REPORT TO SHAREHOLDERS

(All amounts are expressed in U.S. dollars, unless otherwise indicated)

Sino-Forest is pleased to report strong financial performance in the first quarter 2008. Revenue from continuing operations of $136.1 million grew 20.7%, compared to last year. Overall gross profit increased 46.1% to $46.9 million, EBITDA rose 56.8% to $73.6 million and net income was up 26.2% to $14.5 million over same period 2007. Non–operating charges of $7.4 million (approximately $0.04 EPS) combined with the effect of a 30% increase in outstanding common shares resulted in diluted EPS unchanged compared to 2007.

The increase in net earnings was attributable to higher-margin plantation fibre sales specifically the sale of fibre from our integrated plantations.

Wood Fibre Operations includes plantation fibre and other fibre (imported wood products and wood logs).

- Sales of plantation fibre increased $51.4 million or 100.1% to $102.7 million in the first quarter of 2008, mainly as a result of the sale of logs harvested from 4,254 hectares of integrated plantations in Hunan and Yunnan.
- Sales of imported wood products dropped $30.9 million or 56.3% to $24.1 million from $55.0 million due to lower imports primarily from Russia.
- Sales of wood logs decreased $0.6 million or 83.1% to $0.1 million compared to $0.7 million in same quarter last year.

Manufacturing and Other Operations includes particleboard, flooring, oriented strand board, finger-joint board and nursery businesses.

- Revenue increased 63.2% in the first quarter of 2008 to $9.3 million.

In the fourth quarter of 2007, we commenced selling a small quantity of logs in Hunan but postponed further sales pending the evaluation of alternative structures for owning and managing our integrated plantation operations. While the final structure has yet to be decided, we sold 509,000 cubic meter of logs equivalent to 4,254 hectare of trees during the first quarter of 2008 in the integrated plantation. In 2008, we anticipate harvesting and selling approximately 20,000 hectares or 2 million cubic meter of fibre in Hunan. In Yunnan, we plan to accelerate tree acquisitions considering the higher value of tree species in those secondary natural forests. As for harvesting in Yunnan, given the different type of forest nature, our plan is to selectively harvest approximately 20% of the trees we acquire in Yunnan on an annual basis.

We remain focused on creating shareholder value, by further strengthening our competitive advantages of becoming a regional wood resources developer and strengthen our silviculture expertise to support our sustainable forestry practices. Our target for 2008 is to continue to acquire and expand our trees under management, and to implement a large-scale sustainable re-plant program for 2009 after more land in our southern-province plantation base has been harvested and cleared.

Allen T.Y. Chan
Chairman and Chief Executive Officer

May 13, 2008

Management's Discussion and Analysis

May 13, 2008

Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of Sino-Forest Corporation's operations for the three months ended March 31, 2008. Throughout this MD&A, unless otherwise specified, "Sino-Forest", "Company", "we", "us" and "our" refer to Sino-Forest Corporation and its subsidiaries. Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP"). This MD&A should be read in conjunction with Sino-Forest's unaudited consolidated financial statements and notes thereto. The United States dollar is our reporting and functional currency and all figures contained herein are in United States dollars unless otherwise indicated.

Additional information relating to the Company, including our annual information form for the year ended December 31, 2007 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 within the meaning 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 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 local plantation land owners and/or plantation land use rights holders, authorized intermediaries, key customers, suppliers and third party service providers, our ability to operate our production facilities on a profitable basis, changes in currency exchange rates and interest rates, evaluation of our provision for income and related taxes and PRC economic, political and social conditions and government policy, other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although Sino-Forest has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements. The Company does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report.

Overview of Business

About Sino-Forest

We are a leading, foreign-owned, commercial forestry plantation operator in the People's Republic of China ("PRC"). As at March 31, 2008, we had approximately 328,000 hectares of forestry plantations located in southern, south-western and eastern China.

We began operations in 1994 as the first foreign and privately-managed company involved in forest products in China. Our principal businesses include the ownership and management of forestry plantation trees, the sale of standing timber and wood logs, and complementary manufacturing of downstream engineered-wood products.

Strategic Business Units

Sino-Forest's operations are comprised of two core business segments - **Wood Fibre Continuing Operations** are the major revenue contributor, while our **Manufacturing & Other Continuing Operations** enable us to add value to our fibre by producing downstream products.

Revenue from Wood Fibre Continuing Operations (hereinafter "Wood Fibre Operations") is derived from the following sources:

Plantation Fibre

- we acquire, cultivate and sell standing timber or harvested logs from our purchased, integrated and planted plantations in seven provinces and regions across China.

Other Fibre

- *Wood logs* – we source logs from PRC suppliers and sell them in domestic 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.

Our Manufacturing and Other Continuing Operations (hereinafter "Manufacturing and Other Operations") include:

- particleboard manufactured in Gaoyao, Guangdong Province;
- engineered wood flooring produced in Suzhou, Jiangsu Province and sold through over 200 stores nationwide in the PRC;
- oriented strand board manufactured in Muling City, Heilongjiang Province;
- finger joint board, block board and particleboard produced in Dongkou, Huaihua, Xiangxi and Yuanling in Hunan Province; and
- greenery & nursery operations based in Suzhou, Jiangsu Province.

Our Vision and Strategy

Our vision is to become the leading commercial forestry plantation operator and preferred supplier of wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC.

To achieve our vision, we strive to be at the forefront of our industry by creating regional "wood baskets" that ensure a sustainable supply of quality wood fibre to downstream manufacturing operations. We also employ new technologies to improve productivity, quality and economic viability of China's engineered-wood products.

We focus on the following strategies that have made Sino-Forest successful:

- acquire additional forestry plantations and access to long-term supply of wood fibre in the PRC where regional markets with growing demand will be located;
- improve the yields of our forestry plantations through continued investment in research and development;
- practice environmentally responsible forestry management;
- strengthen our management processes and information systems to support the growth of our multi-faceted businesses;
- strengthen our engineered-wood manufacturing business to complement our plantation operations with an aim to increase the value of our wood fibre; and
- widen and diversify our investor base and enhance our corporate image and profile.

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 logs and wood chips 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 market for wood products is 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 design activity and the demand for wood chips in the pulp and paper markets. These activities are, in turn, subject to fluctuations due to, among other factors:

- changes in domestic and international economic conditions;
- 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 forestry plantations are subject to various factors and uncertainties. Should we be unable to exercise our rights to obtain additional forestry plantations, our business, financial condition and results of operations could be materially and adversely affected.

The success of our business depends upon the productivity of our forestry plantations and our ability to realize our expected yields. Forestry plantation yields depend on a number of factors, many of which are beyond our control. These include damage by disease, pests and other natural disasters, and weather, climate and soil conditions. Our ability to maintain and improve our yields will depend on these factors and the results of our research and development efforts.

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 plantations.

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

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

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

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

We report our financial statements 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, Canadian dollar and Hong Kong dollar, or in the United States dollar against the Renminbi, the Canadian dollar or the Hong Kong dollar, may have an adverse impact on our results of operations and may adversely affect the value, translated or converted into United States dollars, Canadian dollars or otherwise, of our revenue and net income.

Significant Accounting Policies and Interpretation

Cost 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-based products acquired in our sales and trading activities of these products; and (4) the costs incurred at our manufacturing plants.

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, operations design, site preparation, terracing, fertilization, planting, thinning, tending, protection, forestry bureau service charge, overhead and lease costs. Timber holdings from standing timber sales are depleted when the significant risks and rewards of ownership have been transferred to the buyer, which occurs when the contract for sale is entered into.

EBITDA

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

Significant Business Activities

Significant activities that have occurred during the three months ended March 31, 2008 and to the date of this report were as follows:

Updated Valuation of Forest Plantation Assets in China

In March 2008, the Company announced that it had received the updated, independent valuation of its commercial plantation assets as well as a prospective valuation of its proposed plantation development plans in China. Using a discounted cash flow methodology, Poyry Forest Industry Ltd ("Poyry") estimates that the existing forest plantation (single rotation only) as at December 31, 2007 had a value of approximately $1.2 billion and on a perpetual rotation basis, a value of approximately $3.2 billion. A copy of such valuation is available on SEDAR at www.sedar.com.

Selected Consolidated Financial Information

First Quarter Financial Information

The following table sets forth the selected unaudited financial information for the three months ended March 31, 2008 and 2007 and our financial position as at March 31, 2008 and December 31, 2007:

(in thousands, except earnings per share and common shares outstanding)	**2008** **$**	[Restated] 2007 $
Operating Results		
Revenue (1)	**136,137**	112,777
Cost of sales (1)	**89,258**	80,686
Gross profit (2)	**46,879**	32,091
Net income from continuing operations	**15,614**	11,706
Net income	**14,527**	11,510
EBITDA (3)	**73,611**	46,951
Net earnings from continuing operations per share (4)		
Basic	**0.09**	0.08
Diluted	**0.09**	0.08
Net earnings per share (4)		
Basic	**0.08**	0.08
Diluted	**0.08**	0.08

	As at March 31, 2008 $	As at December 31, 2007 $
Financial Position		
Current assets	**473,406**	527,028
Non-current assets	**1,441,632**	1,310,469
Total assets	**1,915,038**	1,837,497
Current liabilities (including current portion of long-term debt)	**195,348**	197,003
Long-term debt (net of current portion)	**443,310**	441,985
Total shareholders' equity (net assets)	**1,264,755**	1,187,298
Cash dividends declared per share	**Nil**	Nil
Common shares outstanding	**182,592,961**	182,592,961

Results of Operations – Q1 2008 vs Q1 2007

Revenue

The following table sets forth the breakdown of our total revenue for the first quarters ended March 31, 2008 and 2007:

	2008		2007	
	$'000	**%**	$'000	%
Wood Fibre Operations				
Plantation Fibre	**102,670**	**75.4**	51,316	45.5
Other Fibre	**24,187**	**17.8**	55,776	49.5
Manufacturing and Other Operations	**9,280**	**6.8**	5,685	5.0
Total Revenue	**136,137**	**100.0**	112,777	100.0

Total revenue increased 20.7% to $136.1 million in the first quarter of 2008 due primarily to higher sales of plantation fibre, specifically integrated plantations and manufactured and other products, offset by a decrease in the sales of other fibre, specifically imported wood products.

Wood Fibre Operations Revenue

Plantation Fibre

For the first quarters ended March 31, 2008 and 2007, plantation fibre sales were as follows:

	2008			2007		
	Hectares	**Sales per hectare**	**Total revenue**	Hectares	Sales per hectare	Total Revenue
		$	**$'000**		$	$'000
Purchased plantations	**9,175**	**5,476**	**50,244**	11,150	4,430	49,395
Integrated plantations	**4,254**	**12,306**	**52,349**	—	—	—
Heyuan Pine Undertaking	—	—	—	880	1,667	1,467
Planted plantations	**64**	**1,203**	**77**	261	1,739	454
Total	**13,493**	**7,609**	**102,670**	12,291	4,175	51,316

Plantation fibre revenue doubled to $103 million in the first quarter 2008. The increase was mainly due to the sale of logs harvested from 4,254 hectares of integrated plantations in 2008 compared to none in 2007.

The total volume of fibre sold during the first quarter was approximately 1.4 million cubic metres ("m^3"), with approximately 863,000 m^3 from purchased and planted plantations, and approximately 509,000 m^3 from integrated plantations. In the same quarter last year, we sold a total of 1.0 million m^3 (which include Heyuan Pine Undertaking) from purchased and planted plantations, and no trees from our integrated plantations.

The average yield of harvested logs sold under the integrated plantation was 120 m^3 per hectare and it commanded an average selling price of $103 per m^3. Gross margin for logs sold in the south-west region of China was 28% or $28 per m^3. Fibre sold from integrated plantations was recorded under a new, alternate transaction structure, which we anticipate will be finalized and applied to all integrated operations in the second half of 2008.

The average yield of standing timber sold under the purchased and planted plantations was 93 m^3 per hectare compared to 84 m^3 per hectare same quarter last year and obtained an average selling price of $58 per m^3 compared to $50 last year – an increase of 16.0%.

Plantation fibre sales comprised 75.4% of total revenue in 2008, compared to 45.5% in 2007.

Other Fibre

Revenue from sales of imported wood products decreased 56.3%, from $55.0 million in 2007 to $24.1 million in 2008. This decrease was primarily due to lower sales volume due to significant timber export duties levied by the Russian government in 2007. Effective April 1, 2008, the Russian government increased further export tariffs to 25% from 20%.

Revenue from sales of wood logs decreased 83.1% to $0.1 million in 2008 due to limited harvesting of secondary natural forest as our local partner in Inner Mongolia decided to wait for further details on the tariffs to be imposed by the Russian government.

Other fibre sales comprised 17.8% of total revenue in 2008, compared to 49.5% of total revenue in 2007.

Manufacturing and Other Operations Revenue

Revenue from our manufacturing and other operations increased 63.2% from $5.7 million in 2007 to $9.3 million in 2008 mainly due to higher revenue from sales of engineering wood flooring and relatively new processing facilities in Hunan province.

Cost of Sales

Cost of sales increased 10.6%, from $80.7 million in 2007 to $89.3 million in 2008, due primarily to higher sales volumes of plantation fibre and manufacturing products.

Wood Fibre Operations Cost of Sales

Plantation fibre cost of sales increased 161.1%, from $21.6 million in 2007 to $56.5 million in 2008. The increase reflected primarily the 137.9% increase in cost of sales per hectare of standing timber from $1,759 per hectare in 2007 to $4,184 per hectare in 2008, because we sold logs harvested from our plantations in Hunan and Yunnan which had a higher cost.

Imported wood products cost of sales decreased 56.2%, from $53.4 million in 2007 to $23.4 million in 2008, primarily reflecting the decrease in the sales volumes of our imported log trading business.

Wood logs cost of sales decreased 82.1%, from $0.7 million in 2007 to $0.1 million in 2008, as a result of no sales of logs from Inner Mongolia.

Manufacturing and Other Operations Cost of Sales

The cost of sales of manufacturing and other operations increased 85.4% from $5.0 million in 2007 to $9.3 million in 2008, primarily due to an increase in sales volume and cost of production.

Gross Profit

Gross profit increased 46.1%, from $32.1 million in 2007 to $46.9 million in 2008. Gross profit margin (gross profit as a percentage of total revenue) on average increased from 28.5% in 2007 to 34.4% in 2008 mainly due to the higher proportion of sales of plantation fibre which has a higher gross profit margin compared to other fibre.

Wood Fibre Operations Gross Profit

Gross profit margin from sales of purchased and planted plantations increased from 57.9% in 2007 to 63.0% in 2008 due to higher selling prices. The gross profit margin for sales of logs under the integrated plantation operations was 27.7%.

Gross profit margin from sales of imported wood products decreased from 3.0% in 2007 to 2.8% in 2008.

Gross profit margin from sales of wood logs decreased from 10.4% in 2007 to 4.9% in 2008 as a result of no sales of logs from Inner Mongolia.

Manufacturing and Other Operations Gross Profit

Gross margin from our manufacturing and other operations decreased from 11.9% in 2007 to breakeven in 2008, primarily due to increased cost of production of our manufacturing plants and downtime due to the snowstorms in the first quarter of 2008.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 67.4%, from $6.8 million in 2007 to $11.3 million in 2008, due primarily to additional staff complement and set up of new companies to support growth.

Depreciation and Amortization

Depreciation and amortization decreased 12.4%, from $1.1 million in 2007 to $1.0 million in 2008, due to write-down of certain manufacturing facilities during the fourth quarter of 2007.

Income from Operations

Income from operations increased 42.9%, from $24.2 million in 2007 to $34.6 million in 2008, due to the factors explained above. Our income from operations as a percentage of revenue increased from 21.4% in 2007 to 25.4% in 2008.

Interest Expense

Interest expense decreased 4.9%, from $11.1 million in 2007 to $10.6 million in 2008, due primarily to lower bank indebtedness.

Interest Income

Our interest income increased 76.9%, from $1.5 million in 2007 to $2.6 million in 2008, due to higher cash and cash equivalents and short-term deposits from the financings completed last year and interest income earned on the loan to Mandra Holdings.

Exchange Losses

Exchange losses increased 507.9% from $0.5 million in 2007 to $2.8 million in 2008 due to weakening of the U.S. dollar against the Hong Kong dollar and Renminbi.

Loss on Changes in Fair Value of Financial Instruments

During the quarter, the Company incurred charges in the amount of approximately $4.5 million related to losses on changes in fair value of financial instruments, including a loss of $2.0 million on the embedded conversion option of the convertible bonds issued by Omnicorp.

Other Income

Other income increased 129.6% from $0.3 million in 2007 to $0.7 million in 2008 mainly resulted from accretion of convertible bonds of Omnicorp Limited during the first quarter of 2008.

Provision for Income Taxes

In 2008, the provision for income taxes was $4.3 million compared to $2.3 million in 2007; the increase was due to the higher income earned.

Net Income from Continuing Operations

As a result of the foregoing, net income from continuing operations for 2008 increased 33.4%, from $11.7 million in 2007 to $15.6 million in 2008. Overall net profit margin from continuing operations increased from 10.4% in 2007 to 11.5% in 2008.

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 182,592,961 common shares were issued and outstanding as of the date of this MD&A. On a diluted basis, the Company has 186,541,414 common shares outstanding as of the date of this MD&A, assuming the exercise of 3,948,453 outstanding stock options.

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 obtain new forestry plantations either in the form of standing timber or logs, 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.

Cash Flows

The following table sets forth a condensed summary of our statement of cash flows:

Three months ended March 31,	**2008**	[Restated] 2007
(in millions)	**$**	$
Cash flows from operating activities of continuing operations		
Net cash provided by operations [5]	**63.1**	35.8
Net change in working capital [6]	**(31.1)**	10.5
Total	**32.0**	46.3
Cash flows from operating activities of discontinued operations	—	4.0
Cash flows used in investing activities	**(122.0)**	(80.1)
Cash flows (used in) from financing activities	**(9.9)**	1.1
Effect of exchange rate changes on cash and cash equivalents	**1.4**	0.1
Net decrease in cash and cash equivalents	**(98.5)**	(28.6)

Cash Flows from Operating Activities of Continuing Operations

Net cash provided by operations increased from $35.8 million to $63.1 million in Q1 2008. However, an increase in the cash invested in working capital items, specifically accounts receivable which increased significantly during Q1 2008, resulted in cash flow from operating activities of continuing operations declining 30.8% to $32.0 million.

Cash Flows Used in Investing Activities

In 2007 and 2008, cash flows used in investing activities were primarily used for capital expenditures to obtain additional forestry plantations and for investments in manufacturing facilities. Our cash outlays for our forestry plantations amounted to $77.3 million in 2007 and $83.6 million in 2008. Our cash outlays for our manufacturing facilities and other capital assets amounted to $1.0 million in 2007 and $10.0 million in 2008. An increase in non-pledged short-term deposits in 2008 amounted to $3.9 million compared to $1.8 million in 2007. In addition, we have paid $1.9 million for business acquisition and $22.4 million for other assets in 2008.

Cash Flows (Used In) From Financing Activities

In 2008, cash flows used in financing activities consisted of an increase in long-term debt of $0.9 million, offset by an increase in pledged short-term deposits of $1.9 million and the payment on derivative financial instrument of $2.1 million, and a decrease in bank indebtedness of $6.8 million. In 2007, cash flows from financing activities consisted of an increase in bank indebtedness of $0.9 million and a decrease in pledged short-term deposits of $1.1 million offset by payment on derivate financial instrument of $0.9 million.

Financing Arrangements and Contractual Obligations

As of March 31, 2008, we had secured and unsecured short-term liabilities of $49.9 million, consisting of $33.2 million of short-term bank loans and $16.7 million of trust receipt loans. We had long-term debt of $443.3 million. Our borrowings were denominated in U.S. dollars and Renminbi.

Short-Term Borrowings

As of March 31, 2008, we had $158.0 million credit facilities with banks in Hong Kong and the PRC to fund working capital requirements of which $52.0 million was being utilized. Interest is payable on these borrowings at a weighted average rate of 7.5% per annum, and the borrowings are either repayable on demand or due in less than one year. As of March 31, 2008, the credit facilities were secured by certain of our land-use rights, buildings and timber holdings having an aggregate net book value of approximately $7.1 million and certain bank deposits of $2.2 million.

Other Contractual Obligations

As of March 31, 2008, we had other contractual obligations relating to: (1) approximately $15.5 million in respect of capital contributions to our Wholly Foreign Owned Enterprises ("WFOEs"); (2) $25.3 million of capital commitments with respect to buildings, timber holdings, and plant and machinery; (3) $24.4 million of purchase commitments mainly regarding logs; (4) commitments under operating leases of approximately $77.8 million; and (5) $443.3 million long-term non-convertible guaranteed senior notes, syndicated and bank loans.

Scheduled Maturity of Contractual Obligations

The following table presents the scheduled maturities of our contractual obligations as of March 31, 2008:

	Payment Due by Period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
	$'000	$'000	$'000	$'000	$'000
Long-term debt (7)	**443,310**	—	**75,855**	**367,455**	—
Capital contributions	**15,480**	**15,480**	—	—	—
Capital commitments (8)	**25,337**	**25,337**	—	—	—
Purchase commitments	**24,369**	**24,369**	—	—	—
Operating leases (9)	**77,768**	**22,871**	**4,948**	**4,440**	**45,509**
Total Contractual Cash Obligations	**586,264**	**88,057**	**80,803**	**371,895**	**45,509**

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees for fourteen years in Hunan, the Company has acquired 64,053 hectares of plantation trees for $267.0 million as at March 31, 2008.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of standing timber for ten years in Yunnan, the Company has acquired 10,438 hectares of standing timber for $88.1 million as at March 31, 2008.

Under the master agreement entered in July 2006 to secure at least 1.5 million m^3 of wood fibre for twelve years in Inner Mongolia, the Company has acquired 17,000 m^3 of wood fibre as at March 31, 2008.

Under the master agreement entered in December 10, 2007 to acquire 150,000 hectares of plantation trees for five years in Guangxi, the Company has acquired 22,966 hectares of standing timber for $60.9 million as at March 31, 2008.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of March 31, 2008, we had provided guarantees of approximately $130.4 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 first quarters ended March 31, 2008 and 2007:

	2008		2007	
(in millions)	**Hectares**	**$**	Hectares	$
Tree acquisition – Purchased plantations	**27,706**	**77.9**	14,416	73.6
Re-planting and maintenance of plantations		**4.4**		3.4
Panel manufacturing and other operations		**10.0**		1.0
Total		**92.3**		78.0

Aging of Accounts Receivable

We recognize revenue from sales of standing timber when the buyer has signed the sales contract. The buyer is generally responsible for logging and hauling the timber from the plantations. After the buyer has entered into the sales contract, we generally give the buyers of our standing timber up to 18 months to log and haul the timber from the plantations, and generally grant buyers a credit period of up to nine months from the date of the sales contract. We generally require a partial payment of approximately 20% of the purchase price within 60 days of the sales contract, payment of 40% of the purchase price within 150 days of the sales contract and the remaining 40% within nine months of the sales contract. In addition, we perform credit evaluation on customers as necessary and have monitoring processes intended to mitigate credit risk and maintain appropriate provisions for potential credit losses. We believe these measures mitigate our credit risks in our sales of standing timber. We generally grant our customers in our trading activities credit terms of 30 to 120 days with respect to domestic sales of imported logs and wood-based products. As a result, we may have large outstanding balances of accounts receivable with respect to sales of wood-based products and standing timber. The following table sets forth an aging analysis of our accounts receivable for 2008 and 2007:

	Aging Analysis						
	Total Accounts Receivable	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
As at March 31, 2008	**134,560**	**95,949**	**2,777**	**14,774**	**19,797**	**1,263**	—
At December 31, 2007	105,329	81,980	6,006	13,360	3,704	279	—

Off-Balance Sheet Arrangements

Sino-Forest does not have any outstanding derivative financial instruments or off-balance sheet guarantees. In addition, we are not otherwise engaged in hedging activities and had no forward exchange contracts outstanding as of March 31, 2008. 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 certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the quarter ended March 31, 2008 amounted to $152,000 [March 31, 2007 - $151,000] were recorded at exchange amount as agreed upon by the related parties.

In addition, as at March 31, 2008, we had an aggregate amount of $3,950,000 [December 31, 2007 - $3,950,000] owed to these related companies.

Quarterly Financial Information

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

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended March 31, 2008:

	[Restated]	[Restated]	[Restated] Earnings Per Share (4)	
	Revenue	Net Income	Basic	Diluted
(in thousands, except per share amounts)	$	$	$	$
2008				
March 31	**136,137**	**14,527**	**0.08**	**0.08**
2007				
December 31	310,850	55,470	0.30	0.30
September 30	161,475	63,383	0.35	0.35
June 30	128,764	21,910	0.13	0.13
March 31	112,777	11,510	0.08	0.08
2006				
December 31	233,261	55,000	0.40	0.39
September 30	150,818	40,014	0.29	0.29
June 30	84,173	11,105	0.08	0.08

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting policies 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, 2007. 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 66.4% of the Company's consolidated total assets as at March 31, 2008. 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 carry amount may not be recoverable. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on timber holdings are measured as the amount by which the carrying value of the asset exceeds its fair value.

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

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

Capital Assets

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

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

Revenue Recognition

Standing Timber

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

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

Provision for Tax Related Liabilities

Two of the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of wood chips and standing timber and earn commission income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises. In accordance with the PRC Income Tax Laws , foreign companies deriving income from sources in the PRC are subject to foreign enterprise income tax. Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements made with the AI, the AI are responsible for paying PRC taxes on behalf of the BVI subsidiaries that arise from the Authorized Sales Activities. Accordingly, the BVI Subsidiaries do not pay any PRC taxes with respect to the profits earned in the PRC.

If PRC tax authorities were to determine that the AI did not pay applicable PRC taxes on the Authorized Sales Activities on behalf of the BVI Subsidiaries, they may attempt to recover the applicable PRC taxes or any shortfall from the BVI Subsidiaries. Since the BVI Subsidiaries are unable to ascertain whether the AI have properly handled such tax settlements and/or able to recover relevant PRC taxes required to be paid by the BVI Subsidiaries from the AI, a provision for income tax at an amount representing management's best estimate of the amount the PRC tax authorities might seek to recover, is recognized in the financial statements each year.

Included in accounts payable and accrued liabilities including discontinued operations as at March 31, 2008 is the balance of the provision for these tax related liabilities amounting to $88,571,000 [2007 – $80,165,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current and in the three previous years.

Contingencies for Tax Related Liabilities

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

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

Management evaluates the provision for tax related liabilities on a quarterly basis or as necessary and believes that an adequate but not excessive provision for tax related liabilities has been recognized in the financial statements.

Change in Accounting Policies

Effective January 1, 2008, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") accounting standards.

Section 3862 Financial Instruments — Disclosure, describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks, and Section 3863 Financial Instruments — Presentation, describes the standards for presentation of financial instruments and non-financial derivatives and carries forward, unchanged, the presentation requirements of Section 3861 Financial Instruments — Disclosure and Presentation. Additional disclosure has been provided in Note 15 to the Company's unaudited interim consolidated financial statements.

Section 1535 Capital Disclosures, establishes standards for disclosing information about the Company's capital and how it is managed to enable users of financial statements to evaluate the Company's objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital as discussed further in Note 16 to the Company's unaudited interim consolidated financial statements.

Section 3031 Inventories, which replaced Section 3030 Inventories, establishes standards on the definition of 'cost' to include all costs of purchase (net of supplier payment discounts), costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate variable and fixed production overhead costs that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write downs if the finished goods in which they will be utilized are expected to be sold at or above cost. Additional disclosure has been provided in Note 3 to the Company's unaudited interim consolidated financial statements.

The above noted new standards have no material impact on the classification and measurement of the Company's interim consolidated financial statements.

Future Accounting Standards

The CICA has issued the following Handbook Section, which applies commencing with the Company's 2009 fiscal year.

In February 2008, the CICA issued Section 3064 Goodwill and Intangible Assets, replacing Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The new Section establishes standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to their initial recognition. This new standard is applicable to fiscal years beginning on or after January 1, 2009. The Company has evaluated the new section and determined that adoption of these requirements will have no impact on the Company's consolidated financial statements.

The reader is referred to Note 2 in the accompanying consolidated financial statements for the three months ended March 31, 2008 for further details regarding the adoption of these standards.

Risk and Uncertainties

There are no significant changes to market risks in general as described in the 2007 annual information form of the Company, 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") have designed the Company's disclosure controls and procedures to provide reasonable assurance that all relevant information required to be disclosed is gathered and reported on a timely basis so that appropriate decisions can be made regarding public disclosure.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP focusing in particular on controls over information. Management is responsible for establishing and maintaining adequate internal controls over financial reporting. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute assurance that the objectives of the control system are met. Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. These weaknesses in internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected on a timely basis.

The design of internal controls over financial reporting was assessed as of December 31, 2007. The Company identified certain material weaknesses and the need for improvement of controls and procedures in areas such as the segregation of duties and information systems which are subject to general control deficiencies including lack of effective controls over spreadsheets.

There has been no change in the design of the Company's internal control over financial reporting during the three months ended March 31, 2008, that would materially affect or is reasonably likely to materially affect Sino-Forest's internal control over financial reporting. During 2008, management will take steps to address these deficiencies and will continue to monitor and mitigate these weaknesses.

(1) The results have been revised to reflect the classification of wood chips and commission operations as discontinued operations.

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

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

EBITDA is calculated as follows:

	Three months ended March 31,	
		[Restated]
	2008	2007
	$'000	$'000
Income from continuing operations	**34,556**	24,183
Plus: depreciation	**1,001**	1,143
depletion of timber holdings	**38,054**	21,625
	73,611	46,951

(4) Net Income per share is calculated using the weighted average number of common shares outstanding during each period.

(5) Represents net income as adjusted for depletion of timber holdings, interest earned from Mandra, depreciation and amortization, amortization of deferred financing costs, stock-based compensation, write-down and loss on disposal of capital assets, gain on disposal of other assets, changes in fair value of financial instrument and other assets, exchange gains and others.

(6) 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.

(7) Represents the U.S. dollar denominated debts (after deduction of unamortized deferred financing costs) due in 2010 and 2011.

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

(9) These represent mainly leases of plantation land.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Three months ended March 31, *[Expressed in thousands of United States dollars, except for earnings per share information] [Unaudited]*	**2008** $	[Restated see notes 2 & 18] 2007 $
Revenue	**136,137**	112,777
Costs and expenses		
Cost of sales	**89,258**	80,686
Selling, general and administration	**11,322**	6,765
Depreciation and amortization	**1,001**	1,143
	101,581	88,594
Income from operations before the undernoted	**34,556**	24,183
Interest expense	**(10,571)**	(11,114)
Interest income	**2,595**	1,467
Exchange losses	**(2,839)**	(467)
Loss on changes in fair value of financial instruments	**(4,535)**	(314)
Other income	**682**	297
Income before income taxes	**19,888**	14,052
Provision for income taxes	**(4,274)**	(2,346)
Net income from continuing operations	**15,614**	11,706
Net loss from discontinued operations *[note 18]*	**(1,087)**	(196)
Net income for the period	**14,527**	11,510
Earnings per share *[note 13]*		
Basic	**0.08**	0.08
Diluted	**0.08**	0.08
Earnings per share from continuing operations		
Basic	**0.09**	0.08
Diluted	**0.09**	0.08
Loss per share from discontinued operations		
Basic	**(0.01)**	—
Diluted	**(0.01)**	—
Retained earnings		
Retained earnings, beginning of year, as previously presented	**540,964**	397,380
Cumulative impact of accounting changes relating to financial instruments	—	(8,689)
Retained earnings, beginning of period	**540,964**	388,691
Net income for the period	**14,527**	11,510
Retained earnings, end of period	**555,491**	400,201

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three months ended March 31, *[Expressed in thousands of United States dollars] [Unaudited]*	**2008** **$**	[Restated see notes 2 & 18] 2007 $
Net income for the period	**14,527**	11,510
Other comprehensive income:		
Unrealized loss on financial assets designated as available-for-sale, net of tax of nil	**(949)**	—
Unrealized gains on foreign currency translation of self-sustaining operations	**62,746**	9,090
Other comprehensive income	**61,797**	9,090
Comprehensive income	**76,324**	20,600

See accompanying notes

CONSOLIDATED BALANCE SHEETS

[Expressed in thousands of United States dollars] [Unaudited]	**As at March 31, 2008 $**	As At December 31, 2007 $
ASSETS		
Current		
Cash and cash equivalents	**230,222**	328,690
Short-term deposits *[note 4(b)]*	**29,060**	22,163
Accounts receivable	**134,560**	105,329
Inventories *[note 3]*	**51,657**	46,661
Prepaid expenses and other	**27,907**	24,185
Total current assets	**473,406**	527,028
Timber holdings	**1,271,686**	1,174,153
Capital assets, net *[note 5]*	**91,155**	78,608
Other assets *[note 6]*	**78,791**	57,708
	1,915,038	1,837,497
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 4]*	**49,863**	55,383
Accounts payable and accrued liabilities *[note 12]*	**108,852**	107,989
Income taxes payable	**2,103**	1,615
Liabilities of discontinued operations *[note 18]*	**34,530**	32,016
Total current liabilities	**195,348**	197,003
Long-term debt *[note 8]*	**443,310**	441,985
Derivative financial instrument *[note 8(a)]*	**11,625**	11,211
Total liabilities	**650,283**	650,199
Commitments and Contingencies *[notes 19 and 20]*		
Shareholders' equity		
Share capital *[note 9]*	**537,141**	537,141
Contributed surplus *[note 10]*	**5,039**	3,906
Accumulated other comprehensive income *[note 11]*	**167,084**	105,287
Retained earnings	**555,491**	540,964
Total shareholders' equity	**1,264,755**	1,187,298
	1,915,038	1,837,497

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31, *[Expressed in thousands of United States dollars] [Unaudited]*	**2008** $	[Restated see notes 2 & 18] 2007 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**14,527**	11,510
Net loss from discontinued operations	**1,087**	196
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	**38,054**	21,625
Loss on changes in fair value of financial instruments	**4,535**	314
Unrealized exchange losses	**2,497**	153
Stock-based compensation	**1,133**	455
Depreciation and amortization	**1,001**	1,143
Interest income from Mandra	**(300)**	—
Other	**529**	447
	63,063	35,843
Net change in non-cash working capital balances *[note 14]*	**(31,042)**	10,457
Cash flows from operating activities of continuing operations	**32,021**	46,300
Cash flows from operating activities of discontinued operations	**1**	4,038
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	**(83,637)**	(77,273)
Increase in other assets	**(22,411)**	—
Additions to capital assets	**(10,036)**	(1,031)
Increase in non-pledged short-term deposits	**(3,947)**	(1,761)
Business acquisition *[note 7]*	**(1,928)**	—
Proceeds from disposal of capital assets	**1**	—
Cash flows used in investing activities	**(121,958)**	(80,065)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
(Decrease) increase in bank indebtedness	**(6,757)**	916
Increase in long-term debts	**855**	—
(Increase) decrease in pledged short-term deposits	**(1,938)**	1,054
Payment on derivative financial instrument	**(2,100)**	(930)
Cash flows (used in) from financing activities	**(9,940)**	1,040
Effect of exchange rate changes on cash and cash equivalents	**1,408**	131
Net decrease in cash and cash equivalents	**(98,468)**	(28,556)
Cash and cash equivalents, beginning of year	**328,690**	152,887
Cash and cash equivalents, end of year	**230,222**	124,331
Supplemental cash flow information		
Cash payment for interest charged to income	**16,458**	16,658
Interest received	**2,595**	1,575

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. BASIS OF PRESENTATION

The interim consolidated financial statements are unaudited and follow the accounting policies as outlined in Note 1 of the Notes to the consolidated financial statements for the year ended December 31, 2007 with the exceptions of certain changes in accounting policies as mentioned in Note 2 below. These interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and should therefore be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2007.

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

2. CHANGES IN AND ADOPTION OF ACCOUNTING POLICIES

Changes in accounting policy

On January 1, 2008, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") accounting standards.

Section 3862 Financial Instruments — Disclosure, describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks and Section 3863 Financial Instruments — Presentation, describes the standards for presentation of financial instruments and non-financial derivatives and carries forward, unchanged, the presentation requirements of Section 3861 Financial Instruments — Disclosure and Presentation. Additional disclosure has been provided in Note 15 to the Company's unaudited interim consolidated financial statements.

Section 1535 Capital Disclosures, establishes standards for disclosing information about a Company's capital and how it is managed to enable users of financial statements to evaluate the Company's objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital as discussed further in Note 16 to the Company's unaudited interim consolidated financial statements.

Section 3031 Inventories, which replaced Section 3030 Inventories, establishes standards on the definition of 'cost' to include all costs of purchase (net of supplier payment discounts), costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate variable and fixed production overhead costs that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write downs if the finished goods in which they will be utilized are expected to be sold at or above cost. Additional disclosure has been provided in Note 3 to the Company's unaudited interim consolidated financial statements.

The above noted new standards have no material impact on the classification and measurement in the Company's interim consolidated financial statements.

Income Taxes

On January 1, 2007, the Company voluntarily adopted a new accounting policy for uncertainty in income taxes. Under its previous policy, the Company would reserve for tax contingencies if it was probable that an uncertain position would not be upheld, the amount of the reserve being the single best estimate that could be reasonably estimated. Under its new policy, the Company evaluates a tax position 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 impact of this change in accounting policy was a non-cash charge of $28,094,000 to the Company's opening retained earnings as of January 1, 2006 with an offset to current liabilities in fiscal 2006. The impact of this change in accounting policy was an increase in the provision for income taxes of $1,348,000 with an offset to current liabilities as at March 31, 2007, and a decrease in earnings per share by $0.01 for the three months ended March 31, 2007..

Future Accounting Standards

The CICA has issued the following Handbook Section, which applies commencing with the Company's 2009 fiscal year.

In February 2008, the CICA issued Section 3064 Goodwill and Intangible Assets, replacing Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The new Section establishes standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to their initial recognition. This new standard is applicable to fiscal years beginning on or after January 1, 2009. The Company has evaluated the new section and determined that adoption of these requirements will have no impact on the Company's consolidated financial statements.

Adoption of accounting policy

An intangible asset was recorded as a result of the acquisition of greenery and nursery operation. Intangible assets 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 impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in income for the excess, if any.

3. INVENTORIES

Raw materials, timber logs and nursery are valued at the lower of cost, determined on an 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Inventories consist of the following:

	March 31, 2008 $	December 31, 2007 $
Raw materials	**1,961**	1,271
Work in progress	**15,263**	15,172
Finished goods	**6,086**	5,471
Timber logs	**23,035**	20,826
Nursery	**5,312**	3,921
	51,657	46,661

The amount of inventory recognized as an expense and included in cost of sales for the three months ended March 31, 2008 was $51,204,000 [March 31, 2007 – $59,061,000]. The amount charged to the income statement and included in selling, general and administration expenses for the write down of inventory for valuation issues for the three months ended March 31, 2008 was $370,000 [March 31, 2007 – nil].

4. BANK INDEBTEDNESS

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

[a] charges over certain of the Company's land-use rights, buildings and timber holdings which have an aggregate net book value at March 31, 2008 of $7,055,000 [December 31, 2007 – $11,445,000]; and

[b] certain short-term deposits at March 31, 2008 of $2,209,000 [December 31, 2007 – $260,000].

5. CAPITAL ASSETS

Capital assets consist of the following:

		March 31, 2008		December 31, 2007
	Cost $	**Accumulated depreciation and amortization** $	Cost $	Accumulated depreciation and amortization $
Machinery and equipment	**63,052**	**4,331**	59,155	3,581
Buildings	**24,664**	**2,398**	15,694	2,160
Land-use rights	**6,071**	**914**	5,816	842
Office furniture and equipment	**2,351**	**1,165**	2,203	1,060
Vehicles	**5,283**	**1,458**	4,692	1,309
	101,421	**10,266**	87,560	8,952
Less: accumulated depreciation and amortization	**(10,266)**		(8,952)	
Net book value	**91,155**		78,608	

As at March 31, 2008, buildings, machinery and equipment of $34,388,000 [December 31, 2007 – $25,841,000] 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 period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

6. OTHER ASSETS

Other assets consist of the following:

	March 31, 2008 $	December 31, 2007 $
Investment in Mandra Holdings [a]	**2**	2
Subordinated loan and interest receivable [a]	**18,467**	18,167
Prepaid plantation costs	**47,480**	23,565
Investment in Omnicorp and Greenheart [b]	**3,405**	4,354
Convertible bond [b]	**1,205**	919
Derivative financial instrument [b]	**1,128**	3,149
Deposit for purchase of logs [c]	**5,700**	5,700
Other	**1,404**	1,852
	78,791	57,708

[a] The Company entered into a series of agreements with Mandra Resources Limited and certain of its subsidiaries (collectively, "Mandra") that are start-up companies formed to acquire, grow, harvest and replant standing timber on commercial forestry plantations (the "Plantations") located in Anhui province in the PRC (the "Mandra Project"). Subject to certain conditions, the Company will have an option to acquire all other outstanding shares of Mandra Forestry Holdings Limited ("Mandra Holdings") at their then fair market value.

The subordinated loan carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of its $195 million of debt securities due in May 2013. The subordinated loan is secured by a 75% equity interest in Mandra Holdings. As at March 31, 2008, included in the balance of the subordinated loan and interest receivable is accrued interest of $3,467,000 [December 31, 2007 – $3,167,000]. The Company's maximum exposure to loss from Mandra is limited to the Company's investment in and subordinated loan and related interest receivable.

[b] In July 2007, the Company signed a master sale and purchase agreement with Greenheart Resources Holdings Limited ("Greenheart"), a natural forest concession owner and operator in Suriname, South America to secure 34,285 cubic meters of logs from Suriname for $175 per cubic meter up to January 31, 2009. In addition, the Company invested $6.0 million to acquire approximately 13% of the equity interests in Greenheart. In August 2007, Omnicorp Limited ("Omnicorp"), a listed company in Hong Kong, entered into an agreement with the existing shareholders of Greenheart to acquire approximately 60.3% of the equity interests in Greenheart with an option to acquire the remaining equity interests within 18 months after the completion of the sale. The transaction was completed on November 8, 2007 for consideration to the Company consisting of 7,860,000 Omnicorp common shares, convertible bonds at a principal amount of $3,975,000 (equivalent to HK$31,047,000) issued by Omnicorp which matures on November 9, 2009 and cash of $302,000 (equivalent to HK$2,358,000) resulting in a gain of $3,369,000 being recorded in other income in fiscal year 2007. In October 2007, the Company acquired convertible bonds issued by Omnicorp for $1,756,000 (equivalent to HK$13,650,000) from other bondholders. The bonds are convertible at HK$2.00 of face value per Omnicorp common shares.

The convertible bonds were assessed under CICA Handbook 3855 as containing an embedded derivative financial instrument. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. This derivative asset was adjusted to its fair value of $1,128,000 using the Black Scholes model as at March 31, 2008 resulting in a charge of $2,021,000 [March 31,2007 – nil] recorded in loss on changes in fair value of financial instruments during the three months ended March 31, 2008.

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

The disbursements paid on receipt of the convertible bonds were first allocated to the fair value of the bifurcated embedded derivative financial instrument, with the remaining disbursement allocated to the convertible bonds, resulting in the discounted convertible bonds being recorded at $766,000 (equivalent to HK$5,912,000) on the completion date. This discount, together with the stated interest on the convertible bonds, is being accreted using the effective interest rate method over its remaining term. For the three months ended March 31, 2008, the Company recorded accretion of $286,000 in other income.

The following assumptions were used to estimate the fair value of the share purchase options:

	March 31, 2008	December 31, 2007
Risk-free interest rate	**1.54%**	3.26%
Expected option life (in years)	**1.6**	1.85
Dividend yield	**0.0%**	0.0%
Volatility	**116.80%**	111.76%

[c] The amount represents a refundable deposit of $10.0 million out of which $4.3 million has been reclassified to current assets, paid to a third party in connection with wood fibre to be purchased by the Company under the twelve-year wood fibre supply Master Agreement with Inner Mongolia Forest and Timber Resources Company Limited and Erlianhot Lianhe Forestry Bureau to secure an annual supply of at least 1.5 million cubic metres of wood fibre to the Company. The deposit will be refunded within five years after the first anniversary of signing the contract in July 2006.

7. BUSINESS ACQUISITION

On January 31, 2008, the Company acquired 100% equity interest in a limited company incorporated in the PRC for cash, which is principally engaged in the greenery and nursery operations.

In accordance with the purchase price method of accounting, the purchase price paid has been allocated to the assets acquired and liabilities assumed based on estimated fair values on the closing date. The Company is continuing to evaluate the assets acquired and liabilities assumed, and there may be adjustments to the estimated purchase date fair values. The preliminary purchase price allocation based on estimated fair values of assets acquired and liabilities assumed are as follows:

	$
Cash and bank balances	**132**
Accounts receivable	**989**
Other receivables	**458**
Inventories	**751**
Capital assets	**318**
License [a]	**636**
Accounts payable and accrued liabilities	**(1,224)**
Purchase price paid in cash	**2,060**

[a] The purchase price in excess of the net tangible assets acquired of $636,000 was allocated to the identified intangible asset being the license. The license enables the Company to tender for greenery projects in the PRC. The fair value of the license was based on the related discounted cash flows. The license is not amortized as it does not have definite useful life.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

8. LONG-TERM DEBT

Long term debt consist of the following:

	March 31, 2008	December 31, 2007
	$	$
Senior notes [a]	**300,000**	300,000
Syndicated loans [b]	**150,000**	150,000
Bank loans [c]	**855**	—
Unamortized deferred financing costs	**(7,545)**	(8,015)
	443,310	441,985

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

- general obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture of the 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
- 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 U.S. dollars will be used to fully pay the Company's interest payments on the $300,000,000 senior notes due on those dates. The term of the contract is five years. Management estimates that a loss of $11,625,000 [December 31, 2007 – $11,211,000], being the fair value of the contract, would be realized if the contract was terminated on March 31, 2008. The fair value increase of $2,514,000 has been recorded in loss on changes in fair value of financial instrument.

Total interest expense on the notes for the three months period ended March 31, 2008 was $7,164,000 [March 31, 2007 – $7,178,000].

[b] On February 24, 2006, the Company entered into a $150 million 5-year and one day syndicated term loan facility. The facility carries an interest margin of between 0.80% and 1.50% over LIBOR per annum, depending on the Company's ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 0.8% per annum. EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortization and all other non-cash items reducing consolidated net income (except depletion of timber holdings) less all non-cash items increasing consolidated net income. The facility is guaranteed by the Subsidiary Guarantors and rank at least pari passu with the claims of all other unsecured, unsubordinated creditors of the Company and the Subsidiary Guarantors, except for obligations mandatorily preferred by law applying to companies generally. The facility will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. The facility was fully drawn down in 2006. Principal of $37,500,000 will be repayable in 2010 and the remaining balance in 2011.

Total interest expense on the syndicated loans for the three months period ended March 31, 2008 was $2,408,000 [March 31, 2007 – $2,663,000].

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

[c] The bank loans bear interest rate of 8.3% per annum and mature on December 9, 2010. The bank loans are secured by timber holdings which have a net book value at March 31, 2008 of $1,180,000. Total interest expense on the bank loans for the three months period ended March 31, 2008 was $7,000.

[d] Under the terms of the above debt agreements, the Company must meet certain financial and non-financial covenants including limitation on dividend and other payment restrictions affecting the Company and the restricted subsidiaries (as defined in the debt agreements).

9. SHARE CAPITAL

Share capital consists of the following:

	Three months ended March 31, 2008		Twelve months ended December 31, 2007	
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
		$		$
Authorized				
Unlimited common shares, without par value				
Unlimited preference shares, issuable in series, without par value				
Issued				
Balance, beginning of period	**182,592,961**	**537,141**	137,999,548	143,511
Issue of shares	—	—	41,255,191	379,142
Exercise of options	—	—	3,338,222	10,770
Transfer from contributed surplus *[note 10]*	—	—	—	3,718
Balance, end of period	**182,592,961**	**537,141**	182,592,961	537,141

10. CONTRIBUTED SURPLUS

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

	Three months ended March 31, 2008	Twelve months ended December 31, 2007
	$	$
Balance, beginning of period	**3,906**	4,726
Stock-based compensation	**1,133**	2,898
Transfer to share capital *[note 9]*	—	(3,718)
Balance, end of period	**5,039**	3,906

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

Three months ended March 31,	**2008** **$**	2007 $
Balance, beginning of period	**105,287**	32,590
Other comprehensive income	**61,797**	9,090
Balance, end of period	**167,084**	41,680

Accumulated other comprehensive income comprises of the following amounts:

	March 31, 2008 **$**	December 31, 2007 $
Unrealized gains on translation of financial statements of self-sustaining foreign operations	**168,771**	106,025
Unrealized loss on financial assets designated as available-for-sale	**(1,687)**	(738)
Balance, end of period	**167,084**	105,287

12. PROVISION FOR TAX RELATED LIABILITIES

Two of the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of wood chips and standing timber and earning commission income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with the PRC Income Tax Laws, foreign companies deriving income from sources in the PRC are subject to foreign enterprise income tax.

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 paying relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether in the future the PRC tax authorities may be successful in establishing the BVI Subsidiaries engaged in business activities in the PRC through authorized intermediaries are directly subject to foreign enterprise income tax. Management has concluded that based upon all available evidence it is appropriate to record in the accounts a reserve for tax benefits representing management's estimate, based upon cumulative probabilities, of the amount the PRC tax authorities might seek to recover.

Included in accounts payable and accrued liabilities including discontinued operations as at March 31, 2008 is the balance of the provision for these tax related liabilities amounting to $88,571,000 [December 31, 2007 – $80,165,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current and in the three previous years.

13. EARNINGS PER SHARE

The following table sets forth the number of shares used in computation of basic and diluted earnings per share:

Three months ended March 31,	**2008**	2007
Weighted average shares for basic earnings per share	**182,593,000**	138,000,000
Dilutive stock options	**1,899,000**	3,441,000
Adjusted weighted average shares for diluted earnings per share	**184,492,000**	141,441,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

14. STATEMENTS OF CASH FLOWS

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

Three months ended March 31,	**2008** $	[Restated] 2007 $
Cash provided by (used for):		
Accounts receivable	**(22,635)**	25,093
Inventories	**(3,405)**	(5,574)
Prepaid expenses and other	**(2,522)**	(5,257)
Accounts payable and accrued liabilities [a]	**(2,937)**	(3,787)
Income taxes payable	**457**	(18)
	(31,042)	10,457

[a] As at March 31, 2008, the Company had an aggregate amount of $10,949,000 [March 31, 2007 – $5,225,000] payable in respect of timber holdings acquired during the year which was included in accounts payable and accrued liabilities.

15. FINANCIAL INSTRUMENTS

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

	March 31, 2008 **$**	December 31, 2007 $
Held for trading [a]	**259,282**	350,853
Loans and receivables [b]	**154,232**	123,496
Available for sale assets [c]	**3,407**	4,356
Other financial liabilities [d]	**547,984**	557,208
Derivative (foreign currency swap) [e]	**11,625**	11,211
Embedded derivative [f]	**1,128**	3,149

[a] Cash and cash equivalents and short-term deposits, measured at fair value.
[b] Accounts receivable, subordinated loans and convertible bond are measured at amortized cost.
[c] Investment in Omnicorp is measured at fair value; investments in Greenheart and Mandra Holdings are measured at cost.
[d] Bank indebtedness, accounts payable and accrued liabilities excluding provision for tax related liabilities and long-term debts are measured at amortized cost.
[e] Foreign currency swap contract is measured at fair value.
[f] Conversion option embedded in convertible bonds is measured at fair value.

Fair value of financial instruments

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all financial instruments classified as current approximates their fair value because of the short maturities and normal trade terms of these instruments. The fair value of syndicated loans approximates its carrying value. The fair value of other financial instruments disclosed in the financial statements are based on the Company's best estimates using present value, quoted market prices and other valuation techniques that are significantly affected by the assumptions used concerning the amounts and timing of estimated cash flows and discount rates which reflect varying degrees of risk.

The fair value of the non-convertible guaranteed senior 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 of the senior notes as at March 31, 2008 were $300,000,000 and $300,000,000, respectively [December 31, 2007 – $316,000,000 and $300,000,000, 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 non-convertible guaranteed senior notes, the Company has entered into a currency swap agreement to meet interest payments at $27.4 million per annum over the next 2 years. The Company does not otherwise engage in other hedging transactions with respect to our foreign exchange risk or interest rate risk.

The Company has $5,731,000 (equivalent to HK$44,697,000) in convertible bonds issued by Omnicorp which mature on November 8, 2009. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. The mark to market value of these financial instruments for the period ended March 31, 2008 was an unrealized loss of $2,021,000 which has been charged to the income statement.

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, 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 Hong Kong dollars. For the three months ended March 31, 2008 and 2007, 87.3 % and 53.3% of the sales were received in Renminbi respectively and 12.7% and 46.7% of the sales were received in U.S. dollars and Hong Kong dollars respectively. The Company translates its results of self-sustaining foreign operations into U.S. dollars using the current rate method. 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. 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, would, everything else being equal, have an effect on net income after tax for the three months ended March 31, 2008 of approximately $1.8 million.

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

As of March 31, 2008, the Company had Renminbi denominated bank accounts of RMB398.5 million (equivalent to $56.8 million) [December 31, 2007 – RMB454.6 million, equivalent to $62.0 million], U.S. dollar denominated bank accounts of $192.7 million [December 31, 2007 – $275.2 million], Canadian dollar denominated bank accounts of Cdn$7.8 million (equivalent to $7.6 million) [December 31, 2007 – Cdn.$10.1million, equivalent to $10.2 million], Hong Kong dollar denominated bank accounts of HK$2.7 million (equivalent to $0.3 million) [December 31, 2007 – HK$13.6 million, equivalent to $1.7 million] and Euro denominated bank accounts of €1.2 million (equivalent to $1.9 million) [December 31, 2007 – €1.2 million, equivalent to $1.7 million]. The Company also had U.S. dollar and Renminbi denominated accounts receivable of $15.0 million [December 31, 2007 – $16.3 million] and RMB838.8 million (equivalent to $119.6 million) [December 31, 2007 – RMB652.2 million, equivalent to $89.0 million] respectively.

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 as at March 31, 2008 included $80,645,000 due from three customers [December 31, 2007 – $40,132,000 due from three customers] representing 59.9% [2007 – 38.1%] of outstanding receivables. The Company undertakes credit evaluations on customers as necessary and has monitoring processes intended to mitigate credit risks and maintains appropriate provisions for potential credit losses. Historically the Company has made arrangements with its debtors to settle amounts payable with respect to the purchase of standing timber on behalf of the Company. As at March 31, 2008, $21,060,000 [December 31, 2007 – $3,983,000] or 15.7% [December 31, 2007 – 3.8%]of accounts receivable, were more than 90 days, which is consistent with historical ageing profiles. The Company has no allowance for doubtful accounts for the three months ended March 31, 2008.

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. None of the cash equivalents were in asset backed commercial paper products. The Company has deposited the cash equivalents in instruments 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.

These specific industries may be affected by economic factors that may impact accounts receivable. Management does not believe that any single industry or geographic region represents a significant credit risk.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. The Company's growth strategy requires significant financial resources which are derived from cash flows provided by operations, additional debt, the issuance of equity or a combination thereof. As at March 31, 2008, the Company was holding cash and cash equivalents of $230.2 million and had unutilized lines of credit of $106.0 million. The Company has determined that continued cash flow from operations in 2008 together with the cash and cash equivalents from previous equity financings will be more than sufficient to fund its requirements for investments in working capital, timber holdings and capital assets.

The contractual maturities of the Company's financial liabilities were presented in the Company's consolidated financial statements for the year ended December 31, 2007.

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 and syndicated notes. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. As at March 31, 2008, $167.4 million or 33.9% of the Company's total debt is subject to variable in interest rates. A +/-1% change in interest rates, which is indicative of the change in the prime lending rate over the preceding twelve-month period, would have an impact on income after taxes for the period of approximately $0.5 million. The Company does not currently use any derivative instruments to modify the nature of its debts so as to manage its interest rate risk. The Company minimizes its interest rate risk by managing its portfolio of variable and fixed rate debt, as well as managing the term to maturity.

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

Commodity Price Risk

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

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

16. CAPITAL MANAGEMENT

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

In the management of capital, the Company includes bank indebtedness of $49,863,000, long-term debt of $443,310,000 and shareholders' equity of $1,264,755,000. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. There were no changes in the Company's approach to capital management during the period.

The Company is subject to externally imposed minimum capital requirements relating to the bank credit facilities, senior notes and syndicated loans and exceeds the minimum requirements during the period. The Company's capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As at March 31, 2008, the Company has retained earnings of $555 million in the PRC which may be restricted.

17. SEGMENTED INFORMATION

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

By Industry Segment

	March 31, 2008				
	Plantation Fibre $	**Other Fibre** $	**Manufacturing** $	**Corporate** $	**Total** $
Revenue					
Sale of standing timber and harvested logs	**102,670**	—	—	—	**102,670**
Sale of imported wood products	—	**24,064**	—	—	**24,064**
Sale of wood logs	—	**123**	—	—	**123**
Sale of manufacturing operation's products and other	—	—	**9,280**	—	**9,280**
	102,670	**24,187**	**9,280**	—	**136,137**
Income (loss) from continuing operations before interest, other income, exchange losses and changes in fair value of financial instruments	**45,133**	**370**	**(5,190)**	**(5,757)**	**34,556**
Net loss from discontinued operations	—	**(1,087)**	—	—	**(1,087)**
Interest income	**166**	**66**	**505**	**1,858**	**2,595**
Interest expense	**151**	**487**	**359**	**9,574**	**10,571**
Depreciation and amortization	**63**	**11**	**884**	**43**	**1,001**
Provision for income taxes	**3,850**	**117**	**252**	**55**	**4,274**
Identifiable assets	**1,448,940**	**81,443**	**221,166**	**163,489**	**1,915,038**
Depletion of timber holdings included in cost of sales	**37,158**	—	**896**	—	**38,054**
Additions to timber holdings and capital assets	**82,364**	**5**	**9,910**	**25**	**92,304**

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

	March 31, 2007				
	Plantation Fibre $	Other Fibre $	Manufacturing $	Corporate $	Total $
Revenue					
Sale of standing timber	51,316	—	—	—	51,316
Sale of imported wood products	—	55,048	—	—	55,048
Sale of wood logs	—	728	—	—	728
Sale of manufacturing operation's products and other	—	—	5,685	—	5,685
	51,316	55,776	5,685	—	112,777
Income (loss) from continuing operations before interest, other income, exchange losses and changes in fair value of financial instruments	28,647	1,348	(2,005)	(3,807)	24,183
Net loss from discontinued operations [restated]	—	(196)	—	—	(196)
Interest income	84	22	87	1,274	1,467
Interest expense	94	1,035	143	9,842	11,114
Depreciation and amortization	55	5	1,044	39	1,143
Provision for income taxes [restated]	2,267	74	5	—	2,346
Identifiable assets	899,033	74,527	151,773	93,028	1,218,361
Depletion of timber holdings included in cost of sales	21,625	—	—	—	21,625
Additions to timber holdings and capital assets	76,970	11	956	62	77,999

By Geographic Segment

The Company conducts substantially all of its operations in PRC. During the three months ended March 31, 2008, sales to customers in the PRC and other countries amounted to approximately $135,747,000 [March 31, 2007 – $109,467,000] and $390,000 [March 31, 2007 – $3,310,000], respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

18. DISCONTINUED OPERATIONS

During the third quarter of 2007, wood chips and commission operations 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. As a result, the Consolidated Statement of Income and Retained Earnings, have been reclassified from statements previously presented.

Three months ended March 31,	**2008** **$**	[Restated] 2007 $
Revenue	—	7,172
Cost of sales	—	(5,849)
Income from operations	—	1,323
Income before income taxes	—	1,323
Provision for income tax	**(1,087)**	(1,519)
Net loss from discontinued operations	**(1,087)**	(196)

Liabilities on the Consolidated Balance Sheets include the following amounts for discontinued operations:

	March 31, 2008 **$**	December 31, 2007 $
Liabilities of discontinued operations		
Accounts payable and accrued liabilities *[note 12]*	**34,530**	32,016
	34,530	32,016

19. COMMITMENTS

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

[a] Capital contributions

As at March 31, 2008, the Company has capital commitments in respect of capital contributions to our WFOEs of $15,480,000 [December 31, 2007 – $18,600,000].

[b] Capital commitments

As at March 31, 2008, the Company has capital commitments with respect to buildings, timber holdings, and plant and machinery of $25,337,000 [December 31, 2007 – $16,523,000].

[c] Purchase commitments

As at March 31, 2008, the Company has purchase commitments mainly regarding logs of $24,369,000 [December 31, 2007 – $21,470,000].

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

[d] Operating leases

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

	$
2008	22,871
2009	2,650
2010	2,298
2011	2,284
2012	2,156
2013 and thereafter	45,509
	77,768

[e] Wood fibre

Under the master agreements entered into in September and December 2006 to acquire 400,000 hectares of plantation trees for fourteen years in Hunan, the Company has acquired 64,053 hectares of plantation trees for $267,030,000 as at March 31, 2008.

Under the master agreement entered into in March 2007 to acquire 200,000 hectares of standing timber for ten years in Yunnan, the Company has acquired 10,438 hectares of standing timber for $88,071,000 as at March 31, 2008.

Under the master agreement entered into in July 2006 to secure at least 1.5 million m^3 of wood fibre for twelve years in Inner Mongolia, the Company has acquired 17,000 m^3 of wood fibre as at March 31, 2008.

Under the master agreement entered into in December 10, 2007 to acquire 150,000 hectares of plantation trees for 5-year in Guangxi, the Company has acquired 22,966 hectares of standing timber for $60,876,000 as at March 31, 2008.

20. CONTINGENCIES FOR TAX RELATED LIABILITIES

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

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

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

21. RELATED PARTY TRANSACTIONS

[a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the three months ended March 31, 2008 amounted to $152,000 [March 31, 2007 – $151,000] were recorded at exchange amount as agreed upon by the related parties.

[b] In addition, as at March 31, 2008, the Company had an aggregate amount of $3,950,000 [December 31, 2007 – $3,950,000] owed to these related companies

22. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the consolidated financial statements for the three months period ended March 31, 2008.