of plantation trees as at March 31, 2011.

Under the master agreement entered in June 2009 to acquire between 150,000 to 300,000 hectares of plantation trees over a 3-year period in Jiangxi, we have acquired approximately 69,100 hectares of plantation trees for $309.6 million as at March 31, 2011.

Under the master agreement entered in January 2010 to acquire 150,000 hectares of plantation trees over a 3-year period in Guizhou, we have acquired approximately 38,200 hectares of plantation trees for $201.4 million as at March 31, 2011.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As at March 31, 2011, we had provided guarantees of approximately $198.5 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.

EXPENDITURES ON TIMBER HOLDINGS AND MANUFACTURING SUBSIDIARIES

The following table sets forth the breakdown of our expenditures on timber holdings (both planted and purchased) for the three months ended March 31, 2011 and 2010:

	Three months ended March 31,			
	2011		2010	
	Hectares	**$'million**	Hectares	$'million
Plantation acquisition	**100,034**	**474.6**	37,304	188.9
Re-planting of plantations and maintenance		**3.8**		7.2
Manufacturing and others		**8.8**		2.1
Business acquisition		—	86,786	17.9
Total		**487.2**		216.1

Expenditures incurred at our plantations were for the acquisition of a variety of mature and immature trees and various plantation management costs, including land lease costs and, the costs of planting, developing seedlings, fertilization, insecticide, labour and plantation maintenance service fees. Expenditures for manufacturing plants included the costs of constructing the facilities, purchasing and installing production line equipment, and costs of investment properties.

Management will review its planned acquisition pace and report changes to the original plan in the coming months. These projected expenditures will be adjusted as necessary based on several factors, including some that may be beyond our control such as changes in the macroeconomic environment in the PRC. However, the replanting of 200,000 hectares in the next two to three years will remain a top priority.

AGING OF TRADE RECEIVABLES

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	0-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	Over One Year
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At March 31, 2011	**275,005**	**147,072**	**57,580**	—	**43,026**	**26,786**	**541**
At December 31, 2010	467,659	258,483	—	158,488	8,998	17,534	24,156

Trading of wood logs operations, Manufacturing and other operations, Greenheart 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 landscaping contracts are recognized based on percentage-of-completion method.

		Aging Analysis					
	Total	0-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	Over One Year
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At March 31, 2011	**135,320**	**49,507**	**28,647**	**26,079**	**14,822**	**9,674**	**6,591**
At December 31, 2010	168,967	97,917	30,570	21,531	3,195	13,173	2,581

Currently, as there is no indication that our trade receivables are non-collectible, we have not established an allowance. To mitigate the risk on these receivables, we have established relationships with customers who have a very good credit rating and solid reputation.

OFF-BALANCE SHEET ARRANGEMENTS

Other than the conversion feature of our Convertible Notes as noted above, we do 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 at March 31, 2011. 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 IFRS 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 for the three months ended March 31, 2011 amounted to $152,000 [three months ended March 31, 2010 – $153,000], and were recorded at an exchange amount as agreed upon by the related parties.

In addition, as at March 31, 2011, $7,632,000 [December 31, 2010 – $7,632,000] was payable for consultancy fees to these related companies. The amount was included in trade and other payables as at March 31, 2011 and was subsequently paid in April 2011.

Compensation of key management personnel of the Company

	Three months ended March 31,	
	2011	2010
	$'000	$'000
Short-term employee benefits	**3,400**	3,025
Equity compensation benefits	**1,478**	—
	4,878	3,025

NON-IFRS MEASURES

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

We include EBITDA, gross profit, sales per hectare, price per m^3 and gross margin per m^3 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 including these statistics in the MD&A helps investors and analysts to assess our ability to

grow our 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 IFRS.

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 summarizes our selected quarterly financial information for each of the eight quarters ended March 31, 2011:

	Revenue from continuing operations	(Loss) Profit from continuing operations	Profit (Loss) from discontinued operations	(Loss) Earnings per share[3] from continuing operations		Earnings (Loss) per share[3] from discontinued operations	
				Basic	Diluted	Basic	Diluted
	$'000	$'000	$'000	$	$	$	$
2011							
March 31	**338,924**	**(22,384)**	**277**	**(0.09)**	**(0.09)**	**0.00**	**0.00**
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	16,510	(595)	0.07	0.07	(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)

* The quarterly financial information has not been restated for the adoption of IFRS and is presented under Canadian GAAP. Information for 2010 will be restated under IFRS in the course of this year as the Company issues comparative IFRS financial statements for the remaining quarters of 2011.

SIGNIFICANT ACCOUNTING POLICIES AND INTERPRETATION

Timber Holdings

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

The Company measures planted plantations in accordance with IAS 41 *Agriculture* ("IAS 41") at initial recognition and at the end of each reporting period at fair value less costs to sell, by referring to valuations using a discounted cash flow model. Changes in the fair value less costs to sell are included in the income statement. The Company measures purchased plantations in accordance with IAS 2 *Inventories* ("IAS 2") at the lower of cost and net realizable value.

Timber holdings that are sold or harvested are derecognized when the significant risks and rewards of ownership have been transferred to the buyer, based on the area of plantations sold or harvested. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Costs of Sales

Our costs of sales consist of: (1) depletion of timber holdings based on their cost or fair value when 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 property, plant and equipment.

CRITICAL ACCOUNTING ESTIMATES

Preparing financial statements that comply with IFRS requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Our significant accounting policies are described in note 3 to the condensed interim consolidated financial statements for the three months ended March 31, 2011. Each policy involves a number of estimates and assumptions made by management. We base our estimates on historical experience and various other assumptions we believe 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, we evaluate our estimates. Different accounting policies, or changes in estimates or assumptions, could potentially have a material impact, positive or negative, on our financial position and results of operations. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates. We believe our most critical policies and estimates are those related to revenue recognition of plantation fibre, the valuation of timber holdings, impairment of capital assets, our income tax provision and the valuation of embedded derivatives.

Revenue recognition of plantation fibre

We sell standing timber at various stages of maturity to domestic wood dealers from our tree plantations, and this represents a significant portion of our consolidated revenue. The timing of recognition of revenue from plantation fibre sales depends on the terms and conditions of our contractual arrangements with our customers. To date, we have recognized substantially all of our plantation fibre revenue when we and the buyer enter into a binding sales agreement. Typically, prior to entering into the agreement, we 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 plantation on the specified plantation area; 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 we have 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 plantation on the specified plantation area over the harvest period.

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

Valuation of timber holdings

Timber holdings represented approximately 61% of our consolidated total assets as at March 31, 2011. We measure our timber holdings at either: (i) the lower of cost and net realizable value; or (ii) fair value less costs to sell, based on their classification as purchased plantations, which are accounted for as inventory under IAS 2, or planted plantations, which are accounted for as biological assets under IAS 41, respectively. We measure planted plantation at initial recognition and at the end of each reporting period at fair value less costs to sell, by referring to valuations using a discounted cash flow model. We believe the accounting estimates used in these valuations are critical accounting estimates because 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 our weighted average cost of capital.

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

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

We evaluate the recoverability of the carrying value of our property, plant and equipment, investment properties, intangible assets and goodwill (or the cash-generating units to which they belong) whenever indicators of impairment exist. Indicators of impairment include prolonged operating losses or a decision to dispose of an existing property, plant and equipment, investment properties, intangible assets and goodwill, or otherwise change its use. If any such indication exists, we compare the asset's carrying value to its recoverable amount, calculated as the higher of fair value less costs to sell and value in use. In assessing value in use, we discount estimated future cash flows to their present value, using a pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the asset or cash-generating unit for which the estimates of future cash flows have not been adjusted. We measure impairment losses on property, plant and equipment, investment properties, intangible assets and goodwill or cash-generating units as the amount by which the carrying value of the asset or unit exceeds its recoverable amount.

We believe estimates related to 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 among other things, the impact of improvement plans on current operations, other new business opportunities, forecasted production volumes, cost of production assumptions on current and future business, and the appropriate discount rate to be applied in the calculation; and (ii) any resulting impairment loss could have a material impact on our consolidated financial statements and the reported property, plant and equipment, investment properties, intangible assets and goodwill amounts in the consolidated statement of financial position.

Business acquisitions

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

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

Provision and contingencies for tax related liabilities

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

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

In particular, the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and in earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with the current PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC, are probably subject to enterprise income tax on a deemed

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

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

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

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

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

Valuation of embedded derivatives

Our outstanding 2013 Convertible Notes and 2016 Convertible Notes are convertible into our common shares, at the option of the holder, at a defined conversion rate; however, the indentures governing the terms of the Convertible Notes provide that we may elect to deliver, in lieu of our common shares, cash or a combination of cash and common shares. This feature is analyzed as an embedded derivative liability, measured separately at fair value at the end of each reporting period because it is not closely related to the underlying Convertible Notes, recognizing changes in fair value through profit or loss. The liability is measured using the Black-Scholes valuation model, incorporating inputs for factors including volatility, risk-free interest rates, and the liability's expected life. These inputs are, by their nature, unpredictable, and the resulting valuation of the embedded derivative will be inherently volatile. Changes in the amounts of the inputs and in the operation of the valuation model could materially increase or decrease the carrying amount of the embedded derivative liability in future periods.

FUTURE ACCOUNTING STANDARDS

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

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

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

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

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

RISKS AND UNCERTAINTIES

Other than as disclosed under "Recent Developments" above, there are no significant changes to the risk and uncertainties as described in our most recent annual information form, which is available on SEDAR at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Our 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 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 not more than 365 days before the last day of the period covered in the interim filings 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 March 31, 2011 to exclude controls, policies and procedures of Greenheart Group. The Company intends to include such controls, policies and procedures 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 at and for the three months ended March 31, 2011

(in millions)	$
Revenue	1.1
Net loss before non-controlling interests	(4.9)
Current assets	76.6
Non-current assets	231.3
Current liabilities	(4.3)
Non-current liabilities	(39.4)

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 was ineffective due to the weakness discussed below with respect to ICFR.

The success of the Company's vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. As such, senior management plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. By taking additional steps in 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 our internal controls over financial reporting during the three months ended March 31, 2011 that would materially affect, or is reasonably likely to materially affect, Sino-Forest's internal controls over financial reporting.

OUTLOOK

Undoubtedly, Sino-Forest's business will be affected in the short term, as the Company will be devoting much of its resources to work with external professionals in Canada, Hong Kong and mainland China, including independent accounting firm Pricewaterhouse Coopers LLP, to examine the allegations made in the report issued by short seller Muddy Waters, LLC. Given the negative impact, management expects the pace of tree acquisition to be adversely affected.

Despite this unfortunate situation, we will continue to focus on our business strategy of expanding operations. With $1.0 billion in cash and $3.6 billion of standing timber assets, Sino-Forest can continue its growth through acquisitions and through sustainable long-term replanting without accessing the capital markets. The outlook for China and its forestry sector remains positive for 2011 as the country continues to benefit from relatively strong economic growth, driven by broad-based industrialization and massive urbanization. At our May 30, 2011 annual shareholders meeting, we indicated our intention to target an annual wood fibre output of 30 million m^3 by 2013 after we sold 17.6 million m^3 of fibre last year. We remain confident that we can achieve this compound annual growth rate of nearly 20%.

On behalf of Sino-Forest's Board and employees, we wholeheartedly thank our shareholders, bondholders, customers and other stakeholders for expressing their continued support for Sino-Forest at this critical time. Given our solid, long-term track record and the integrity with which we manage our business, we strongly believe our reputation will be redeemed in due course.

Management's Discussion and Analysis

(1) We define gross profit as revenue less cost of sales, plus or minus – for wood fibre operations - the change in fair value of timber holdings less estimated point-of-sale costs. We present a measure for gross profit because we believe certain investors find this useful in assessing our operating performance. In addition, we include the fair value change as part of our calculation of gross profit because the fair value change represents a portion of the total gain or loss we will ultimately realize on the underlying assets, and we believe this should be regarded as a component of our core operating performance. However, gross profit is not a recognized term under IFRS and should not be considered as an alternative to net income or as an indicator of operating performance or as any other measure of performance derived in accordance with IFRS. Because it is not a measure defined by IFRS, gross profit as calculated and presented by us may not be comparable to similar measures presented by other companies.

(2) We define EBITDA as operating profit for the year/period after adding back depreciation and amortization, as well as a non-cash component of timber holdings from cost of sales and changes in fair value of timber holdings less estimated point-of-sale costs for the year/period. We present EBITDA as additional information because we believe 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 IFRS 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 IFRS.

We calculate EBITDA as follows:

		Three months ended March 31,	
		2011	2010
		$'000	$'000
Operating profit		**93,311**	75,443
Add (less):	depreciation and amortization	**3,413**	2,194
	non-cash component of timber holdings from cost of sales	**105,721**	75,664
	change in fair value of timber holding less estimated point-of-sale costs	**(10,389)**	(10,418)
EBITDA		**192,056**	142,883

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

(4) Represents principal amount of the U.S. dollar denominated interest-bearing loans and borrowings due in 2011, 2013, 2014, 2015 and 2016.

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

(6) Represents mainly leases of plantation land.