

Management's Discussion and Analysis (Cont'd)

Taxation

PRC WFOEs are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local and state supplementary regulations (the "Income Tax Laws"). Pursuant to the new Enterprise Income Tax Laws effective January 1, 2008 ("New EIT Law"), WFOEs, Sino-Foreign Equity and Co-operative Joint Venture Enterprises ("CJV") are subject to PRC enterprise income tax at an effective rate of 25% [2007 - 24% to 33%] on taxable income as reported. Pursuant to the old Income Tax Laws, qualifying PRC WFOEs and CJVs engaged in agriculture and manufacturing could be eligible for an exemption from PRC enterprise income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward from prior years, followed by a 50% exemption for the next three years. If the tax holiday had not yet commenced, it will be deemed to begin on January 1, 2008. Pursuant to the New EIT Law, the PRC WFOEs and CJVs engaged in forestry plantation if eligible could apply for an exemption from PRC enterprise income tax.

Sino-Forest's tax charges for the years ended December 31, 2008 and 2007 were \$24.1 million and \$18.0 million, respectively, which represented effective tax rates of 10.0% and 11.2%, respectively. We believe we have made adequate tax provisions to meet Sino-Forest's tax liabilities as they become due.

OFF-BALANCE SHEET ARRANGEMENTS

Sino-Forest does not have any outstanding derivative financial instruments or off-balance sheet guarantees. In addition, we are not otherwise engaged in hedging activities and had no forward exchange contracts outstanding as of December 31, 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 the Chairman and Chief Executive Officer and the President of the Company in the form of consultancy fees to companies controlled by the noted executive officers. The consultancy fees incurred in 2008 amounted to \$5,960,000 [December 31, 2007 - \$4,587,000] and were recorded at an exchange amount as agreed by the related parties.

In addition, as at December 31, 2008, we had an aggregate amount of \$4,900,000 accrued [December 31, 2007 - \$3,000,000] for consultancy fees payable to these related companies.

As described above under "Significant Business Activities - Omnicorp Purchase", Simon Murray, a director of the Company and an entity controlled by Mr. Murray were among the vendors in the February 6, 2009 Omnicorp transaction.

NON-GAAP MEASURES

EBITDA, gross profit, sales per hectare, price per m³ and gross margin per m³ are measures used by the Company that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other companies. Included at the end of this MD&A are tables calculating or reconciling these non-GAAP measures where applicable.

EBITDA, gross profit, sales per hectare, price per m³ and gross margin per m³ are included in this MD&A because these statistics are key performance indicators that management uses to monitor performance. Management uses these statistics to assess how well the Company is performing compared to budget and to make strategic decisions. Management believes that the inclusion of these statistics in the MD&A helps investors and analysts to assess the Company's ability to grow its timber holdings, to forecast future results, to assess our current and future operating results and to make investment decisions. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

QUARTERLY FINANCIAL INFORMATION

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

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

(in thousands, except per share amounts)	Revenue \$	Net Income \$	[Restated] Earnings Per Share ⁽¹⁾	
			Basic \$	Diluted \$
2008				
December 31	282,485	95,490	0.52	0.51
September 30	295,548	75,175	0.41	0.40
June 30	187,125	43,401	0.24	0.24
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

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. 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 63.5% of the Company's consolidated total assets as at December 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.

Management's Discussion and Analysis (Cont'd)

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

Our principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to enterprise income tax. This also applied to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007.

Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements ("AI Agreements") made with the AI, the AI are responsible for remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax due to the Authorized Sales Activities. 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 December 31, 2008 is the balance of the tax provision for the tax related contingency amounting to \$89,909,000 [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 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 a quarterly basis or as necessary and believes that an adequate provision for tax related liabilities has been recognized in the financial statements.

Changes in Accounting Policies

On January 1, 2008, the Company adopted the following new and amended 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 16 to the 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 17 to the 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 5 to the consolidated financial statements.

Section 1400 General Standards of Financial Statement Presentation, describes the requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Management's Discussion and Analysis (Cont'd)

The above noted new and amended standards have no material impact on the classification and measurement in the 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 interim and annual financial statements of the Company beginning on 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.

In January 2009, the CICA issued EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to the Company's 2009 fiscal year with retrospective without restatement of prior periods. The Company is in process of evaluating the impact of this new guidance.

In January 2009, the CICA issued Section 1601 Consolidations and Section 1602 Non-controlling Interests. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are applicable to interim and annual financial statements of the Company beginning on January 1, 2011. The Company is in the process of evaluating the impact of these standards.

In January 2009, the CICA issued Section 1582, Business Combinations replacing Section 1581 Business Combinations. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The section is applicable to the annual and interim financial statements of the Company beginning on or January 1, 2011, with early adoption permitted. The Company is in the process of evaluating the impact of this standard.

International Financial Reporting Standards

In February 2008, the CICA confirmed that Canadian reporting issuers will be required to report under International Financial Reporting Standards ("IFRS") effective January 1, 2011. Reporting issuers will be required to provide IFRS comparative information for the previous year. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 "Inventories" and IAS 38 "Intangible assets", thus mitigating the impact of adopting IFRS at the changeover date.

The Company commenced its IFRS conversion project in 2008. The project consists of four phases: diagnostic, design and planning, solution development and implementation. The Company will invest in training and resources throughout the transition period to facilitate a timely conversion.

The diagnostic phase was completed during the later part of 2008. This work involved a high-level review of the major differences between current Canadian GAAP and IFRS. While a number of differences have been identified, the areas of highest potential impact are as follows: timber holdings, property, plant and equipment; impairment of assets; income taxes and foreign exchange accounting. The Company expects the transition to IFRS to impact financial reporting, business processes, internal controls and information systems.

During the coming year, the Company will initiate the design and planning phase that will involve establishing issue-specific work teams to focus on generating options and making recommendations in the identified risk areas. During the design and planning phase, the Company will establish a staff communications plan, begin to develop staff training programs, and evaluate the impacts of the IFRS transition on other business activities.

Risk and Uncertainties

For a complete list and description of additional risk factors which may affect our Company or its business, please refer to our annual information form which is available on SEDAR at www.sedar.com.

Market Risks

We are exposed to various types of market risks, including changes in foreign exchange rates, interest rates and price of wood-based products and standing timber, in the normal course of business.

We use financial instruments, including variable rate debts, to finance our operations and to manage risks associated with our interest rate risks. With respect to the non-convertible guaranteed senior notes, we have entered into a currency swap agreement to fix interest payments at \$27.4 million per annum which will expire in 2009. We do not otherwise engage in other hedging transactions with respect to our foreign exchange risks or interest rate risks.

Exchange Rate Risk

We conduct our business primarily in Renminbi, and partly in U.S. dollars and Hong Kong dollars. In 2008 and 2007, 86.2% and 81.6% of the sales were received in Renminbi respectively and 13.8% and 18.4% of the sales were received in U.S. dollars and Euro respectively. We translate our 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 our operating expenses are denominated in Renminbi and Hong Kong dollars. Substantial exposure to currency risk is on our 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 our revenue in Renminbi is converted into other currencies to meet financial obligations denominated in currencies other than Renminbi. We have 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 our overall earnings or financial position. A fluctuation of +/-1%, provided as an indicative range in currency movement, on financial instruments that are denominated in foreign currency other than U.S. dollars, would, everything else being equal, have an effect on net income after tax and other comprehensive income in 2008 of approximately \$4.0 million and \$nil, respectively.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under our 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. We 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 our net assets, net profits and any declared dividends. We 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 our results of operations, financial condition and cash flows.

As of December 31, 2008, we had Renminbi denominated bank accounts of RMB531.5 million (equivalent to \$77.8 million) [2007 – RMB454.6 million, equivalent to \$62.0 million], U.S. dollar denominated bank accounts of \$403.1 million [2007 – \$275.2 million], Canadian dollar denominated bank accounts of Cdn\$5.4 million (equivalent to \$4.4 million) [2007 – Cdn \$10.1 million, equivalent to \$10.2 million], Hong Kong dollar denominated bank accounts of HK\$0.8 million (equivalent to \$0.1 million) [2007 – HK\$13.6 million, equivalent to \$1.7 million] and Euro denominated bank accounts of €1.1 million (equivalent to \$1.6 million) [2007 – €1.2 million, equivalent to \$1.7 million]. We also had U.S. dollar and Renminbi denominated accounts receivable of \$15.2 million [2007 – \$16.3 million] and RMB1,444.0 million (equivalent to \$211.3 million) [2007 – RMB652.2 million, equivalent to \$89.0 million] respectively.

We incurred foreign currency denominated debts for capital expenditures primarily relating to the development and acquisition of our forestry plantations and investment in our manufacturing plants. If the U.S. dollar devalues against any of these currencies, it would correspondingly increase our acquisition costs.

Credit Risk

We are exposed to credit risk with respect to accounts receivable from customers. Accounts receivable as at December 31, 2008 included \$79,058,000 due from three customers [December 31, 2007 – \$40,132,000 due from three customers] representing 34.9% [2007 – 38.1%] of outstanding receivables. We undertake credit evaluations on customers as necessary and have monitoring processes intended to mitigate credit risks and maintain appropriate provisions for potential credit losses. Historically we have made arrangements with our debtors to settle amounts payable with respect to the purchase of standing timber on our behalf. As at December 31, 2008, \$27,444,000 [2007 – \$3,983,000] or 12.1% [2007 – 3.8%] of accounts receivable, were aged more than 90 days. We have no allowance for doubtful accounts in 2008 and 2007.

Management's Discussion and Analysis (Cont'd)

We are 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. We have deposited the cash equivalents in banks that meet minimum requirements for quality and liquidity as stipulated by our Board of Directors. We believe our risk of loss to be remote.

Liquidity Risk

Liquidity risk is the risk that we may encounter difficulties in meeting obligations associated with financial liabilities. Our growth strategy requires significant financial resources which are derived from cash flows provided by operations, additional debt, the issuance of equity or a combination thereof. As at December 31, 2008, we were holding cash and cash equivalents of \$441.2 million. We have determined that continued cash flow from operations in 2009 together with the cash and cash equivalents from previous financings will be more than sufficient to fund our requirements for investments in working capital, timber holdings and capital assets.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debts, primarily on our 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 December 31, 2008, \$183.2 million or 23.3% of our 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 year of approximately \$1.8 million. We do not currently use any derivative instruments to modify the nature of our debts so as to manage interest rate risk. We minimize interest rate risk by managing our portfolio of variable and fixed rate debt, as well as managing the term to maturity.

We are also exposed to interest rate risk on cash equivalents. We do not use financial instruments to mitigate this risk.

Commodity Price Risk

We are exposed to fluctuations in the prices of standing timber and wood-based products. We import wood-based products from suppliers outside of China. Such purchases are made at market prices. In addition, all our 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 our business, results of operations and financial condition.

We do not enter into any futures contracts to hedge our sales or purchases of standing timber and wood-based products.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer ("CEO") and Senior Vice President and Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings. As at December 31, 2008, the CEO and CFO have evaluated the effectiveness of the Company's DC&P and ICFR using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the CEO and CFO have concluded that the design and effectiveness of the Company's DC&P and ICFR are ineffective due to the weakness discussed below with respect to ICFR.

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

As disclosed in the previous quarter, the Company did not maintain appropriate information systems controls and procedures in areas such as system changes, logic access and spreadsheets. This creates a risk of inaccurate, unauthorized and incomplete financial data which would impact the Company's financial reporting. During the fourth quarter of 2008, the Company implemented further changes in roles and responsibilities within the information technology department and implemented policies and procedures to help standardize and manage system change processes, user access and security, user access review, to enhance the overall control environment and to document its internal control processes and procedures.

As a result, management believes one of the material weaknesses previously disclosed has been effectively remediated. The one remaining weakness, being the lack of segregation of duties, continues to exist. Management continues to evaluate remediation plans for the above control deficiency and expects to continue these efforts to further strengthen our internal controls in 2009 and beyond.

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

OUTLOOK

We remain conservative when it comes to predicting wood fibre consumption and log prices but steady demand for wood fibre is prevalent. Although prices for harvested log are experiencing some downward pressure, prices for standing timber remain strong, reflecting sustainable buoyancy in this sector in the mid/long-term.

We anticipate positive effects from China's \$586 billion stimulus plan, which includes infrastructure development and low-income housing construction.

We continue to focus on executing our long-term contracts at integrated plantation operations and acquiring wood fibre at competitive prices. Sino-Forest remains well capitalized, with strong liquidity of approximately half a billion dollars of cash. Continuous cash flow from the sale of logs will provide capital for large-scale replanting programs, which we anticipate will begin early this year. Our integrated plantation ramp-up is currently on track and we are confident that Sino-Forest will further strengthen its market position by developing a significant and sustainable long-term supply of fibre.

Management's Discussion and Analysis (Cont'd)

- (1) 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.
- (2) 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:

	Years ended December 31,			Three months ended December 31,	
	2008 \$'000	2007 \$'000	2006 \$'000	2008 \$'000	2007 \$'000
Income from continuing operations	303,382	197,468	135,145	98,471	80,791
Plus: depreciation and amortization	4,627	5,364	3,975	1,337	1,910
depletion of timber holdings	284,532	284,808	177,730	92,231	164,354
	592,541	487,640	316,850	192,039	247,055

- (3) Earnings per share is calculated using the weighted average number of common shares outstanding during each period.
- (4) 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, impairment of capital assets, changes in fair value of financial instrument and other assets, exchange gains and others.
- (5) Represents decreases (increases) in accounts receivable, inventories, prepaid expenses and other assets and increases (decreases) in accounts payable and accrued liabilities and income taxes payable.
- (6) Represents the U.S. dollar denominated debts (after deduction of unamortized deferred financing costs) due in 2010 and 2011.
- (7) Represents commitments to invest in buildings, plant and machinery for investments in the manufacturing plants and timber holdings.
- (8) These represent mainly leases of plantation land.

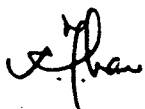
Management's Report

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

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

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

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



Allen T.Y. Chan
Chairman and Chief Executive Officer
March 13, 2009



David J. Horsley
Senior Vice-President and Chief Financial Officer

Auditors' Report

To the Shareholders of
Sino-Forest Corporation

We have audited the consolidated balance sheets of **Sino-Forest Corporation** as at December 31, 2008 and 2007 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,
March 13, 2009.

Ernst + Young LLP

Chartered Accountants

Consolidated Balance Sheets


As at December 31, [Expressed in thousands of United States dollars]	2008 \$	2007 \$
ASSETS		
Current		
Cash and cash equivalents	441,171	328,690
Short-term deposits [note 3(a)]	45,784	22,163
Accounts receivable [note 4]	226,456	105,329
Inventories [note 5]	45,355	46,661
Prepaid expenses and other [note 7(c)]	25,103	24,185
Total current assets	783,869	527,028
Timber holdings	1,653,306	1,174,153
Capital assets, net [note 6]	91,292	78,608
Other assets [note 7]	75,457	57,708
	2,603,924	1,837,497
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 3(b)]	73,158	55,383
Accounts payable and accrued liabilities [note 13(d)]	181,504	107,989
Income taxes payable	8,883	1,615
Liabilities of discontinued operations [note 19]	21,933	32,016
Total current liabilities	285,478	197,003
Long-term debt [note 9]	714,468	441,985
Derivative financial instrument [note 9]	5,214	11,211
Total liabilities	1,005,160	650,199
Commitments and Contingencies [notes 20 and 21]		
Shareholders' equity		
Equity portion of convertible senior notes [note 9(c)]	70,462	-
Share capital [note 10]	539,315	537,141
Contributed surplus [note 11]	7,599	3,906
Accumulated other comprehensive income [note 12]	211,831	105,287
Retained earnings	769,557	540,964
Total shareholders' equity	1,598,764	1,187,298
	2,603,924	1,837,497

See accompanying notes

On behalf of the Board:



Allen T.Y. Chan
Director



James M.E. Hyde
Director

Consolidated Statements of Income and Retained Earnings

Years ended December 31, [Expressed in thousands of United States dollars, except for earnings per share information]	2008 \$	2007 \$
Revenue	901,295	713,866
Costs and expenses		
Cost of sales	536,557	470,825
Selling, general and administration	56,729	40,209
Depreciation and amortization	4,627	5,364
	597,913	516,398
Income from operations before the undernoted	303,382	197,468
Interest expense	(52,321)	(43,960)
Interest income	11,128	15,184
Exchange (losses) gains	(5,268)	12,409
Impairment of capital assets [note 6]	(18,157)	(20,846)
Loss on changes in fair value of financial instrument, net	(1,839)	(2,996)
Other income	3,573	3,206
Income before income taxes	240,498	160,465
Provision for income taxes [note 13]	(24,105)	(18,034)
Net income from continuing operations	216,393	142,431
Net income from discontinued operations [note 19]	12,200	9,842
Net income for the year	228,593	152,273
Earnings per share [note 14]		
Basic	1.25	0.91
Diluted	1.24	0.90
Earnings per share from continuing operations		
Basic	1.18	0.85
Diluted	1.17	0.84
Earnings per share from discontinued operations		
Basic	0.07	0.06
Diluted	0.07	0.06
Retained earnings		
Retained earnings, beginning of year	540,964	388,691
Net income for the year	228,593	152,273
Retained earnings, end of year	769,557	540,964

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31	2008	2007
(Expressed in thousands of United States dollars)	\$	\$
Net income for the year	228,593	152,273
Other comprehensive income, net of tax:		
Unrealized loss on financial assets designated as available-for-sale, net of tax of nil	(1,494)	(738)
Unrealized gains on foreign currency translation of self-sustaining operations	108,038	73,435
Other comprehensive income	106,544	72,697
Comprehensive income	335,137	224,970

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31, (Expressed in thousands of United States dollars)	2008 \$	2007 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	228,593	152,273
Net income from discontinued operations	(12,200)	(9,842)
Add (deduct) items not affecting cash:		
Depletion of timber holdings included in cost of sales	284,532	284,808
Depreciation and amortization	4,627	5,364
Accretion of convertible senior notes	4,769	-
Stock-based compensation	4,276	2,898
Impairment of capital assets [note 6]	18,157	20,846
Loss on changes in fair value of financial instruments, net	1,839	2,996
Interest income from Mandra	(1,200)	(2,100)
Other	2,656	74
Exchange gains (losses)	5,604	(1,816)
	541,653	455,501
Net change in non-cash working capital balances [note 15]	(58,528)	27,000
Cash flows from operating activities of continuing operations	483,125	482,501
Cash flows from operating activities of discontinued operations		3,856
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	(656,727)	(640,257)
Increase in other assets	(9,554)	(31,225)
Additions to capital assets	(30,204)	(12,571)
Increase in non-pledged short-term deposits	(5,604)	(8,698)
Business acquisition [note 8]	(1,928)	(795)
Proceeds from disposal of capital assets	8	1,073
Proceeds from disposal of other assets	-	151
Cash flows used in investing activities	(704,009)	(692,322)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term debt	335,865	-
Increase (decrease) in bank indebtedness	15,584	(17,015)
Issuance of shares, net of issue costs [note 10]	1,591	389,912
(Increase) decrease in pledged short-term deposits	(16,314)	6,180
Payment on derivative financial instrument	(4,919)	(2,165)
Cash flows from financing activities	331,807	376,912
Effect of exchange rate changes on cash and cash equivalents	1,558	4,856
Net increase in cash and cash equivalents	112,481	175,803
Cash and cash equivalents, beginning of year	328,690	152,887
Cash and cash equivalents, end of year	441,171	328,690
Supplemental cash flow information		
Cash payment for interest charged to income	38,644	41,971
Interest received	9,837	12,693

See accompanying notes

Notes to Consolidated Financial Statements

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

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

Use of estimates

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

Revenue recognition

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

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

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

Foreign currency translation

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

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

Financial instruments

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

The Company has made the following classifications:

- Cash and cash equivalents and short-term deposits are classified as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net income.
- Accounts receivable and subordinated loans are classified as "loans and receivables" and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Notes to Consolidated Financial Statements (Cont'd)

(All dollar amounts are expressed in thousands of United States dollars, unless otherwise indicated.)

- Investments are classified as available for sale and are recorded at fair value based on quoted market prices. Gains or losses resulting from periodic revaluation are recorded in other comprehensive income. No revaluation is recorded where an investment does not have a quoted market price.

Derivative financial instruments

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

Convertible Bonds

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

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

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

Convertible Senior Notes

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

Inventories

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

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

Timber holdings

Timber holdings comprise planted and purchased plantations which include acquisition costs of young trees and standing timber, planting and maintenance which are capitalized over a period of 5 to 12 years based on the growth cycle of the type of tree. Timber holdings from plantations sales are depleted when the significant risks and rewards of ownership have been transferred to the buyer, based on the area of timber sold or harvested.

Investments

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

Income taxes

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

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

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

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

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

Capital assets

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

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

Asset impairment

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

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

Licenses

Licenses are recorded at fair value on the date of acquisition. Licenses with indefinite useful lives are not amortized and are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired.

Goodwill

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

Stock-based compensation plan

The Company has a stock option plan as described in note 10. Stock options are accounted for using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized as a charge to selling, general and administration expenses on a straight line basis over the vesting period with a corresponding credit to contributed surplus. The contributed surplus balance is reduced as options are exercised through a credit to share capital. The consideration paid by option holders is credited to share capital when options are exercised.

Notes to Consolidated Financial Statements (Cont'd)

(All dollar figures expressed in thousands of United States dollars, unless otherwise indicated.)

Basic and dilutive earnings per share

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

Deferred financing costs

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

Offsetting of financial assets and financial liabilities

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

Cash and cash equivalents

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

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted the following new and amended 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 16 to the 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 17 to the 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. Reversals of previous write-downs are required when there is a subsequent increase in the value of the inventory. Additional disclosure has been provided in note 5 to the consolidated financial statements.

Section 1400 General Standards of Financial Statement Presentation, describes the requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The above noted new and amended standards have no material impact on the classification and measurement in the consolidated financial statements.

Future accounting standards

The CICA has issued the following Handbook Sections and Emerging Issues Committee ("EIC") abstracts, which apply commencing with the Company's fiscal years noted below.

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 interim and annual financial statements of the Company beginning on 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.

In January 2009, the CICA issued EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to the Company's 2009 fiscal year with retrospective application without restatement of prior periods. The Company is in the process of evaluating the impact of this new guidance.

In January 2009, the CICA issued Section 1601 Consolidations and Section 1602 Non-controlling Interests. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are applicable to interim and annual financial statements of the Company beginning on January 1, 2011. The Company is in the process of evaluating the impact of these standards.

In January 2009, the CICA issued Section 1582, Business Combinations replacing Section 1581 Business Combinations. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The section is applicable to the annual and interim financial statements of the Company beginning on or January 1, 2011, with early adoption permitted. The Company is in the process of evaluating the impact of this standard.

3. SHORT-TERM DEPOSITS AND BANK INDEBTEDNESS

[a] Short-term deposits

As at December 31, 2008, short-term deposits were made for varying periods less than twelve months [2007 – less than twelve months] depending on the immediate cash requirements of the Company, and earn interest at rates of 1.0% to 4.1% per annum [2007 – 1.4% to 5.6%].

[b] Bank indebtedness

Subsidiaries of the Company have established several credit facilities to a maximum of approximately \$189,498,000 [2007 – \$133,908,000]. Pursuant to the non-convertible senior notes' covenants, the maximum amount of short-term borrowings allowed was \$100,000,000 [2007 – \$100,000,000]. These credit facilities bear interest at a weighted average rate of 6.4% per annum as at December 31, 2008 [2007 – 6.2%] and are repayable on demand or due in less than one year.

As at December 31, the bank indebtedness were:

	2008	2007
	\$	\$
Trust receipt loans	34,560	27,848
Bank loans	38,598	27,535
	73,158	55,383

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

- [a] charges over certain of the Company's land-use rights, buildings and timber holdings which have an aggregate net book value at December 31, 2008 of \$20,656,000 [2007 – \$11,445,000]; and
- [b] certain short-term deposits at December 31, 2008 of \$16,608,000 [2007 – \$260,000].

Total interest expense for the year was \$3,857,000 [2007 – \$4,770,000].

Notes to Consolidated Financial Statements (Cont'd)

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

4. ACCOUNTS RECEIVABLE

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

5. INVENTORIES

Inventories consist of the following:

	2008	2007
	\$	\$
Raw materials	3,651	1,271
Work in progress	6,481	15,172
Finished goods	6,596	5,471
Timber logs	21,429	20,826
Nursery	7,198	3,921
	45,355	46,661

The amount of inventory recognized as an expense and included in cost of sales in 2008 was \$252,025,000 [2007 – \$186,017,000]. The amount charged to the income statement and included in selling, general and administration expenses for the write down of inventories for valuation issues in 2008 was \$1,871,000 [2007 – \$1,180,000].

6. CAPITAL ASSETS

Capital assets consist of the following:

	2008		2007	
	Cost	Accumulated depreciation, amortization and impairment	Cost	Accumulated depreciation, amortization and impairment
	\$	\$	\$	\$
Machinery and equipment	100,260	56,717	90,471	34,897
Buildings	37,900	3,105	15,694	2,160
Land-use rights	7,820	1,056	5,816	842
Office furniture and equipment	3,109	1,441	2,203	1,060
Vehicles	6,413	1,890	4,692	1,309
	155,502	64,210	118,876	40,268
Less: accumulated depreciation, amortization and impairment	(64,210)		(40,268)	
Net book value	91,292		78,608	

Buildings; machinery and equipment of \$37,301,000 [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.

During 2008 and 2007, the Company completed impairment analyses for certain manufacturing facilities. These analyses indicated that estimated undiscounted future cash flows to be generated by the capital assets over their economic lives were less than their carrying values. The carrying values of the capital assets were therefore reduced to fair value resulting in capital assets impairment of \$18,157,000 [2007 – \$20,846,000]. The fair values of the assets subject to impairment were determined using discounted cash flow methodology and liquidation value.

7. OTHER ASSETS

Other assets consist of the following:

	2008	2007
	\$	\$
Investment in Mandra Holdings [a]	2	2
Subordinated loan and interest receivable [a]	19,366	18,167
Prepaid plantation costs and lease rentals [b]	40,380	23,565
Investment in Omnicorp and Greenheart [c]	2,872	4,354
Convertible bond [c]		919
Derivative financial instrument [c]		3,149
Deposit for purchase of logs [d]	8,000	5,700
Other	4,837	1,852
	75,457	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 Mandra's \$195 million of debt securities due in May 2013. The subordinated loan is secured by a 75% equity interest in Mandra Holdings. Included in the balance of the subordinated loan and interest receivable is accrued interest of \$4,367,000 [2007 – \$3,167,000]. The Company's maximum exposure to loss from Mandra is limited to the Company's investment in Mandra and subordinated loan and related interest receivable.

[b] These represented prepaid land leases of plantation land in PRC and deposits paid for acquisition of plantations.

[c] 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 m³ of logs from Suriname for \$175 per m³ 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 ordinary shares, convertible bonds at a principal amount of \$3,975,000 (equivalent to HK\$31,047,000) issued by Omnicorp which mature 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 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 ordinary share.

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. The derivative asset was adjusted to its fair value of \$249,000 using the Black Scholes model as at December 31, 2008 resulting in a charge of \$2,917,000 [2007 – \$1,816,000] recorded in the income statement.

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. The Company recorded accretion income of \$1,476,000 [2007 – \$153,000] in the income statement.

Notes to Consolidated Financial Statements (Cont'd)

(All dollar figures expressed in thousands of United States dollars, unless otherwise indicated.)

The convertible bond and the derivative financial instrument were included in prepaid expenses and other as at December 31, 2008.

The following assumptions were used to estimate the fair value of the share purchase options at December 31:

	2008	2007
Risk-free interest rate	0.49%	3.26%
Expected option life (in years)	0.85	1.85
Dividend yield	0.0%	0.0%
Volatility	146.21%	111.76%

(d) The amount represents a refundable deposit of \$10.0 million out of which \$2.0 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 Erliahot Lianhe Forestry Bureau to secure an annual supply of at least 1.5 million m³ of wood fibre by the Company. The deposit will be refunded in equal instalments over five years after commencement of operations under the contract.

8. BUSINESS ACQUISITION

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

The acquisition has been accounted for by the purchase method. The fair values of net assets acquired were 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	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 a definite useful life.

On October 31, 2007, the Company completed the acquisition of 100% of the equity interests of a limited company incorporated in the PRC for cash, which is principally engaged in the manufacturing of semi-finished flooring products.

The acquisition has been accounted for by the purchase method. The fair values of net assets acquired were as follows:

	\$
Cash and bank balances	80
Accounts receivable	207
Inventories	703
Prepaid expenses and other	257
Capital assets	578
Accounts payable and accrued liabilities	(1,116)
	709
Goodwill	166
Purchase price	875

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2008	2007
	\$	\$
Senior Notes [a]	300,000	300,000
Syndicated Loans [b]	150,000	150,000
Convertible senior notes [c]	277,391	-
Unamortized deferred financing costs	(12,923)	(8,015)
	714,468	441,985

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

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

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 \$5,214,000 [2007 - \$11,211,000], being the fair value of the contract, would be realized if the contract was terminated on December 31, 2008. The increase in fair value of \$1,078,000 [2007 - decrease of \$1,425,000] has been recorded in changes in fair value of financial instruments in the income statement.

Total interest expense on the senior notes for the year was \$28,689,000 [2007 - \$28,616,000].

[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 ranks at least *pari passu* with the claims of all other unsecured, unsubordinated creditors of the Company and the Subsidiary Guarantors, subject to any priority rights pursuant to applicable law. 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 year was \$7,376,000 [2007 - \$10,573,000].

[c] On July 17, 2008 the Company closed an offering of convertible guaranteed senior notes ("notes") for gross proceeds of \$300,000,000. The notes will mature on August 1, 2013 and bear interest at a rate of 5.0% per annum and payable semi-annually. The notes are convertible into common shares of the Company, at the option of the holder, at any time prior to the maturity date at an initial conversion rate of 49.2974 common shares per \$1,000 principal amount of notes. If a Fundamental Change, as defined in the indenture which governs the notes, occurs prior to the maturity date, the Company will be required to make an offer to each holder to purchase for cash all or a portion of the notes at the holder's option and the conversion rate may be adjusted.

Notes to Consolidated Financial Statements (Cont'd)

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

Upon conversion without a Fundamental Change, at the Company's option, the Company may elect to deliver, in lieu of common shares of the Company, cash or a combination of cash and common shares of the Company.

On August 5, 2008, the Company issued an additional \$45,000,000 of the notes pursuant to the exercise of the over-allotment option granted to the underwriters in connection with the offering, increasing the gross proceeds to \$345,000,000. The Company has allocated \$272,621,000 of the face value of the notes to the liability component and \$72,379,000 to the equity component. The fair value of the liability component was estimated by discounting the future payments of interest and principal and will be accreted to the \$345,000,000 face value using the estimated effective interest rate of 11.1%. The residual carrying value of \$70,462,000, net of issue cost, attributed to the equity component of the notes was classified as equity component of convertible notes. The total issue cost of \$9,135,000 has been prorated against the liability and equity components. The notes are:

- general senior unsubordinated obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs 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
- effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiaries (as defined in the indenture which governs the notes).

Total interest expense of the notes for the year was \$12,399,000 [2007 – \$nil].

- [d] Under the terms of the above debt agreements in [a] and [b], the Company has met the financial and non-financial covenants affecting the Company and the restricted subsidiaries (as defined in the debt agreements), including limitation on dividend and other payment restrictions; short term borrowings and letters of credit or similar instruments not to exceed \$100,000,000.

10. SHARE CAPITAL

Share capital consists of the following:

	2008		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 year	182,592,961	537,141	137,999,548	143,511
Issue of shares			41,255,191	379,142
Exercise of options	526,111	1,591	3,338,222	10,770
Transfer from contributed surplus		583	-	3,718
Balance, end of year	183,119,072	539,315	182,592,961	537,141

The legal stated capital of the Company's common shares differs from the carrying value reflected in these consolidated financial statements. The legal stated capital as at December 31, 2008 is Cdn.\$661,772,467 [2007 – Cdn.\$659,374,196].

During the years ended December 31, 2007 and 2008, the movements in share capital were as follows:

- [a] In April 2007, the Company closed a private placement in which 25,355,191 common shares were issued at Cdn.\$9.15 per share for gross proceeds of Cdn.\$232,000,000 (equivalent to \$200,000,000 at April 10, 2007) less share issue costs of \$294,000.
- [b] In June 2007, the Company completed a public offering of 15,900,000 common shares at Cdn.\$12.65 for gross proceeds of Cdn.\$201,135,000 (equivalent to \$188,540,000 at June 12, 2007) less share issue costs of \$9,104,000.
- [c] During the year ended December 31, 2007, 3,338,222 stock options were exercised for proceeds of \$10,770,000.
- [d] During the year ended December 31, 2008, 526,111 stock options were exercised for proceeds of \$1,591,000.

Authorized

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

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

Stock options

The Company's Stock Option Plan provides for the issuance of up to a maximum of 10,000,000 common shares at an exercise price equal to the market price of the Company's common shares on the date of the grant. The option period for the Stock Option Plan is five years. Options granted may be vested over certain time periods within the option period, which will limit the number of options exercisable during each option year. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option. As at December 31, 2008, options to purchase 8,371,675 common shares have been granted and options to purchase 1,628,325 common shares remain available to be granted under the Stock Option Plan.

In the second quarter of 2007, options to acquire 100,000 common shares granted on June 4, 2007 were cancelled.

In 2008, options to acquire 33,334 common shares granted on June 4, 2007 were cancelled.

During the year ended December 31, 2008, options to acquire 75,000 common shares [2007 – 1,570,417] were granted to employees and directors at exercise prices of Cdn.\$17.70 in accordance with the Company's Stock Option Plan. The options granted will vest over one to three years and expire in five years. The fair value of the stock options granted was estimated on the date of grant using the Black Scholes option-pricing model with the following assumptions:

	August 13, 2008
Number of options	75,000
Exercise price (in Cdn. \$)	\$17.70
Dividend Yield	0.0%
Volatility	55.9%
Risk-free interest rate	3.23%
Option's expected life (in years)	5.0
Weighted average fair value of each option (in U.S. dollars)	\$9.06

Notes to Consolidated Financial Statements (Cont'd)

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

	November 23, 2007	August 21, 2007	June 4, 2007
Number of options	250,000	2,081	1,318,336
Exercise price (in Cdn. \$)	\$19.00	\$14.01	\$13.15
Dividend Yield	0.0%	0.0%	0.0%
Volatility	55.5%	56.4%	56.6%
Risk-free interest rate	4.22%	4.59%	4.11%
Option's expected life (in years)	5.0	5.0	5.0
Weighted average fair value of each option (in U.S. dollars)	\$9.98	\$7.00	\$6.54

The compensation expense recorded for the year 2008 with respect to the above options granted amounted to \$4,276,000 [2007 – \$2,898,000].

The following table summarizes the changes in stock options outstanding during the years ended December 31, 2008 and 2007:

	2008		2007	
	Number of options	Weighted average exercise price Cdn. \$	Number of options	Weighted average exercise price Cdn. \$
Balance, beginning of year	3,948,453	7.78	5,816,258	3.69
Granted	75,000	17.70	1,570,417	14.15
Cancelled	(33,334)	13.15	(100,000)	13.15
Exercised	(526,111)	3.10	(3,338,222)	3.46
Balance, end of year	3,464,008	8.65	3,948,453	7.78
Exercisable at year-end	2,142,340	6.23	1,510,703	3.63

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2008:

Range of exercise prices	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Options		Weighted average exercise price
				exercisable	Non- exercisable	
Cdn. \$2.00 – Cdn. \$3.00	205,000	0.55 years	Cdn. \$2.71	205,000		Cdn. \$2.71
Cdn. \$3.00 – Cdn. \$4.00	871,000	1.23 years	Cdn. \$3.70	871,000		Cdn. \$3.70
Cdn. \$4.00 – Cdn. \$5.00	145,925	2.65 years	Cdn. \$4.36	85,925	60,000	Cdn. \$4.36
Cdn. \$5.00 – Cdn. \$6.00	750,000	2.67 years	Cdn. \$5.50	500,000	250,000	Cdn. \$5.50
Cdn. \$13.00 – Cdn. \$14.00	1,165,002	3.42 years	Cdn. \$13.15	395,001	770,001	Cdn. \$13.15
Cdn. \$14.00 – Cdn. \$15.00	2,081	3.64 years	Cdn. \$14.01	2,081		Cdn. \$14.01
Cdn. \$17.00 – Cdn. \$18.00	75,000	4.62 years	Cdn. \$17.70		75,000	Cdn. \$17.70
Cdn. \$19.00 – Cdn. \$20.00	250,000	3.89 years	Cdn. \$19.00	83,333	166,667	Cdn. \$19.00

11. CONTRIBUTED SURPLUS

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

	2008 \$	2007 \$
Balance, beginning of year	3,906	4,726
Stock-based compensation	4,276	2,898
Transfer to share capital [note 10]	(583)	(3,718)
Balance, end of year	7,599	3,906

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

	2008	2007
	\$	\$
Balance, beginning of year	105,287	32,590
Other comprehensive income	106,544	72,697
Balance, end of year	211,831	105,287

As at December 31, 2008, accumulated other comprehensive income comprises the following amounts:

	2008	2007
	\$	\$
Unrealized gains on translation of financial statements of self-sustaining foreign operations	214,063	106,025
Unrealized loss on financial assets designated as available-for-sale, net of tax of nil	(2,232)	(738)
Balance, end of year	211,831	105,287

Unrealized translation adjustments arise on the translation to U.S. dollars of assets and liabilities of the Company's self-sustaining foreign operations. For the year ended December 31, 2008, the Company incurred unrealized foreign currency translation gains of \$108,038,000 [2007 - \$73,435,000], primarily from the strengthening of Renminbi against U.S. dollars.

13. PROVISION FOR INCOME TAXES

[a] Temporary differences

	2008	2007
	Future Income Tax Assets (Liabilities) \$	Future Income Tax Assets (Liabilities) \$
Tax losses carried forward	3,875	21,492
Unrealized foreign exchange on external debt	13,138	(41,535)
Unrealized foreign exchange on receivables	(2,996)	42,967
Before valuation allowance	4,217	22,924
Valuation allowance	(4,217)	(22,924)
Total	-	-

[b] Canadian and foreign income taxes

	2008	2007
	\$	\$
Provision for income taxes		
Current tax provision		
Canadian	12,500	-
Foreign	24,105	18,034
	36,605	18,034
Future tax recovery		
Canadian	(12,500)	-
Total	24,105	18,034

Notes to Consolidated Financial Statements (Cont'd)

(All dollar figures expressed in thousands of United States dollars, unless otherwise indicated.)

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

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

	2008	2007
	\$	\$
Income before income taxes	240,498	160,465
Expected statutory tax rate of Canada	33.5%	36.12%
Expected income tax expense	80,567	57,960
Effect of Canadian dollar tax reporting	12,500	-
Recovery related to tax loss carryforwards	(12,500)	-
Unrecognized income tax benefit arising from losses of the Company and its subsidiaries	36,785	23,789
Income tax at lower rates in foreign jurisdiction [c]	(89,356)	(63,668)
Income not currently subject to PRC enterprise income tax	(3,891)	(47)
Income Tax Expense	24,105	18,034
Effective Rate	10.0%	11.2%

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

PRC wholly foreign owned enterprises ("WFOE") are governed by the Income Tax Law of the PRC and various local and state supplementary regulations (the "Income Tax Laws"). Pursuant to the new Enterprise Income Tax Law effective January 1, 2008 ("New EIT Law"), WFOE, Sino-Foreign Equity and Co-operative Joint Venture Enterprises ("CJV") are subject to PRC enterprise income tax at an effective rate of 25% [2007 – 24% to 33%] on taxable income as reported. Pursuant to the old Income Tax Laws, qualifying PRC WFOE and CJV engaged in agriculture and manufacturing could be eligible for an exemption from PRC enterprise income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward from prior years, followed by a 50% exemption for the next three years. If the tax holiday had not yet commenced, it will be deemed to begin on January 1, 2008. Pursuant to the New EIT Law, the PRC WFOE and CJV engaged in forestry plantation if eligible could apply for an exemption from PRC enterprise income tax.

Hong Kong profits tax has been provided at the rate of 16.5% [2007 – 17.5%] on the estimated assessable profits arising in and sourced to Hong Kong during the year.

[d] Provision for tax related liabilities

Our principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to enterprise income tax. This also applied to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007.

Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements ("AI Agreements") made with the AI, the AI are responsible for remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax due to the Authorized Sales Activities. 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 December 31, 2008 is the balance of the tax provision for the tax related contingency amounting to \$89,909,000 [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.

[e] Losses carryforward

As at December 31, 2008, the Company has income tax losses of approximately \$11,567,000 (Cdn. \$14,081,000) based on Canadian dollar tax reporting for which no accounting benefit has been recognized and which can be applied against future years' taxable income in Canada [2007 – \$59,537,000]. The losses will be expiring in 2026.

In addition, as at December 31, 2008, the Company's PRC WFOE and CJV have incurred tax losses on a legal entity basis in aggregate of approximately \$36,659,000 [2007 – \$30,097,000]. Losses incurred by PRC WFOE's and CJV's can be carried forward to a maximum of five years. The benefit of these losses has not been reflected in the financial statements as management does not consider it to be more likely than not that the related future income tax asset will be realized. There are no other material temporary differences in the Company's PRC WFOE and CJV.

[f] Other

The Company has adopted U.S. dollars functional tax reporting for Canadian tax reporting purposes and elected to do so effective January 1, 2008. These rules are set out in section 261 of the Income Tax Act and the rules allow the Company to prepare its corporate tax return using U.S. dollars instead of translating annual activities into Canadian dollars. The Canadian tax law relating to the Company's election was not substantively enacted until March 4, 2009. As a result, Canadian income tax expense for 2008 is not calculated based on U.S. dollar functional tax reporting.

14. EARNINGS PER SHARE

The Company calculates earnings per share on the weighted average number of shares outstanding. Diluted earnings per share are calculated using the treasury stock method for stock options and the "if-converted" method for convertible senior notes.

Earnings per share are as follows:

	2008			2007		
	Earnings \$'000	Weighted Average no. of Shares	Earnings per Share \$	Earnings \$'000	Weighted Average no. of Shares	Earnings per Share \$
Net income for the period	228,593			152,273		
Weighted average number of shares outstanding		182,304			166,823	
Basic Earnings per Share	228,593	182,304	1.25	152,273	166,823	0.91
Effect of dilutive securities:						
- stock options		1,396			1,783	
- convertible senior notes	12,399	7,528				
	240,992	191,728		152,273	168,606	
Deduct anti-dilutive impacts:						
- convertible senior notes	(12,399)	(7,528)				
Diluted Earnings per Share	228,593	184,200	1.24	152,273	168,606	0.90

Notes to Consolidated Financial Statements (Cont'd)

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

15. STATEMENTS OF CASH FLOWS

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

	2008	2007
	\$	\$
Cash provided by (used for):		
Accounts receivable	(111,255)	23,628
Inventories	1,400	(25,428)
Prepaid expenses and other	2,384	(789)
Accounts payable and accrued liabilities [a]	41,771	29,096
Income taxes payable	7,172	493
	(58,528)	27,000

[a] As at December 31, 2008, the Company had an aggregate amount of \$27,948,000 [2007 – \$12,318,000] and \$8,601,000 [2007 – \$nil] payable in respect of timber holdings and other assets acquired, respectively during the year which was included in accounts payable and accrued liabilities.

16. 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 as at December 31 are classified into the following categories:

	2008	2007
	\$	\$
Held for trading [a]	486,955	350,853
Loans and receivables [b]	248,232	124,415
Available for sale assets [c]	2,874	4,356
Other financial liabilities [d]	901,154	557,208
Derivative (foreign currency swap) [e]	5,214	11,211
Embedded derivative [f]	249	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 and convertible guaranteed senior notes approximate their carrying values. 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 non-convertible senior notes as at December 31, 2008 were \$195,000,000 and \$300,000,000, respectively [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. The Company does not otherwise engage in other hedging transactions with respect to our foreign exchange risk or interest rate risk.

The Company has convertible bonds issued by Omnicorp which will mature on November 9, 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 in 2008 was an unrealized loss of \$2,917,000 [2007 – \$1,816,000] 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. In 2008 and 2007, 86.2% and 81.6% of the sales were received in Renminbi respectively and 13.8% and 18.4% of the sales were received in U.S. dollars and Euro 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, on financial instruments that are denominated in foreign currency other than U.S. dollars, would, everything else being equal, have an effect on net income after tax and other comprehensive income in 2008 of approximately \$4.0 million and \$nil, respectively.

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

As of December 31, 2008, the Company had Renminbi denominated bank accounts of RMB531.5 million (equivalent to \$77.8 million) [2007 – RMB454.6 million, equivalent to \$62.0 million], U.S. dollar denominated bank accounts of \$403.1 million [2007 – \$275.2 million], Canadian dollar denominated bank accounts of Cdn.\$5.4 million (equivalent to \$4.4 million) [2007 – Cdn.\$10.1 million, equivalent to \$10.2 million], Hong Kong dollar denominated bank accounts of HK\$0.8 million (equivalent to \$0.1 million) [2007 – HK\$13.6 million, equivalent to \$1.7 million] and Euro denominated bank accounts of €1.1 million (equivalent to \$1.6 million) [2007 – €1.2 million, equivalent to \$1.7 million]. The Company also had U.S. dollar and Renminbi denominated accounts receivable of \$15.2 million [2007 – \$16.3 million] and RMB1,444.0 million (equivalent to \$211.3 million) [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.

Notes to Consolidated Financial Statements (Cont'd)

(All dollar figures expressed in thousands of United States dollars, unless otherwise indicated.)

Credit risk

The Company is exposed to credit risk with respect to accounts receivable from customers. Accounts receivable as at December 31, 2008 included \$79,058,000 due from three customers [December 31, 2007 – \$40,132,000 due from three customers] representing 34.9% [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 maintain 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 December 31, 2008, \$27,444,000 [2007 – \$3,983,000] or 12.1% [2007 – 3.8%] of accounts receivable, were aged more than 90 days. The Company has no significant allowance for doubtful accounts in 2008 and 2007.

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 equivalent in banks that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors. Management believes the risk of loss to be remote.

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. The Company's growth strategy requires significant financial resources which are derived from cash flows provided by operations, additional debt, the issuance of equity or a combination thereof. As at December 31, 2008, the Company was holding cash and cash equivalents of \$441.2 million. The Company has determined that continued cash flow from operations in 2009 together with the cash and cash equivalents from previous financings will be more than sufficient to fund its requirements for investments in working capital, timber holdings and capital assets.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at December 31, 2008:

	Payment Due by Period				Total
	Within one year	In the second and third year	In the fourth and fifth year	After the fifth year	
Bank indebtedness	73,158	-	-	-	73,158
Accounts payable and accrued liabilities ⁽¹⁾	113,528	-	-	-	113,528
Long-term debt	-	443,898	270,570	-	714,468
	186,686	443,898	270,570	-	901,154

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

Interest rate risk

The Company is exposed to interest rate risk resulting from fluctuations in interest rates on its debts, primarily on its bank indebtedness 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 December 31, 2008, \$183.2 million or 23.3% 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 year of approximately \$1.8 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 or purchases of standing timber and wood-based products.

17. 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 \$73,158,000, long-term debt of \$714,468,000 and shareholders' equity of \$1,598,764,000. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. There were no changes in the Company's approach to capital management during the year.

The Company is subject to externally imposed minimum capital requirements relating to the bank credit facilities, senior notes and syndicated loans and exceeds the minimum requirements during the year. The Company's capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As at December 31, 2008, the Company has retained earnings of approximately \$770 million in the PRC which may be restricted.

18. 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 (Cont'd)

(All dollar figures are expressed in thousands of United States dollars, unless otherwise indicated.)

By Industry Segment

	2008				Total \$
	Plantation Fibre \$	Other Fibre \$	Manufac- turing \$	Corporate \$	
Revenue					
Sale of standing timber and harvested logs	685,404				685,404
Sale of imported wood products		139,700			139,700
Sale of wood logs		13,817			13,817
Sale of manufacturing operation's products and other			62,374		62,374
	685,404	153,517	62,374		901,295
Income (loss) from continuing operations before interest, other income, exchange gains (losses), impairment of capital assets and changes in fair value of financial instruments	343,433	6,542	(21,749)	(24,844)	303,382
Net income from discontinued operations		12,200			12,200
Interest income	912	3,460	1,784	4,972	11,128
Interest expense	904	1,996	947	48,474	52,321
Impairment of capital assets			18,157		18,157
Depreciation and amortization	305	47	4,083	192	4,627
Provision for income taxes	19,293	3,613	1,199		24,105
Identifiable assets	1,913,957	385,295	251,045	53,627	2,603,924
Depletion of timber holdings included in cost of sales	281,948		2,584		284,532
Additions to timber holdings and capital assets	672,943	68	29,280	270	702,561

	2007				Total \$
	Plantation Fibre \$	Other Fibre \$	Manufac- turing \$	Corporate \$	
Revenue					
Sale of standing timber and harvested logs	521,489	-	-	-	521,489
Sale of imported wood products		150,731	-	-	150,731
Sale of wood logs		3,233	-	-	3,233
Sale of manufacturing operation's products and other			38,413	-	38,413
	521,489	153,964	38,413	-	713,866
Income (loss) from continuing operations before interest, other income, exchange gains (losses), impairment of capital assets and changes in fair value of financial instruments	230,229	2,898	(14,202)	(21,457)	197,468
Net income from discontinued operations		9,842	-	-	9,842
Interest income	623	104	1,893	12,564	15,184
Interest expense	620	3,512	634	39,194	43,960
Impairment of capital assets			20,846		20,846
Depreciation and amortization	247	23	4,938	156	5,364
Provision for income taxes	17,745	88	140	61	18,034
Identifiable assets	1,309,415	52,293	251,628	224,161	1,837,497
Depletion of timber holdings included in cost of sales	284,808				284,808
Additions to timber holdings and capital assets	647,762	85	11,347	422	659,616

Revenue from the Company's largest customer for the year amounted to approximately 14% [2007 – 16%] of total revenue. During the year, there were three [2007 – four] customers who each individually accounted for more than 10% of the Company's revenue and this revenue in aggregate represented approximately 36% [2007 – 52%] of total revenue.

Purchases from the Company's largest vendor for the year accounted for approximately 17% [2007 – 32%] of total purchases. During the year, one [2007 – one] vendor accounted for more than 10% of the Company's purchases and the purchase represented approximately 17% [2007 – 32%] of total purchases.

By Geographic Segment

The Company conducts substantially all of its operations in PRC. During the year, sales to customers in the PRC and other countries amounted to approximately \$894,943,000 [2007 – \$708,331,000] and \$6,352,000 [2007 – \$5,535,000], respectively.

As at December 31, 2008, all of the Company's timber holdings and approximately \$90,525,000 [2007 – \$77,913,000] of the Company's capital assets were located in the PRC.

19. DISCONTINUED OPERATIONS

During the third quarter of 2007, wood chips and commission revenue ceased due to the lack of wood chipping capacity available to the Company. The results of operations from wood chips and commission are detailed below and shown as discontinued operations. As a result, the Consolidated Statement of Income and Retained Earning has been reclassified from statements previously presented.

	2008	2007
	\$	\$
Revenue		7,172
Cost of Sales		(5,849)
Income from operations		1,323
Income before income taxes		1,323
Recovery of income tax	12,200	8,519
Net income from discontinued operations	12,200	9,842

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

	2008	2007
	\$	\$
Liabilities of discontinued operations		
Accounts payable and accrued liabilities [note 13(d)]	21,933	32,016
	21,933	32,016

20. CAPITAL CONTRIBUTIONS AND COMMITMENTS

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

[a] Capital contributions

As at December 31, 2008, the Company has capital commitments in respect of capital contributions to our WFOEs of \$75,000,000 [2007 – \$18,600,000].

[b] Capital commitments

As at December 31, 2008, the Company has capital commitments with respect to buildings, timber holdings, and plant and machinery of \$15,020,000 [2007 – \$16,523,000].

[c] Purchase commitments

As at December 31, 2008, the Company has purchase commitments mainly regarding logs of \$6,400,000 [2007 – \$21,470,000].

Notes to Consolidated Financial Statements (Cont'd)

(All dollar figures are expressed in thousands of United States dollars, unless otherwise indicated.)

[d] Operating leases

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

	\$
2009	3,164
2010	2,681
2011	2,176
2012	2,206
2013	2,451
2014 and thereafter	43,396
	56,074

[e] Wood fibre

Under the master agreement entered in July 2006 to secure at least 1.5 million m³ of wood fibre annually over a 12-year period in Inner Mongolia, the Company has acquired 17,000 m³ of wood fibre as at December 31, 2008.

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, the Company has acquired 70,834 hectares of plantation trees for \$298,952,000 as at December 31, 2008.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has acquired 39,502 hectares of plantation trees for \$232,456,000 as at December 31, 2008.

Under the master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, the Company has acquired 75,111 hectares of plantation trees for \$343,503,000 as at December 31, 2008.

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

21. 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 impact on the Company's tax expense. The Company has operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates and 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 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 believes that adequate provision for tax related liabilities has been recognized in the financial statements.

22. RELATED PARTY TRANSACTIONS

- [a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the year amounted to \$5,960,000 [2007 – \$4,587,000] and were recorded at an exchange amount as agreed by the related parties.
- [b] In addition, as at December 31, 2008, the Company had an aggregate amount of \$4,900,000 [December 31, 2007 – \$3,000,000] for consultancy fees payable to these related companies. The amount is included in accounts payable and accrued liabilities in the financial statements.

23. SUBSEQUENT EVENT

- [a] On February 6, 2009, the Company entered into an agreement to acquire 55,000,000 ordinary shares and approximately \$21,600,000 [equivalent to HK\$167,631,000] 4% secured convertible bonds of Omnicorp from various vendors. The purchase price consisted of cash of \$4,300,000 and approximately 2,700,000 common shares of the Company at a price of Cdn.\$10 per share. Total consideration was approximately \$25,775,000 [equivalent to HK\$200,631,000]. Among the vendors were a director of the Company and an entity controlled by such director the aggregate value of whose Omnicorp ordinary shares and convertible bonds represented approximately 5.5% of the aggregate value of the overall transaction.
- [b] In March 2009, the Company committed to a plan to dispose certain machinery and equipment due to continued losses over the years. The machinery and equipment has a carrying value of approximately \$28 million as at December 31, 2008. Management expects the disposal will be completed during 2009.

24. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.

Directors, Officers and Executives

INDEPENDENT DIRECTORS



JAMES (JAMIE) M.E. HYDE
CA, Toronto

1 (chair), 2 (chair), 3

Director since 2004; previously Executive Vice President & Chief Financial Officer, Resolve Business Outsourcing Income Fund, Vice President Finance and Chief Financial Officer, GSW Inc., Partner, Ernst & Young LLP and Senior Vice President, Ernst & Young Corporate Finance Inc.



EDMUND MAK
MBA, Vancouver

1, 2

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



W. JUDSON MARTIN
Toronto

1, 2, 3 (chair)

Lead Director since 2007; Director since 2006; previously Senior Executive Vice President & Chief Financial Officer, Alliance Atlantis Communications Inc., Senior EVP, CFO & Chief Operating Officer, MDC Communications Corporation, President & CEO, Trilon Securities Corporation, EVP & CFO, Brookfield Development Corporation, Vice President Finance, Trizec Corporation Ltd.



SIMON MURRAY
Hong Kong

3

Director since 1999; Chairman, GEMS (General Enterprise Management Services (International) Limited); previously worked thirty-five years in Asia as founder of Simon Murray & Associates, Executive Chairman, Asia Pacific, Deutsche Bank Group, co-founder, Distacom, and Group Managing Director, Hutchison Whampoa.



PETER WANG
Hong Kong

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

Notes:

1. Audit Committee
2. Corporate Governance Committee
3. Compensation and Nominating Committee

DIRECTORS AND OFFICERS



ALLEN T. Y. CHAN
Chairman and Chief Executive
Officer, Hong Kong

Director since 1994; co-founded Sino-Forest in 1992; previously worked twelve years as a management consultant and project manager in China; previously worked for Hong Kong government in new town development and management programs.



KAI KIT (K. K.) POON
President,
Hong Kong

Director since 1994; co-founded Sino-Forest in 1992; previously worked fifteen years with Guangdong Forestry Bureau as an engineer engaged in forest product trading and manufacturing.

OFFICERS AND EXECUTIVES



DAVID J. HORSLEY
CA, CBV, Senior Vice President
and Chief Financial Officer,
Toronto

Joined Sino-Forest in 2005; previously an Independent Director of Sino-Forest in 2004, member of Audit, Compensation, and Corporate Governance Committees and Senior Vice President and CFO, Cygnal Technologies Corporation; previously Senior Vice President and Corporate Secretary, Canadian General Capital Limited.



HUA CHEN
Senior Vice President,
Administration & Finance,
China

Joined Sino-Forest in 2002; previously board chair of Suzhou New-Development Area Economic Development Group, managed large corporations and gained access to capital markets in China.



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

Joined Sino-Forest in 1997; previously worked twenty years in marketing, production management, project management and corporate business development and operation, in the garment, electronics and wood-related industries.



WEI MAO ZHAO
Senior Vice President,
Development & Operations,
South & East China

Joined Sino-Forest in 2002; previously General Manager, Everbright Group Corp. with extensive experience in wood product manufacturing and knowledge of international wood material markets.



GEORGE HO
Vice President,
Finance (China),
Hong Kong

Joined Sino-Forest in 2007; previously worked extensively in the auditing, accounting and consulting field for more than 13 years with several years of experience as CFO of a merchant bank's China operations.



ALFRED C. T. HUNG
CFA, FRM, MSc Finance, Vice
President, Corporate Plan-
ning & Banking, Hong Kong

Joined Sino-Forest in 1999; previously gained nine years experience in investment research and management working for several international firms.



THOMAS M. MARADIN
CA, Vice President, Risk
Management, Toronto

Joined Sino-Forest in 2005; previously worked five years for several multi-national corporations in financial reporting and internal control, regulatory compliance and system upgrading; previously worked fifteen years for Ernst & Young LLP, providing professional services in audit, taxation, risk management, strategic and business planning.



RICHARD KIMEL
HBA, LLB, Corporate Secretary,
Toronto

Partner, and a member of Aird & Berlis LLP's Corporate/Commercial and Corporate Finance Groups, practicing law since 1997; specializes in the areas of corporate/commercial and corporate finance law, focusing primarily on public and private financings, domestic and international mergers and acquisitions and ongoing corporate counsel activities.

Ten-Year Financial Highlights

(in millions, except earnings per share and share price)	2008	[Restated]		[Restated]						
		2007	2006	2005	2004	2003	2002	2001	2000	1999
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Consolidated Statement of Income										
Revenue ⁽¹⁾	901.3	713.9	555.5	341.3	330.9	265.7	200.7	137.3	126.7	141.6
Gross profit ⁽¹⁾	364.7	243.0	175.0	104.0	101.5	64.9	42.7	30.2	38.6	39.8
Gross profit margin ⁽¹⁾	40.5%	34.0%	31.5%	30.5%	30.7%	24.4%	21.3%	22.0%	30.5%	28.1%
Net income ⁽¹⁾	228.6	152.3	113.5	76.2	52.8	30.2	20.6	18.6	28.6	28.2
Diluted earnings per share	1.24	0.90	0.81	0.55	0.43	0.32	0.27	0.21	0.31	0.31
Cash flow from operating activities ⁽¹⁾	483.1	482.5	264.2	152.9	119.4	69.6	12.6	12.9	26.6	27.1
Capital Expenditures	702.6	659.6	416.8	299.7	178.6	96.6	44.2	45.3	54.4	37.7
Consolidated Balance Sheets										
Total assets	2,603.9	1,837.5	1,207.3	895.3	756.0	418.9	336.9	281.6	220.2	178.3
Cash and cash equivalents	441.2	328.7	152.9	108.4	201.2	6.9	1.2	1.7	18.2	39.6
Working capital	498.4	330.0	154.6	122.0	236.9	(2.3)	26.1	5.5	13.3	38.8
Timber holdings	1,653.3	1,174.2	752.8	513.4	359.6	232.5	172.4	156.1	118.5	91.7
Long-term debt	714.5	442.0	450.0	300.0	300.0	56.0	82.3	47.2	28.7	30.2
Shareholders' equity	1,598.8	1,187.3	578.2	439.9	372.3	245.0	180.1	172.8	154.2	126.2
Shares										
Shares outstanding at year-end	183.1	182.6	138.0	137.8	136.6	96.2	80.3	80.3	80.3	80.8
- Common shares	183.1	182.6	138.0	137.8	136.6	-	-	-	-	-
- Class A Subordinate-Voting Shares	-	-	-	-	-	96.2	74.3	74.3	74.3	74.8
- Class B Multiple-Voting Shares ⁽²⁾	-	-	-	-	-	-	6.0	6.0	6.0	6.0
Share Price at year end (C\$)	9.37	21.44	7.83	4.94	3.43	5.16	1.17	1.19	0.99	1.63
Market Capitalization (C\$)	1,807	3,915	1,081	681	469	496	94	96	79	132

- (1) For comparison purpose, the results of 2006 and 2005 have been restated to exclude wood chips and commission operations but include the tax provision for tax contingency. The result of the wood chips and commission operations has been reclassified as discontinued operations in the Consolidated Financial Statements.
- (2) Pursuant to articles of amendment filed by the Company on June 22, 2004, the Class A Subordinate-Voting Shares were reclassified as common shares and the Class B Multiple-Voting Shares were eliminated.

2008 Quarterly Highlights

		1st Q	2nd Q	3rd Q	4th Q	Total
Revenue	US\$'000	136,137	187,125	295,548	282,485	901,295
Gross profit	US\$'000	46,879	67,247	127,575	123,037	364,738
Gross profit margin		34%	36%	43%	44%	40%
EBITDA	US\$'000	73,611	106,247	220,644	192,039	592,541
Net income	US\$'000	14,527	43,401	75,175	95,490	228,593
Diluted earnings per share	US\$	0.08	0.24	0.40	0.51	1.24
Cash flow from operating activities	US\$'000	32,021	100,254	137,160	213,690	483,125
Wood Fibre Operations						
Plantation fibre						
Hectares purchased		27,706	14,165	21,661	64,302	127,834
Acquisition cost	US\$'M	77.9	111.0	186.2	271.3	646.4
Hectares sold		13,493	17,665	34,422	38,365	103,945
Revenue	US\$'000	102,670	125,591	245,236	211,907	685,404
Gross profit margin		45%	53%	51%	56%	52%
Other fibre - wood logs						
Revenue	US\$'000	123	1,129	1,497	11,068	13,817
Gross profit margin		5%	23%	15%	19%	19%
Other fibre - imported wood products						
Revenue	US\$'000	24,064	42,879	31,865	40,892	139,700
Gross profit margin		3%	5%	4%	4%	4%
Manufacturing & Other Operations						
Revenue	US\$'000	9,280	17,526	16,950	18,618	62,374
Gross profit margin		0%	(6%)	2%	8%	1%
Common Shares						
High	C\$	22.23	21.23	20.03	14.00	26.15
Low	C\$	14.01	14.90	12.90	5.25	5.25
Close	C\$	16.00	17.86	13.41	9.87	9.87
Average daily trading volume		1,132,399	1,035,255	808,179	1,364,270	4,340,103

Corporate and Shareholder Information

AUDITORS

Ernst & Young LLP
700 West Georgia Street
P.O. Box 10101
Vancouver, British Columbia
Canada V7Y 1C7

EXCHANGE LISTING

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

ANNUAL SHAREHOLDERS MEETING

Monday, May 25, 2009 at 4:00 p.m.
The Fairmont Royal York Hotel
Ontario Room, Convention Floor
100 Front Street West
Toronto, Ontario
Canada M5J 1E3

LEGAL COUNSEL

Aird & Berlis LLP
Brookfield Place, Suite 1800
Box 754, 181 Bay Street,
Toronto, Ontario M5J 2T9
Canada

INVESTOR RELATIONS

David J. Horsley, C.A., C.B.V.
Senior Vice-President and
Chief Financial Officer
Tel: 905.281.8889
Fax: 905.281.3338
Email: davehorsley@sinoforest.com

Louisa Wong
Senior Manager - Investor
Communications and
Relations, Hong Kong
Tel: 852.2877.0078
Direct: 852.2514.2109
Fax: 852.2877.0062
Email: louisa-wong@sinoforest.com

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company
320 Bay Street, P.O. Box 1
Toronto, Ontario
Canada M5H 4A6
Tel: 416.643.5500
Toll-free North America:
1.800.387.0825

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

Produced by Story Communications Inc.

Design by Monopoly Design Limited



Printed on FSC Certified Paper



Sino-Forest Corporation

www.sinoforest.com

CORPORATE ADMINISTRATION OFFICE

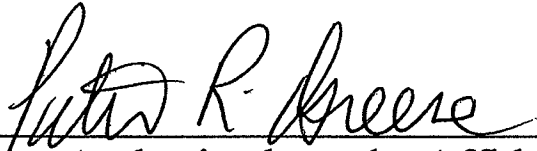
Sino-Forest Corporation
90 Burnhamthorpe Road West
Suite 1208, Mississauga
Ontario, Canada L5B 3C3
Tel: 905 281 8889
Fax: 905 281 3338
Email: info@sinoforest.com

EXECUTIVE HEAD OFFICE

Sino-Forest Corporation
Sino-Wood Partners, Limited
(wholly-owned subsidiary of Sino-Forest Corporation)
Room 3815-29, Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong
Tel: 852 2877 0078
Fax: 852 2877 0062

TAB J

This is Exhibit "J" referred to in the
Affidavit of Diana Correia,
sworn before me this 20th
day of August, 2012

A handwritten signature in cursive script, appearing to read "Peter R. Greese". The signature is written in black ink and is positioned above a horizontal line.

Person Authorized to take Affidavits



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

P.O. Box 55, 19th Floor
20 Queen Street West
Toronto ON M5H 3S8

CP 55, 19^e étage
20, rue queen ouest
Toronto ON M5H 3S8

**IN THE MATTER OF THE *SECURITIES ACT*,
R.S.O. 1990, c. S.5, AS AMENDED**

- AND -

**IN THE MATTER OF
SINO-FOREST CORPORATION, ALLEN CHAN, ALBERT IP, ALFRED
C.T. HUNG, GEORGE HO, SIMON YEUNG and DAVID HORSLEY**

STATEMENT OF ALLEGATIONS

Further to a Notice of Hearing dated May 22, 2012, Staff ("Staff") of the Ontario Securities Commission (the "Commission") make the following allegations:

PART I. OVERVIEW AND SUMMARY OF ALLEGATIONS

A. Sino-Forest

1. Sino-Forest Corporation ("Sino-Forest" or the "Company")¹ is a reporting issuer in the province of Ontario as that term is defined in subsection 1(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act"). Until recently, the common shares of Sino-Forest were listed on the Toronto Stock Exchange ("TSX").

2. Sino-Forest purportedly engaged primarily in the purchase and sale of Standing Timber in the People's Republic of China (the "PRC").

¹ Sino-Forest or the Company includes all of Sino-Forest's subsidiaries and companies that it controls as set out in its public disclosure record and as the context within this Statement of Allegations requires.

3. From February of 2003 until October of 2010, Sino-Forest raised approximately \$3.0 billion (US)² in cash from the issuance of equity and debt securities to investors (the “Investors”)³.
4. From June 30, 2006 to March 31, 2011, Sino-Forest’s share price grew from \$5.75 (Can) to \$25.30 (Can), an increase of 340%.⁴ By March 31, 2011 Sino-Forest’s market capitalization was well over \$6 billion.
5. In early June of 2011, the share price of Sino-Forest plummeted after a private analyst made allegations of fraud against Sino-Forest.
6. On November 15, 2011, Sino-Forest announced that it was deferring the release of its interim financial report for the third quarter of 2011.⁵ Sino-Forest has never filed this interim financial report with the Commission.
7. On January 10, 2012, Sino-Forest issued a news release cautioning that its historic financial statements and related audit reports should not be relied upon.
8. Sino-Forest was required to file its 2011 audited annual financial statements with the Commission by March 30, 2012. That very day, Sino-Forest initiated proceedings in front of the Superior Court of Justice (Ontario) requesting protection from its creditors. Sino-Forest has never filed its 2011 audited annual financial statements with the Commission.
9. On April 4, 2012, the auditors of Sino-Forest resigned.
10. On May 9, 2012, the TSX delisted the shares of Sino-Forest.

² Unless otherwise stated, all amounts presented in this Statement of Allegations and the attached Schedules are in United States Dollars.

³ The Glossary attached as Schedule A contains a list of certain of the defined terms used in the Statement of Allegations and the paragraph where they are located within the Statement of Allegations.

⁴ Attached as Schedule B is selected data from its audited annual financial statements for 2005 to 2010.

⁵ The financial year end of Sino-Forest is December 31.

11. As set out below, Sino-Forest and its former senior executives, including Allen Chan (“Chan”), Albert Ip (“Ip”), Alfred C.T. Hung (“Hung”), George Ho (“Ho”) and Simon Yeung (“Yeung”), engaged in a complex fraudulent scheme to inflate the assets and revenue of Sino-Forest and made materially misleading statements in Sino-Forest’s public disclosure record related to its primary business.

12. Chan, former Chairman of the Board and Chief Executive Officer (“CEO”) of Sino-Forest until August 28, 2011, also committed fraud in relation to Sino-Forest’s purchase of a controlling interest in a company now known as Greenheart Group Limited (“Greenheart”). By concealing Chan’s substantial interest in this transaction, Chan and Sino-Forest made materially misleading statements in Sino-Forest’s public disclosure record.

13. Chan, Ip, Hung, Ho and Yeung (together, “Overseas Management”) all materially misled Staff during the investigation of this matter.

14. David Horsley (“Horsley”), former Senior Vice President and Chief Financial Officer (“CFO”) of Sino-Forest, did not comply with Ontario securities law and acted contrary to the public interest.

B. The Standing Timber Fraud

15. From June 30, 2006 until January 11, 2012 (the “Material Time”), Sino-Forest and Overseas Management engaged in numerous deceitful and dishonest courses of conduct (the “Standing Timber Fraud”) that ultimately caused the assets and revenue derived from the purchase and sale of Standing Timber (that constituted the majority of Sino-Forest’s business) to be fraudulently overstated, putting the pecuniary interests of Investors at risk contrary to Ontario securities law and contrary to the public interest.

16. The Standing Timber Fraud was primarily comprised of three elements:

- i) Sino-Forest dishonestly concealed its control over Suppliers, AIs and other nominee companies in the BVI Network. Sino-Forest established a collection of “nominee”/“peripheral” companies that were controlled, on

its behalf, by various “caretakers”.⁶ Sino-Forest conducted a significant level of its business with these companies, the true economic substance of which was misstated in Sino-Forest’s financial disclosure;

- ii) Sino-Forest falsified the evidence of ownership for the vast majority of its timber holdings by engaging in a deceitful documentation process. This dishonest process included the fraudulent creation of deceitful Purchase Contracts and Sales Contracts, including key attachments and other supplemental documentation. Sino-Forest then relied upon these documents to evidence the purported purchase, ownership and sale of Standing Timber in the BVI Model; and
- iii) Sino-Forest dishonestly concealed internal control weaknesses/failures that obscured the true nature of transactions conducted within the BVI Network and prevented the detection of the deceitful documentation process. Sino-Forest’s statements in its public disclosure record regarding the extent of its internal control weaknesses were wholly inadequate and misleading.

17. Each of the above dishonest and deceitful courses of conduct by Sino-Forest and Overseas Management put the pecuniary interests of Investors at risk, constituting fraud. Together, these courses of conduct made the public disclosure record of Sino-Forest so misleading that it was fraudulent.

18. As set out in paragraph 47, the vast majority of the Sino-Forest’s Standing Timber assets were held in the BVI Model. The available underlying documentation for these Standing Timber assets did not provide sufficient evidence of legal ownership of these assets. As of this date, Sino-Forest has not been able to confirm full legal ownership of the Standing Timber assets that it claims to hold in the BVI Model.

19. During the Material Time, Sino-Forest’s auditors were not made aware of Sino-Forest’s systematic practice of creating deceitful Purchase Contracts and Sales Contracts, including key attachments to these contracts.

20. The following are four illustrative examples of the fraudulent courses of conduct that Sino-Forest and Overseas Management perpetrated within the Standing Timber Fraud. These

⁶ These “nominee”/“peripheral” companies and “caretakers” are described in greater detail in paragraph 57.

four examples, described in detail below, illustrate how Sino-Forest and Overseas Management materially inflated assets and revenue in Sino-Forest's public disclosure record:

- i) the Dacheng Fraud;
- ii) the 450,000 Fraud;
- iii) Gengma Fraud #1; and
- iv) Gengma Fraud #2.

21. Schedule C illustrates the primary elements of the Standing Timber Fraud as introduced in paragraph 16 and the fraudulently overstated revenue arising from the four illustrative examples introduced in the previous paragraph.

22. The allegations regarding the Standing Timber Fraud are set out in paragraphs 53 to 119 below.

C. Materially Misleading Statements Related to the Standing Timber Fraud

23. Given the three elements of the Standing Timber Fraud introduced in paragraph 16, the public disclosure record of Sino-Forest required by Ontario securities law was materially misleading, contrary to Ontario securities law and contrary to the public interest.

24. The assets and revenue recorded as a result of the Standing Timber Fraud caused Sino-Forest's public disclosure record, including its audited annual financial statements, annual information forms ("AIFs") and management's discussion and analysis ("MD&A"), to be materially misleading during the Material Time.

25. Sino-Forest's statements in its public disclosure, including its AIFs and its MD&A filed with the Commission during the Material Time, regarding the extent of its internal control weaknesses and deficiencies were wholly inadequate and misleading.

26. The allegations regarding these materially misleading statements related to the Standing Timber Fraud are set out in paragraphs 120 to 141 below.

D. The Greenheart Transaction - Fraud by Chan and Materially Misleading Statements by Chan and Sino-Forest

27. In 2010, following a complex series of transactions, Sino-Forest completed the purchase of a controlling interest in Greenheart, a public company listed on the Hong Kong Stock Exchange (the "Greenheart Transaction"). Greenheart holds natural forest concessions, mostly in Suriname.

28. Chan secretly controlled companies that received over \$22 million as a result of the purchase by Sino-Forest of this controlling interest in Greenheart. The Greenheart Transaction was significant to Sino-Forest's business and cost the Company approximately \$120 million.

29. Chan fraudulently concealed his involvement in the Greenheart Transaction and the substantial benefit he secretly received. Chan and Sino-Forest misled the public through Sino-Forest's continuous disclosure. Chan falsely certified the accuracy of Sino-Forest's AIFs for 2008, 2009 and 2010 as these documents did not disclose his interest in the Greenheart Transaction.

30. Chan's course of conduct relating to the Greenheart Transaction constituted fraud and the making of misleading statements, contrary to Ontario securities law and contrary to the public interest. Chan and Sino-Forest made materially misleading statements related to the Greenheart Transaction, contrary to Ontario securities law and contrary to the public interest.

31. The allegations regarding fraud and materially misleading statements related to the Greenheart Transaction are set out in paragraphs 142 to 154 below.

E. Overseas Management of Sino-Forest Misled Staff during the Investigation

32. During the investigation by Staff, numerous members of Sino-Forest's management were interviewed by Staff. Overseas Management materially misled Staff in their interviews, contrary to Ontario securities law and contrary to the public interest.

33. The allegations that Overseas Management materially misled Staff are set out in paragraphs 155 to 167 below.

PART II. THE RESPONDENTS

34. Sino-Forest is a Canadian company with its principal executive office located in Hong Kong and its registered office located in Mississauga, Ontario.

35. During the Material Time, as set out above, Chan was Chairman of the Board of Directors and CEO of Sino-Forest.

36. During the Material Time, Ip was Senior Vice President, Development and Operations North-east and South-west China of Sino-Forest.

37. During the Material Time, Hung was Vice-President, Corporate Planning and Banking of Sino-Forest.

38. During the Material Time, Ho was Vice-President, Finance (China) of Sino-Forest.

39. During the Material Time, Yeung was Vice President - Operation within the Operation /Project Management group of Sino-Panel (Asia) Inc. ("Sino-Panel"), a subsidiary of Sino-Forest.

40. During the Material Time, Horsley was Senior Vice President and CFO of Sino-Forest.

PART III. STANDING TIMBER - THE PRIMARY BUSINESS OF SINO-FOREST

A. Introduction

41. In its AIF for 2010, Sino-Forest stated that its operations were comprised of two core business segments which it titled "Wood Fibre Operations" and "Manufacturing and Other

Operations". Wood Fibre Operations had two subcomponents entitled "Plantation Fibre" and "Trading of Wood Logs".

42. According to Sino-Forest, the Plantation Fibre subcomponent of its business was derived from the purported acquisition, cultivation and sale of either "standing timber" or "logs" in the PRC. For the purpose of this Statement of Allegations, the Plantation Fibre subcomponent of Sino-Forest's business will be referred to as "Standing Timber" as most, if not all, of the revenue from the sale of Plantation Fibre was derived from the sale of "standing timber".

B. Standing Timber - Sino-Forest's Main Source of Revenue

43. From 2007 to 2010, Sino-Forest reported Standing Timber revenue totalling approximately \$3.56 billion, representing about 75% of its total revenue of \$4.77 billion. The following table provides a summary of Sino-Forest's stated revenue for the period from 2007 to 2010 and illustrates the importance of the revenue derived from the sale of Standing Timber:

	<i>\$ (millions)</i>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Plantation Fibre (defined as Standing Timber herein)	521.5	685.4	954.2	1,401.2	3,562.3
Trading of Wood Logs	154.0	153.5	237.9	454.0	999.4
<i>Wood Fibre Operations</i>	<i>675.5</i>	<i>838.9</i>	<i>1,192.1</i>	<i>1,855.2</i>	<i>4,561.7</i>
<i>Manufacturing and Other Operations</i>	<i>38.4</i>	<i>57.1</i>	<i>46.1</i>	<i>68.3</i>	<i>209.9</i>
Total Revenue	713.9	896.0	1,238.2	1,923.5	4,771.6

C. The BVI and WFOE Models - Revenue and Holdings

44. Standing Timber was purchased, held and sold by Sino-Forest in two distinct legal structures or models: the “BVI Model” and the “WFOE Model”.

45. In the BVI Model, Sino-Forest’s purchases and sales of Standing Timber in the PRC were conducted using wholly owned subsidiaries of Sino-Forest incorporated in the British Virgin Islands (the “BVI Subs”). The BVI Subs purported to enter into written purchase contracts (“Purchase Contracts”) with suppliers in the PRC (“Suppliers”) and then purported to enter into written sales contracts (“Sales Contracts”) with customers called “authorized intermediaries” in the PRC (“AIs”).

46. In the WFOE Model, Sino-Forest used subsidiaries incorporated in the PRC called Wholly Foreign Owned Enterprises (“WFOEs”) to acquire, cultivate and sell the Standing Timber. The Sino-Forest WFOEs also entered into Purchase Contracts and Sales Contracts with other parties in the PRC.

47. At December 31, 2010, Sino-Forest reported total timber holdings of \$3.1 billion comprising 799,700 hectares. About \$2.5 billion or approximately 80% of the total timber holdings (by value) was held in the BVI Model, comprising approximately 467,000 hectares of Standing Timber. The WFOE Model purportedly held approximately 97,000 hectares of Standing Timber valued at \$295.6 million or approximately 10% of the total timber holdings (by value). The timber holdings in the BVI Model and the WFOE Model comprised approximately 90% of the total timber holdings (by value) of Sino-Forest as at December 31, 2010.

48. The cash-flows associated with the purchase and sale of Standing Timber executed in the BVI Model took place “off-book” pursuant to a payables/receivables offsetting arrangement (the “Offsetting Arrangement”), whereby the BVI Subs would not directly receive the proceeds on the sale of Standing Timber from the purchasing AI. Rather, Sino-Forest disclosed that it would direct the AI that purchased the timber to pay the sales proceeds to a new Supplier in order to

buy additional Standing Timber. Consequently, Sino-Forest also did not make payment directly to Suppliers for purchases of Standing Timber.

49. Sino-Forest did not possess the bank records to confirm that these “off-book” cash-flows in the Offsetting Arrangement actually took place. This lack of transparency within the BVI Model meant that independent confirmation of these “off-book” cash-flows was reliant on the good faith and independence of Suppliers and AIs.

50. Further, pursuant to the terms of Sales Contracts entered into between a BVI Sub and an AI, the AI assumed responsibility for paying any PRC taxes associated with the sale that were owed by the BVI Sub. This obligation purportedly included paying the income tax and valued added tax on behalf of Sino-Forest.

51. Sino-Forest dealt with relatively few Suppliers and AIs in the BVI Model. For example, in 2010, six Suppliers accounted for 100% of the Standing Timber purchased in the BVI Model and five AIs accounted for 100% of Sino-Forest’s revenue generated in the BVI Model.

52. From 2007 to 2010, revenue from the BVI Model totalled \$3.35 billion, representing 94% of Sino-Forest’s reported Standing Timber revenue and 70% of Sino-Forest’s total revenue. The importance of the revenue from the BVI Model is demonstrated in the following table:

	<i>\$ (millions)</i>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
BVI Model Revenue	501.4	644.9	882.1	1,326.0	3,354.4
WFOE Model Revenue	20.1	40.5	72.1	75.2	207.9
Standing Timber Revenue	521.5	685.4	954.2	1,401.2	3,562.3
Total Revenue	713.9	896.0	1,238.2	1,923.5	4,771.6
BVI Model as % of Total Revenue	70%	72%	71%	69%	70%

PART IV. THE STANDING TIMBER FRAUD

53. As introduced in paragraph 16, the Standing Timber Fraud was primarily comprised of three elements:

- i) Undisclosed control over parties within the BVI Network;

- ii) The undisclosed dishonest process of creating deceitful Purchase Contracts and Sales Contracts and their key attachments used in both the BVI Model and the WFOE Model to inflate Standing Timber assets and revenue; and
- iii) Undisclosed internal control weaknesses/deficiencies that facilitated and concealed the fraudulent conduct within the BVI Network, and the dishonest creation of Purchase Contracts and Sales Contracts, including their key attachments.

54. On this basis, Sino-Forest then created transactions to fraudulently inflate assets and revenue in its public disclosure record.

A. Undisclosed Control over Parties within the BVI Network

55. Almost all of the buying and selling of Standing Timber in the BVI Model was generated through transactions between BVI Subs and a small number of Suppliers and AIs. Sino-Forest also conducted a significant level of this buying and selling with companies that are described in various Sino-Forest documents and correspondence as “peripheral” companies. Sino-Forest established a network of “nominee” companies that were controlled, on its behalf, by various so-called “caretakers”.

56. For the purpose of this Statement of Allegations, the BVI Subs, Suppliers, AIs, “nominee” companies and “peripheral” companies involved in the buying and selling of Standing Timber in the BVI Model are collectively referred to as the “BVI Network”. Some of the companies within the BVI Network were also involved in the buying and selling of Standing Timber within the WFOE Model.

57. One Sino-Forest document (the “Caretaker Company List”) lists more than 120 “peripheral” (nominee) companies that are controlled by 10 “caretakers” on behalf of Sino-Forest. The “caretakers” include Person #1 (legal representative of Huaihua City Yuda Wood Ltd. (“Yuda Wood”), described in greater detail in paragraphs 61 to 65 below), Person #2 (a relative of Chan), Person #3 (a former Sino-Forest employee), Person #4 (an acquaintance of Chan and Chan’s nominee in the Greenheart Transaction as outlined in paragraphs 145 to 147

below), Person #5 (a former shareholder of Greenheart Resources Holdings Limited (“GRHL”) and a shareholder of Greenheart) and Person #6 (an individual associated with some of Sino-Forest’s Suppliers).

58. The control and influence that Sino-Forest exerted over certain Suppliers, AIs and peripheral companies within the BVI Network brings the *bona fides* of numerous contracts entered into in the BVI Model into question, thereby placing the pecuniary interests of Investors at risk. Sino-Forest wielded this control and influence through Overseas Management. As well, certain transactions recorded in the BVI Model do not reflect the true economic substance of the underlying transactions. Sino-Forest’s control of, or influence over, certain parties within the BVI Network was not disclosed to Investors.

59. Some of the counterparties to the Dacheng Fraud, the 450,000 Fraud, Gengma Fraud #1 and Gengma Fraud #2 are companies that are included in the Caretaker Company List, as outlined in more detail in paragraphs 90 to 115 below.

60. Sino-Forest did not disclose the true nature of the relationship between itself and the following two key companies in the BVI Network: Yuda Wood and Dongkou Shuanglian Wood Company Limited (“Dongkou”). This was dishonest.

1) Sino-Forest Controlled Yuda Wood, a Major Supplier

61. Yuda Wood was a Supplier secretly controlled by Sino-Forest during a portion of the Material Time.

62. From 2007 to 2010, Yuda Wood was purportedly Sino-Forest’s largest Supplier, accounting for 18% of all purchases in the BVI Model. Sino-Forest claimed to have paid Yuda Wood approximately \$650 million during that time.

63. Yuda Wood was registered and capitalized by members of Overseas Management, who also controlled bank accounts of Yuda Wood and key elements of its business.

64. The legal representative of Yuda Wood is Person #1, a former employee of Sino-Forest and also a shareholder and director of Hong Kong Sonic Jita Engineering Co., Ltd. ("Sonic Jita"), the sole shareholder of Yuda Wood. In addition, Person #1 had significant interests in other Suppliers of Sino-Forest and was identified as the "caretaker" of several nominee/peripheral companies.

65. Yuda Wood and other companies controlled by Sino-Forest through Person #1 were used to perpetrate portions of the Standing Timber Fraud including the Dacheng Fraud, the 450,000 Fraud, Gengma Fraud #1 and Gengma Fraud #2.

2) Sino-Forest Controlled Dongkou, a Major AI

66. Dongkou was an AI secretly controlled by Sino-Forest during a portion of the Material Time.

67. In 2008, Dongkou was Sino-Forest's most significant AI, purportedly purchasing approximately \$125 million in Standing Timber from Sino-Forest, constituting about 18% of Sino-Forest's Standing Timber revenue for that year.

68. Sino-Forest controlled Dongkou through one of its WFOE subsidiaries Shaoyang Jiading Wood Products Co. Ltd. ("Shaoyang Jiading"). Correspondence indicates that, according to an agreement dated November 18, 2006, Shaoyang Jiading purchased Dongkou for RMB⁷ 1.38 million (approximately \$200,000).

69. By November 2006, the six original shareholders of Dongkou had been replaced with two Sino-Forest employees: Person #7 and Person #8. These two persons became the sole Dongkou shareholders, with Person #7 holding 47.5% and Person #8 holding 52.5%.

⁷ RMB is the Chinese unit of currency. During the Material Time, the conversion rate was approximately 7 RMB = 1 US\$.

70. Also, in 2007, at the direction of Ip and others, employees of Sino-Forest drafted purchase contracts to be entered into by Dongkou and its suppliers (other than Sino-Forest). Essentially, Sino-Forest, through Overseas Management, controlled Dongkou's business with certain counterparties.

B. Dishonest Process to Create Deceitful Purchase Contracts and Sales Contracts in the BVI Model - Concealment of this Dishonest Process

1) Purchase Contracts in the BVI Model

71. As set out in paragraph 47, approximately 80% (by value) of Sino-Forest's timber assets were held in the BVI Model as of December 31, 2010.

72. Sino-Forest used the Purchase Contracts to acquire and evidence ownership of Standing Timber in the BVI Model. The Purchase Contracts purported to have three attachments:

- i) Plantation Rights Certificates ("Certificates") or other ownership documents;
- ii) Farmers' Authorization Letters ("Farmers' Authorizations"); and
- iii) Timber Survey Reports ("Survey Reports").

73. The Purchase Contracts and their attachments were fundamentally flawed in at least four ways, making the public disclosure record of Sino-Forest materially misleading, thus placing the pecuniary interests of Investors at risk.

74. First, Sino-Forest did not hold Certificates to evidence ownership of the Standing Timber allegedly purchased by the BVI Subs. Instead, Sino-Forest claimed that, since the BVI Subs could not obtain Certificates from the PRC government to evidence ownership, it purported to rely on confirmations issued by the forestry bureaus in the PRC as evidence of ownership ("Confirmations"). However, Confirmations are not legally recognized documents evidencing ownership of timber assets in the PRC. These Confirmations were purportedly granted to Sino-Forest as favours by the PRC forestry bureaus. According to Sino-Forest, the PRC forestry bureaus did not intend that these Confirmations would be disclosed to third parties. Also, certain

PRC forestry bureau employees obtained gifts and cash payments from Suppliers of Sino-Forest, further undermining the value of the Confirmations as evidence of ownership.

75. Second, during the Material Time, Sino-Forest employed a deceitful systematic quarterly documentation process in the BVI Model whereby the purported Purchase Contracts were not drafted and executed until the quarter after the date on which the purchase allegedly occurred and was included in the public financial disclosure.

76. Like the Purchase Contracts, the Confirmations were also created by Sino-Forest and deceitfully dated to the previous quarter. These Confirmations were created contemporaneously with the creation of the corresponding Purchase Contracts. These Confirmations were then allegedly provided to the relevant PRC forestry bureau for verification and execution.

77. Third, the Purchase Contracts referred to Farmers' Authorizations. However, none were attached. In the absence of Farmers' Authorizations, there is no evidence that ownership to the Standing Timber was properly transferred to Sino-Forest or to the Supplier prior to the purported transfer of ownership to Sino-Forest. Ownership of the Standing Timber would have remained with the original Certificate holder.

78. Fourth, the Survey Reports, which purported to identify the general location of the purchased timber, were all prepared by a single firm during the Material Time. A 10% shareholder of this survey firm was also an employee of Sino-Forest. Drafts of certain Survey Reports purportedly prepared by this independent survey company were located on the computer of another employee of Sino-Forest. Like the Purchase Contracts and Confirmations, these drafts of the Survey Reports were deceitfully dated to the quarter prior to their creation.

79. In the absence of both Certificates and Farmers' Authorizations, Sino-Forest relies on the validity of the Purchase Contracts and the Confirmations as proof of ownership of the Standing Timber it held in the BVI Model. However, the Purchase Contracts and available attachments, including Confirmations, were prepared using the deceitful documentation process outlined

above, and do not constitute proof of ownership of the trees purported to have been bought by Sino-Forest in the BVI Model.

80. Moreover, the Purchase Contracts and readily available attachments, including the Confirmations, did not identify the precise location of the Standing Timber being purchased such that the existence of this Standing Timber could not be readily verified and valued independently.

81. Sino-Forest, Overseas Management and Horsley knew or ought to have known that their auditors during the Material Time relied on the validity of the Purchase Contracts and their attached Confirmations as proof of ownership of Sino-Forest's Standing Timber assets.

2) Sales Contracts in the BVI Model

82. Like the Purchase Contracts, all of the Sales Contracts purportedly entered into by the BVI Subs in the BVI Model were not actually created and executed until the quarter after the date of the alleged transaction.

83. Accordingly, the revenue from the Sales Contracts in the BVI Model was recognized in the quarter prior to the creation of the Sales Contracts. Therefore, the public disclosure of Sino-Forest regarding its revenue from Standing Timber was materially misleading and deceitful. During the Material Time, in its correspondence to Staff, Sino-Forest misled the Commission about its revenue recognition practice.

C. **Undisclosed Internal Control Weaknesses/Failures**

84. In its MD&A for 2010 dated March 15, 2011, Sino-Forest stated the following on page 27 regarding its "Disclosure Control and Procedures and Internal Controls Over Financial Reporting":

The success of the Company's vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. **As such, senior management**

plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. By taking additional steps in 2011 to address this deficiency, management will continue to monitor and work on mitigating this weakness. [Emphasis added]

85. Sino-Forest made similar disclosure in its annual MD&A from 2006 to 2009 regarding this concentration of authority or lack of segregation and the risk resulting from these weaknesses. These material weaknesses were not remedied during the Material Time by Sino-Forest, Overseas Management or Horsley.

86. Sino-Forest failed to disclose the extent of the concentration of duties in Overseas Management. It did not disclose that Overseas Management and their nominees had complete control over the operation of the BVI Model including the fraudulent creation and execution of the Purchase Contracts and Sales Contracts described in paragraphs 71 to 81 and the extent of the "off-book" cash flow set out in paragraphs 48 to 49. This concentration of control in the hands of Overseas Management facilitated the fraudulent course of conduct perpetrated in the BVI Model.

D. Four Examples of Fraudulent Transactions within the Standing Timber Fraud

87. During the Material Time, Sino-Forest and Overseas Management engaged in significant fraudulent transactions related to its purchase and sale of Standing Timber. These fraudulent transactions had the effect of overstating Sino-Forest's assets and revenue during the Material Time.

88. By way of example, four series of fraudulent transactions are detailed below: (i) the Dacheng Fraud; (ii) the 450,000 Fraud; (iii) Gengma Fraud #1, and (iv) Gengma Fraud #2.

89. In these transactions, Sino-Forest used certain Suppliers, AIs and other nominee companies that it controlled to falsify the financial disclosure of Sino-Forest, including the value of its Standing Timber assets and revenue.

1) The Dacheng Fraud

90. Sino-Forest and members of Overseas Management committed fraud (the “Dacheng Fraud”) in a series of purported transactions commencing in 2008, related to purchases of timber plantations (the “Dacheng Plantations”) from a Supplier called Guangxi Dacheng Timber Co. Ltd. (“Dacheng”). Companies controlled by Sino-Forest through Person #1 were used in the Dacheng Fraud.

91. The Dacheng Fraud involved duplicating the same Standing Timber assets within the Dacheng Plantations in the records of two Sino-Forest subsidiaries. Sino-Forest recorded the same assets once in the WFOE Model and again in the BVI Model.

92. In 2008, these Standing Timber assets were recorded at a value of RMB 47 million (approximately \$6.3 million) in the WFOE Model and this amount was paid to Dacheng. These funds were then funnelled through Dacheng back to other subsidiaries of Sino-Forest, as the purported collection of receivables.

93. At the same time, Sino-Forest recorded these Standing Timber assets in the BVI Model at a value of approximately RMB 205 million (approximately \$30 million). In 2009, Sino-Forest purported to sell the Standing Timber assets from the Dacheng Plantations held in the BVI Model for approximately RMB 326 million (approximately \$48 million). This revenue was recorded in Q3 of 2009.

94. As a result of the Dacheng Fraud, in 2008, Sino-Forest overstated the value of certain Standing Timber assets by approximately \$30 million and, in 2009, Sino-Forest overstated its revenue by approximately \$48 million. The effect of this revenue overstatement on the public disclosure record of Sino-Forest is illustrated in paragraph 127 below.

2) The 450,000 Fraud

95. Sino-Forest and members of Overseas Management committed fraud (the “450,000 Fraud”) in a complex series of transactions involving the purchase and sale of 450,000 cubic meters of timber in Q4 of 2009, again utilizing companies controlled by Sino-Forest through Person #1. In an email, Yeung described this purchase and sale of timber as “a pure accounting arrangement”.

96. Three subsidiaries of Sino-Panel (the “Sino-Panel Companies”) purported to purchase 450,000 cubic meters of Standing Timber at a cost of RMB 183 million (approximately \$26 million) from Guangxi Hezhou City Yuangao Forestry Development Co. Ltd (“Yuangao”) during October 2009.

97. In Q4 of 2009, the Sino-Panel Companies purportedly sold this Standing Timber to the following three customers:

- i) Gaoyao City Xinqi Forestry Development Co., Ltd. (“Xinqi”);
- ii) Guangxi Rongshui Meishan Wood Products Factory (“Meishan”); and
- iii) Guangxi Pingle Haosen Forestry Development Co., Ltd. (“Haosen”).

98. The sale price for this Standing Timber was RMB 233 million (approximately \$33 million), for an apparent profit of RMB 50 million (approximately \$7.1 million).

99. The purported supplier (Yuangao) and the purported customers (Xinqi, Meishan and Haosen) are all so-called “peripheral” companies of Sino-Forest, i.e., they are nominee companies controlled by Person #1 on behalf of Sino-Forest. Xinqi, Meishan and Haosen are also companies included in the Caretaker Company List, and Person #1 is identified as the “caretaker” of each company.

100. This RMB 233 million sale of Standing Timber was recorded in Sino-Forest’s WFOE Model, as opposed to its BVI Model. As noted in paragraph 48, the BVI Model employs the

Offsetting Arrangement where payables and receivables are made and collected “off-book”. However, in the WFOE Model, Sino-Forest takes receipt of the sales proceeds directly or “on-book”.

101. By July 2010, none of the sales proceeds had been collected and the receivable was long overdue. In order to evidence the “collection” of the RMB 233 million in sales proceeds, Sino-Forest devised two separate “on-book” payables/receivables offsetting arrangements, one in 2010 and one in 2011, whereby Sino-Forest made payments to various companies, including Yuangao and at least two other Sino-Forest nominee companies.⁸

102. To account for the purported profit of RMB 50 million, Sino-Forest had to “collect” more (RMB 233 million) than just the purchase price (RMB 183 million). Consequently, Sino-Forest created additional “payables” to complete the circular flow of funds needed to collect the sales proceeds of RMB 233 million. These “on-book” offsetting arrangements, therefore, included the purported settlement of various accounts payable, not just the Yuangao payable arising from the 450,000 Fraud.

103. The companies referred to paragraph 101 then funnelled the money to Xinqi, Meishan and Haosen who, in turn, repaid the money to the Sino-Panel Companies to achieve the purported collection of the RMB 233 million in revenue.

104. The “on-book” offsetting arrangements required that Suppliers and customers have bank accounts through which the funds could flow. In July and August 2010, Sino-Forest set up bank accounts for the suppliers and customers associated with the 450,000 Fraud to facilitate the circular cash flows. These bank accounts were overseen by Ip, Ho, Person #1 and/or Person #9 (a former Sino-Forest employee and associate of Person #1).

105. These circular cash-flows commenced in July 2010 and were finally concluded in February 2011.

⁸ Dao County Juncheng Forestry Development Co., Ltd. and Guangxi Rongshui Taiyuan Wood Co., Ltd.

106. The circular flow of funds underlying the 450,000 Fraud demonstrates that the sales contracts purportedly entered into between the Sino-Panel Companies and Xinqi, Meishan and Haosen are fraudulent and have no true economic substance. As a result of the 450,000 Fraud, Sino-Forest overstated the value of its revenue by approximately \$30 million for Q4 of 2009. The effect of this revenue overstatement on the public disclosure record of Sino-Forest is illustrated in paragraph 129 below.

3) Gengma Fraud # 1

107. Sino-Forest and members of Overseas Management committed fraud (“Gengma Fraud #1”) in 2007 related to Standing Timber assets purchased from Gengma Dai and Wa Tribe Autonomous Region Forestry Co., Ltd. (“Gengma Forestry”) by Sino-Panel (Gengma) Co., Ltd. (“Sino-Panel Gengma”), a Sino-Forest subsidiary.

108. In 2007, Sino-Panel Gengma purchased certain land use rights and Standing Timber for RMB 102 million (approximately \$14 million) from Gengma Forestry. These contracts were signed by Chan. However, this transaction between Sino-Panel Gengma and Gengma Forestry was not recorded. Instead, Sino-Forest purported to purchase the same assets from Yuda Wood, allegedly paying RMB 509 million (approximately \$68 million) for the Standing Timber in 2007 and RMB 111 million (approximately \$15 million) for certain land use rights during the period from June 2007 to March 2009. This purchase was recorded and these Standing Timber assets remained on the books of Sino-Forest until 2010.

109. Gengma Fraud #1 resulted in an overstatement of Sino-Forest’s timber holdings for 2007, 2008 and 2009.

110. In 2010, this Standing Timber was then purportedly sold for RMB 1,579 million (approximately \$231 million). However, these same Standing Timber assets were offered as collateral for a bank loan by Sino-Forest in 2011 so the sale of these assets in 2010 could not have taken place and been recorded as revenue in that year.

111. The effect of the revenue overstatement from Gengma Fraud #1 on the public disclosure record of Sino-Forest is illustrated in paragraph 131 below.

4) Gengma Fraud # 2

112. In 2007, Sino-Forest and members of Overseas Management committed fraud (“Gengma Fraud #2”) in another series of transactions to artificially inflate its assets and revenue from the purchase and sale of Standing Timber.

113. In September 2007, Sino-Forest recorded the acquisition of Standing Timber from Yuda Wood at a cost of RMB 161 million (approximately \$21.5 million) related to Standing Timber in Yunnan Province (the “Yunnan Plantation”). However, Yuda Wood did not actually acquire these assets in the Yunnan Plantation until September 2008.

114. In 2007, Sino-Forest had also purportedly purchased the land use rights to the Yunnan Plantation from Yuda Wood at a cost of RMB 53.4 million (approximately \$7 million), RMB 52.9 million of which was paid to Yuda Wood during the period from January 2009 to April 2009. Sino-Forest then fabricated the sale of the land use rights to Guangxi Hezhou City Kun’an Forestry Co., Ltd. (“Kun’an”) pursuant to a contract dated November 23, 2009. Kun’an was controlled by Sino-Forest through Person #1 and is a company included in the Caretaker Company List referred to in paragraph 57 above.

115. Sino-Forest then purported to sell the Standing Timber in the Yunnan Plantation in a series of transactions between March 2008 and November 2009 for RMB 338 million (approximately \$49 million). As Yuda Wood did not own this Standing Timber asset until September 2008, Sino-Forest could not have recorded the sale of this Standing Timber prior to that time. The effect of this revenue overstatement on the public disclosure record of Sino-Forest is illustrated in paragraph 133 below.

D. Conclusion Regarding the Standing Timber Fraud

116. The effect of the above conduct is that Sino-Forest and Overseas Management engaged in deceitful or dishonest conduct related to Sino-Forest's Standing Timber assets and revenue that they knew or ought to have known constituted fraud, contrary to subsection 126.1(b) of the Act and the public interest.

117. Due to the chronic and pervasive nature of the systemic conduct set out above, neither the magnitude of the Standing Timber Fraud by Sino-Forest and Overseas Management nor the magnitude of the risk to the pecuniary interests of Investors can be quantified with certainty.

118. Given their positions as officers of Sino-Forest and/or Sino-Panel, Overseas Management authorized, permitted or acquiesced in the non-compliance with Ontario securities law by Sino-Forest and are deemed to have not complied with Ontario securities law pursuant to section 129.2 of the Act. This conduct was also contrary to the public interest.

119. As CFO of Sino-Forest, Horsley authorized, permitted or acquiesced in Sino-Forest's and Overseas Management's commission of the Standing Timber Fraud and therefore is deemed under section 129.2 of the Act to have not complied with Ontario securities law. This conduct was also contrary to the public interest.

PART V. MATERIALLY MISLEADING STATEMENTS RELATED TO THE STANDING TIMBER FRAUD

120. On January 10, 2012, Sino-Forest issued a news release which cautioned that its historic financial statements and related audit reports should not be relied upon.

121. By failing to properly disclose the elements of the Standing Timber Fraud set out above, Sino-Forest made statements in its filings to the Commission during the Material Time which were, in a material respect and at the time and in the light of the circumstances under which they were made, misleading or untrue or did not state facts that were required to be stated or that were

necessary to make the statements not misleading. Overseas Management participated in the conduct that made these statements materially misleading.

122. The misleading, untrue or incomplete statements related to Sino-Forest's description of its primary business were contained in (or absent from) Sino-Forest's continuous disclosure, including its audited annual financial statements, AIFs and MD&A filed with the Commission during the Material Time as required by Ontario securities law.⁹ These misleading, untrue or incomplete statements related to Sino-Forest's description of its primary business were contained in (or absent from) Sino-Forest's short form prospectuses filed with the Commission during the Material Time, which incorporated by reference the relevant audited annual financial statements, AIFs and MD&A as required by Ontario securities law.

123. These misleading statements were related to Sino-Forest's primary business in the BVI Model and the WFOE Model, representing approximately 90% of Sino-Forest's stated timber assets as of December 31, 2010 and 75% of its stated revenue from 2007 to 2010.

A. Materially Misleading Statements Regarding Ownership of Assets and Revenue Recognition

124. Members of Overseas Management created and executed the Purchase Contracts in the BVI Model in the quarters after the assets related to those transactions were recognized. This made Sino-Forest's audited annual financial statements, AIFs and MD&A for the years 2006, 2007, 2008, 2009 and 2010 materially misleading.

125. Further, given that Sino-Forest did not have sufficient proof of ownership of the majority of its Standing Timber assets due to the courses of conduct set out above, the information regarding Sino-Forest's timber holdings in its audited annual financial statements, AIFs and MD&A for the years 2006, 2007, 2008, 2009 and 2010 was materially misleading. For the same reasons, the information regarding Sino-Forest's timber holdings in its short form prospectuses

⁹ By way of example, these misstatements include Sino-Forest's disclosure of "Plantation Rights Certificates for Our Purchased Plantations" on page 26 of its 2010 AIF and its disclosure of "Implementation and Issuance of new form Plantation Rights Certificate" on pages 46-47 of its 2010 AIF.

filed in 2007 and 2009 (which incorporated by reference the relevant audited annual financial statements, AIFs and MD&A as required by Ontario securities law) was materially misleading.

126. Sino-Forest and members of Overseas Management created and executed the Sales Contracts in the BVI Model in the quarter after the revenue related to those transactions was recognized. This was contrary to the revenue recognition process set out in Sino-Forest's continuous disclosure, including its MD&A and the notes to its audited annual financial statements.

B: Effect of the Dacheng Fraud, the 450,000 Fraud, Gengma #1 and Gengma #2 on the Reported Revenue of Sino-Forest

1) The Dacheng Fraud

127. The Dacheng Fraud resulted in Sino-Forest fraudulently overstating its revenue in Q3 of 2009 as set out in this table:

Approximate Effect of the Dacheng Fraud on Q3 of 2009 (\$ millions)	
Quarterly Reported Revenue	367.0
Fraudulently Overstated Revenue	47.7
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	13.0%

128. Sino-Forest reported its revenue for Q3 of 2009 at page 20 of its annual MD&A for 2009 (dated March 16, 2010) and page 87 of its 2009 Annual Report, summarizing the "2009 Quarterly Highlights".

2) The 450,000 Fraud

129. The 450,000 Fraud resulted in Sino-Forest fraudulently overstating its revenue for Q4 of 2009 as set out in this table:

Approximate Effect of the 450,000 Fraud on Q4 2009 (\$ millions)

Quarterly Reported Revenue	469.6
Fraudulently Overstated Revenue	30.1
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	6.4%

130. Sino-Forest reported its revenue for Q4 of 2009 at page 20 of its annual MD&A for 2009 (dated March 16, 2010) and page 87 of its 2009 Annual Report, summarizing the “2009 Quarterly Highlights”.

3) Gengma Fraud #1

131. Gengma Fraud #1 resulted in Sino-Forest fraudulently overstating its revenue for Q1 and Q2 of 2010 as set out in this table:

Approximate Effect of Gengma Fraud #1 on Q1 and Q2 2010 (\$ millions)

	Q1 2010	Q2 2010
Quarterly Reported Revenue	251.0	305.8
Fraudulently Overstated Revenue	73.5	157.8
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	29.3%	51.6%

132. Sino-Forest reported its revenue for Q1 and Q2 of 2010 at page 20 of its annual MD&A for 2010 (dated March 15, 2011) and page 88 of its 2010 Annual Report, summarizing the “2010 Quarterly Highlights”.

4) Gengma Fraud #2

133. Gengma Fraud #2 resulted in Sino-Forest fraudulently overstating its revenue for Q1, Q2 and Q3 of 2008 and Q4 of 2009 as set out in this table:

Approximate Effect of Gengma Fraud #2 on Q1, Q2 and Q3 of 2008 and Q4 of 2009 (\$ millions)

	Q1 2008	Q2 2008	Q3 2008	Q4 2009
Quarterly Reported Revenue	136.1	187.1	295.5	469.6
Fraudulently Overstated Revenue	5.7	4.9	5.9	32.6
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	4.2%	2.6%	2.0%	6.9%

134. Sino-Forest reported its revenue for Q1, Q2 and Q3 of 2008 at page 19 of its annual MD&A for 2008 (dated March 16, 2009) and page 73 of its 2008 Annual Report summarizing the "2008 Quarterly Highlights". Revenue for Q4 of 2009 was reported as set out above in paragraph 130.

C. Materially Misleading Statements Regarding Internal Controls

135. Sino-Forest's disclosure in its AIFs and annual MD&A for 2006, 2007, 2008, 2009 and 2010 relating to the material weaknesses in its internal controls was misleading, untrue or incomplete. This disclosure was also contained in Sino-Forest's short form prospectuses filed in 2007 and 2009 (which incorporated by reference the relevant AIFs and MD&A as required by Ontario securities law).

136. Sino-Forest did disclose that the concentration of authority in Overseas Management and lack of segregation of duties created a risk in terms of measurement and completeness of transactions, as well as the possibility of non-compliance with existing controls.

137. However, as set out in paragraphs 84 to 86, this disclosure by Sino-Forest was wholly inadequate, failing to reveal the extent of the weaknesses in Sino-Forest's internal controls.

D. Conclusion Regarding Materially Misleading Statements Related to the Standing Timber Fraud

138. During the Material Time, given the Standing Timber Fraud, Sino-Forest consistently misled the public in the disclosure required to be made under Ontario securities law. The conduct of Sino-Forest, Chan, Ip, Hung and Ho was contrary to subsection 122(1)(b) of the Act and contrary to the public interest.

139. Further, due to the above conduct, Sino-Forest's audited annual financial statements did not comply with Canadian Generally Accepted Accounting Principles.

140. Given their positions as officers of Sino-Forest, Chan, Ip, Ho and Hung authorized, permitted or acquiesced in Sino-Forest's making of materially misleading statements and thereby committed an offence under subsection 122(3) of the Act. This conduct was also contrary to the public interest.

141. As CFO of Sino-Forest, Horsley authorized, permitted or acquiesced in Sino-Forest's and Overseas Management's making of materially misleading statements and therefore is deemed under section 129.2 of the Act to have not complied with Ontario securities law. This conduct was also contrary to the public interest.

PART VI. THE GREENHEART TRANSACTION - FRAUD BY CHAN AND MATERIALLY MISLEADING STATEMENTS BY CHAN AND SINO-FOREST

142. Chan committed fraud in relation to Chan's undisclosed interest and substantial financial benefit in the Greenheart Transaction described below.

143. Chan and Sino Forest made materially misleading statements in Sino-Forest's AIFs for 2008, 2009 and 2010 by not disclosing Chan's interest in the Greenheart Transaction. These misleading statements were also contained in Sino-Forest's short form prospectuses filed in 2009 (which incorporated by reference the relevant AIFs and MD&A as required by Ontario securities law).

144. In 2010, through a complex series of transactions, Sino-Forest completed the purchase of a controlling interest in Greenheart, a public company listed on the Hong Kong Stock Exchange. In 2005, the primary assets of Greenheart's key subsidiary at the time, GRHL, were previously acquired by the original owners of GRHL for approximately \$2 million. These assets consisted of natural forest concessions and operations located in Suriname. The total cost of the Greenheart Transaction to Sino-Forest was approximately \$120 million, composed of a combination of cash and securities of Sino-Forest.

145. Two of the companies holding shares of GRHL, thus benefitting from the Greenheart Transaction, were Fortune Universe Ltd. ("Fortune Universe") and Montsford Ltd. ("Montsford"). Both Fortune Universe and Montsford were BVI shelf companies incorporated in 2004 and subsequently acquired by, or for the benefit of, Chan in 2005.

146. Person #10 was the sole director and shareholder of Fortune Universe and Person #4 was the sole director and shareholder of Montsford. However, Chan arranged for Person #10 and Person #4 to act as Chan's nominees. Chan was the true beneficial owner of Fortune Universe and Montsford.

147. Person #10 was the legal representative and director of one of Sino-Forest's largest Suppliers during the Material Time. Person #4 was an acquaintance of Chan based in the PRC.

148. As a result of the Greenheart Transaction, Fortune Universe and Montsford received over \$22.1 million, comprised of approximately \$3.7 million in cash and approximately \$18.4 million in securities of Sino-Forest. The securities of Sino-Forest received by Fortune Universe and Montsford appreciated in value and were subsequently sold for a total of approximately \$35 million. With the help of Person #11 (Chan's assistant), these securities were sold through brokerage accounts of Fortune Universe and Montsford which were opened at her direction, on the instructions of Chan.

149. While Sino-Forest disclosed that another director of Sino-Forest had an interest in the Greenheart Transaction in its AIFs for 2008, 2009 and 2010, it did not disclose that Chan benefitted directly or indirectly from the Greenheart Transaction through Fortune Universe and Montsford. Chan certified the AIFs for 2008, 2009 and 2010.

150. Chan knew that he was engaging in deceitful or dishonest conduct in relation to the Greenheart Transaction and knew that he was making deceitful or dishonest statements to Investors in Sino-Forest's continuous disclosure.

151. Chan placed the pecuniary interests of Investors at risk and committed fraud, contrary to subsection 126.1(b) of the Act and made materially misleading statements contrary to subsection 122(1)(b) of the Act. This conduct was also contrary to the public interest.

152. Through Chan, Sino-Forest made materially misleading statements contrary to subsection 122(1)(b) of the Act. This conduct was also contrary to the public interest.

153. Given his position as Chairman of the Board and CEO of Sino-Forest, Chan, authorized, permitted or acquiesced in Sino-Forest's making of materially misleading statements and thereby committed an offence under subsection 122(3) of the Act. This conduct was also contrary to the public interest.

154. As Chairman of the Board and CEO of Sino-Forest, Chan authorized, permitted or acquiesced in Sino-Forest's commission of fraud and therefore is deemed under section 129.2 of the Act to have not complied with Ontario securities law. This conduct was also contrary to the public interest.

PART VII. CHAN, IP, HUNG, HO AND YEUNG MATERIALLY MISLED STAFF

A. Chan Materially Misled Staff

155. During his examination by Staff, Chan made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or

untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

156. Chan was asked whether Sino-Forest had any control over certain Suppliers or whether these Suppliers were independent. Chan misled Staff, responding that they were independent companies. Chan repeatedly confirmed that Yuda Wood was an independent company and that it was not controlled by any employee of Sino-Forest. This information was false and misleading.

B. Ip Materially Misled Staff

157. During his examination by Staff, Ip made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

158. Ip misled Staff regarding the creation of Confirmations by Sino-Forest. Ip falsely informed Staff as to nature of the interaction between the PRC forestry bureaus and Sino-Forest personnel surrounding the issuance of the Confirmations. Ip also misled Staff about the timing of purported payments made by Sino-Forest to Suppliers. Ip stated that payments were only made once the Purchase Contracts were signed. This information was false and misleading.

C. Hung Materially Misled Staff

159. During his examination by Staff, Hung made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

160. Hung falsely described the creation of the Purchase Contracts, Sales Contracts and their attachments, including Confirmations, to Staff. Hung informed Staff that he confirmed the

accuracy of all the information in the Purchase Contracts. Hung also stated that he ensured that the attachments to the Purchase Contracts, including Confirmations and Survey Reports, would be “in place”. This information was false and misleading.

161. Hung also misled Staff as to the timing of alleged payments made pursuant to the Purchase Contracts.

D. Ho Materially Misled Staff

162. During his examination by Staff, Ho made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

163. Ho was specifically asked about what role he took “in the whole BVI process.” Ho replied, “None whatsoever”, further stating, “No, I’m not at all involved in the BVI whatsoever.” This information was false and misleading.

164. Ho also denied that he was copied on any emails or communications involving the BVI Model. This information was false and misleading.

165. Ho also asserted that Yuda Wood was independent of Sino-Forest and that he had no control over any aspect of its business. This information was false and misleading.

E. Yeung Materially Misled Staff

166. During his examination by Staff, Yeung made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

167. Yeung was specifically asked about his involvement in the creation of Yuda Wood. Yeung stated that he assisted with the application process as a favour to his friend, Person #1. He denied that Sino-Forest supplied the registration capital for Yuda Wood. Yeung also denied any knowledge of Sino-Forest creating fraudulent transactions involving the purchase and sale of Standing Timber. This information was false and misleading.

168. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

DATED at Toronto, Ontario, this 22nd day of May 2012.

SCHEDULE "A"**GLOSSARY OF CERTAIN DEFINED TERMS
AND LOCATION IN THE STATEMENT OF ALLEGATIONS**

"AIs" means the authorized intermediaries to whom Sino-Forest purported to sell assets in the PRC, including Standing Timber (paragraph 45).

"BVI Model" means the business model employed by Sino-Forest to buy and sell assets through the BVI Subs in the PRC (paragraph 45).

"BVI Network" means the entire network of BVI Subs, Suppliers, AIs and other companies who bought and sold assets in the BVI Model in the PRC (paragraph 56).

"BVI Subs" means wholly owned subsidiaries of Sino-Forest incorporated in the British Virgin Islands (paragraph 45).

"Caretaker Company List" means the document listing the "peripheral" or "nominee" companies controlled by "caretakers" on behalf of Sino-Forest (paragraph 57).

"Certificates" means Plantation Rights Certificates issued by the PRC government (paragraph 72).

"Company" means Sino-Forest Corporation including all of its subsidiaries and companies it controls as set out in its public disclosure record and as the context within this Statement of Allegations requires (paragraph 1).

"Confirmations" means the confirmations purportedly executed by forestry bureaus that Sino-Forest relied upon to evidence ownership of Standing Timber assets in the BVI Model in the absence of Certificates (paragraph 74).

"Dacheng" means Guangxi Dacheng Timber Co. Ltd. (paragraph 90).

"Dacheng Plantations" means the timber plantations purchased from Dacheng commencing in 2008 (paragraph 90).

"Dongkou" means Dongkou Shuanglian Wood Company Limited (paragraph 60).

"Farmers' Authorizations" means farmers' authorization letters (paragraph 72).

"Fortune Universe" means Fortune Universe Ltd. (paragraph 145).

"Gengma Forestry" means Gengma Dai and Wa Tribe Autonomous Region Forestry Co., Ltd. (paragraph 107).

"Greenheart" means the company now known as Greenheart Group Limited (paragraph 12).

“Greenheart Transaction” means the series of transactions where Sino-Forest purchased a controlling interest in Greenheart (paragraph 27).

“GRHL” means Greenheart Resources Holdings Limited (paragraph 57).

“Haosen” means Guangxi Pingle Haosen Forestry Development Co., Ltd. (paragraph 97).

“Investors” means the securityholders of Sino-Forest (paragraph 3).

“Kun’an” means Guangxi Hezhou City Kun’an Forestry Co., Ltd. (paragraph 114).

“Material Time” means the period from June 30, 2006 to January 11, 2012 (paragraph 15).

“Meishan” means Guangxi Rongshui Meishan Wood Products Factory (paragraph 97).

“Montsford” means Montsford Ltd. (paragraph 145).

“Offsetting Arrangement” means the payables/receivables arrangement used in the BVI Model by Sino-Forest to buy and sell Standing Timber (paragraph 48).

“Overseas Management” means Allen Chan, Albert Ip, Alfred C.T. Hung, George Ho and Simon Yeung (paragraph 13).

“Plantation Fibre” is one of the two subcomponents of Sino-Forest’s core business segment called Wood Fibre Operation (paragraph 41).

“PRC” means the People’s Republic of China (paragraph 2).

“Purchase Contracts” means the contracts used by Sino-Forest to purchase assets in the BVI Model (paragraph 45).

“Sales Contracts” means the contracts used by Sino-Forest to sell assets in the BVI Model (paragraph 45).

“Shaoyang Jiading” means Shaoyang Jiading Wood Products Co. Ltd. (paragraph 68).

“Sino-Forest” means Sino-Forest Corporation including all of its subsidiaries and companies it controls as set out in its public disclosure record and as the context within this Statement of Allegations requires (paragraph 1).

“Sino-Panel” means Sino-Panel (Asia) Inc., a subsidiary of Sino-Forest (paragraph 39).

“Sino-Panel Companies” means the three subsidiaries of Sino-Panel which purported to purchase Standing Timber from Yuangao (paragraph 96).

“Sino-Panel Gengma” means Sino-Panel (Gengma) Co., Ltd., a Sino-Forest subsidiary (paragraph 107).

“Sonic Jita” means Hong Kong Sonic Jita Engineering Co., Ltd. (paragraph 64).

“Standing Timber” means all of the Plantation Fibre subcomponent of Wood Fibre Operations and as the context within this Statement of Allegations requires (paragraph 42).

“Suppliers” means the parties from whom Sino-Forest purported to buy assets in the PRC, including Standing Timber (paragraph 45).

“Survey Reports” means timber survey reports (paragraph 72).

“WFOE Model” means the business model employed by Sino-Forest to buy and sell assets through its WFOEs (paragraph 46).

“WFOEs” means Wholly Foreign Owned Enterprises which were subsidiaries of Sino-Forest (paragraph 46).

“Xinqi” means Gaoyao City Xinqi Forestry Development Co., Ltd. (paragraph 97).

“Yuangao” means Guangxi Hexhou City Yuangao Forestry Development Co., Ltd. (paragraph 96).

“Yuda Wood” means Huaihua City Yuda Wood Ltd. (paragraph 57).

“Yunnan Plantation” means the Standing Timber plantations in Yunnan Province purportedly purchased in 2007 from Yuda Wood (paragraph 113).

SCHEDULE "B"

SELECTED INFORMATION FROM THE 2005-2010 AUDITED ANNUAL FINANCIAL STATEMENTS OF SINO-FOREST

Reported Revenue

December 31, 2010	\$1,923,536,000
December 31, 2009	1,238,185,000
December 31, 2008 (restated amount)	896,045,000
December 31, 2007	713,866,000
December 31, 2006 (restated amount)	555,480,000
December 31, 2005	493,301,000

Reported Total Assets

December 31, 2010	\$5,729,033,000
December 31, 2009	3,963,899,000
December 31, 2008	2,603,924,000
December 31, 2007	1,837,497,000
December 31, 2006	1,207,255,000
December 31, 2005	895,271,000

Reported Timber Assets (with % of total assets)

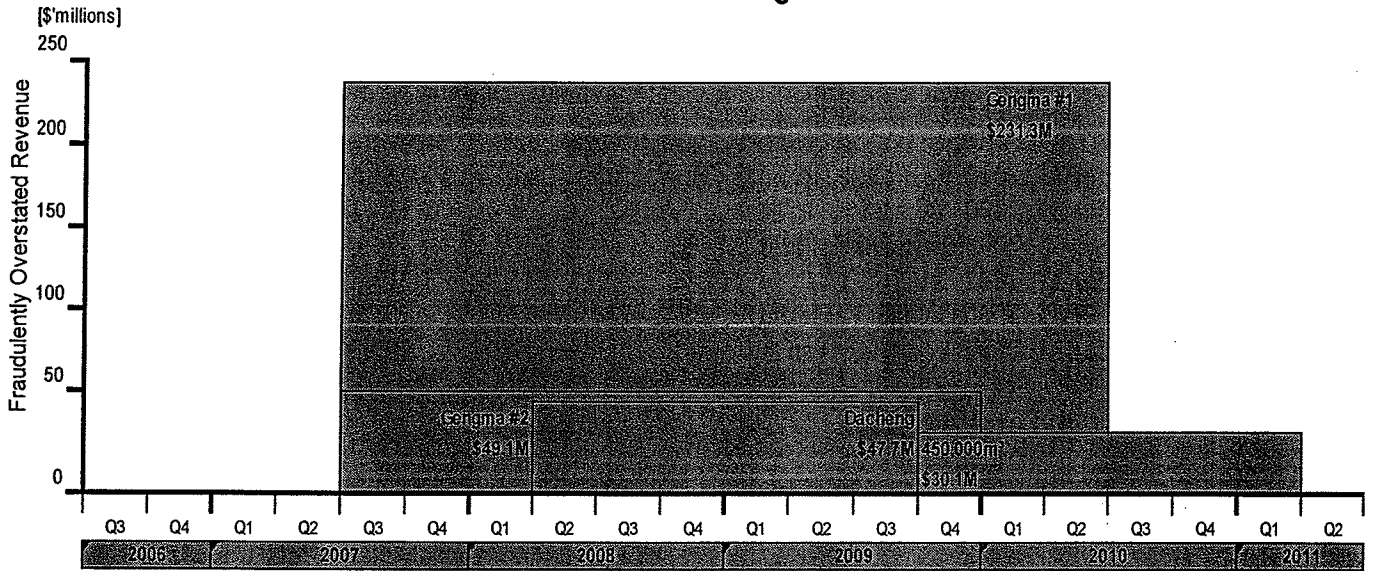
December 31, 2010	\$3,122,517,000 (55%)
December 31, 2009	2,183,489,000 (55%)
December 31, 2008	1,653,306,000 (63%)
December 31, 2007	1,174,153,000 (64%)
December 31, 2006	752,783,000 (62%)
December 31, 2005	513,412,000 (57%)

Number of Outstanding Common Shares

December 31, 2010	245,740,889
December 31, 2009	242,129,062
December 31, 2008	183,119,072
December 31, 2007	182,592,961
December 31, 2006	137,999,548
December 31, 2005	137,789,548

SCHEDULE "C"

**Sino-Forest Corporation
Overview of the Standing Timber Fraud**



Resulting Misleading Public Disclosure
Failure to provide full, true and plain disclosure of the Sino-Forest business and its associated risks



Secret Control of the 'BVI Network' & 'Peripheral Companies'
Concealment of Sino-Forest's control of Suppliers, AI's and other Nominee Companies in the 'BVI Network'

Deceitful and Back-Dated Transaction Documentation Process
Creation of deceitful documentation to evidence the purported purchase/ownership and sale of Standing Timber

Significant Internal Control Weaknesses/Failures
Lack of Segregation of Duties, the "Off-book" Offsetting Arrangement



**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C.
1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
SINO-FOREST CORPORATION**

**APPLICATION UNDER THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C.
1985, c. C-36, AS AMENDED**

Court File No: CV-12-9667-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

**AFFIDAVIT OF DIANA CORREIA
(sworn August 20, 2012)**

AFFLECK GREENE McMURTRY LLP
Barristers & Solicitors
200 - 365 Bay St.
Toronto, ON M5H 2V1

Peter R. Greene LSUC#: 19895V
Kenneth A. Dekker LSUC#: 40419P
Michelle E. Booth LSUC#: 53525J
Tel: (416) 360-2800
Fax: (416) 360-5960

Lawyers for BDO Limited