

CORPORATION ADMINISTRATION OFFICE

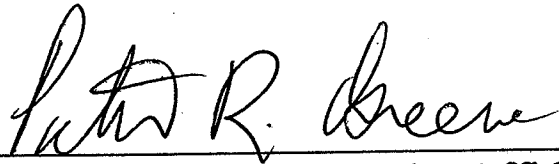
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EXECUTIVE HEAD OFFICE

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TAB H

This is Exhibit "H" 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. Greene". The signature is written in black ink and is positioned above a horizontal line.

Person Authorized to take Affidavits



SINO-FOREST
新濠林業

FORESIGHT & INSIGHT

ANNUAL REPORT 2007

SINO-FOREST CORPORATION ANNUAL REPORT 2007

Vision

Competitiveness Relations Best Practices

Advanced Research & Development

Success Sino-Forest Corporation Optimization

Planting for the future Leading foreign-owned increasing yield

Foresight and Insight Branching out Silviculture Practices

Integrated Operations Annual report 2007 Professional

Maximization Oversight Increase our wood fibre output Strategy

Geographical and Vertical Growth Increasing demand and realizing value

Manufacturing Sustainable growth strategy Taking a long-term approach

Building awareness Accelerated regional Geographical and Vertical

Move Inland Expand our plantations geographically Create extra value

Profitable and Sustainable business model Burgeoning Plantations

Growing in Value Moving ahead strategically Human Resources

Retain our leadership position as a preferred wood fibre supplier

Eco-business developments Growth through Experience Optimization

Consumption without Depletion Corporate citizenship

Continuing to build sustainable value Relations

Silviculture Practices

Market demand

Management

Expertise

Strategy

Innovative

Multi-level

Expansion

Insight

Plantation

Success

Growth

Believes

Relations

Expertise

Experience

Knowledge

Seedlings

Oversight

Diversified



SINO-FOREST
新濠林業

www.sinoforest.com

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Sino Forest

Sino Forest Corporation is a Canadian company and leading commercial forest plantation operator in the Peoples Republic of China (PRC).

Our principal businesses are the ownership and cultivation of forest plantations, the production of high quality timber and other forest products, and the commercial manufacturing of downstream engineered wood products.

We started the business in 1994 as the first foreign and privately managed investor in the forest products in China, and our common shares have traded on the Toronto Stock Exchange under the symbol TRF since 1995.

Learn more at www.sinoforest.com

Our Recent Performance

Sino-Forest is proud to have reported many notable achievements last year:

2007 Operating Highlights	2007 Financial Highlights
<ul style="list-style-type: none"> Signed two long-term tree acquisition agreements in Yunnan and Guangxi, with rights to acquire 350,000 hectares of plantation trees at agreed prices Increased wood fibre sold from plantation operations by 27% Acquired minor stake in Greenheart Forestry in Suriname, broadening sources of log imports Average yield of trees under management increased by 15% year-over-year Operating three wood manufacturing mills in Hunan 	<ul style="list-style-type: none"> Generated record revenue of \$700 million Realized 174% increase in year-end share price Cash flow from operating activities of continuing operations increased 83% Raised \$389 million to finance our growth Market capitalization surpassed \$3 billion milestone Widened investor base and increased liquidity of JFE Equity analysts coverage increased to nine

USD in millions, except EPS and Share Price	2007	[Restated] 2006	Change (%)	5-year CAGR* (%)
Consolidated Statement of Income				
Revenue [#]	721.0	645.0	12%	22%
Gross profit [#]	244.4	194.5	26%	30%
Gross profit margin [#]	33.9%	30.2%	12%	—
EBITDA [#]	489.0	336.4	45%	43%
Net income	152.3	113.5	34%	38%
Diluted earnings per share	0.90	0.81	11%	23%
Cash flow from operating activities	486.4	290.4	67%	48%
Cash and cash equivalents	328.7	152.9	115%	116%
Capital Expenditure	659.6	416.8	58%	47%
Total Assets	1,837.5	1,207.3	52%	34%
Share Price at year end (Cdn\$)	21.44	7.83	174%	33%
Hectares of trees acquired	104,517	129,276	(19%)	—
– average purchase price	\$5,967	\$2,964	101%	—
Hectares of trees sold	146,037	111,367	31%	—
– average selling price	\$3,571	\$3,166	13%	—
Hectares of trees under management at year end	312,000	352,000	(11%)	—

* Compound average annual growth rate from 2003 to 2007

For comparison purposes, the results for 2007 and 2006 include wood chips and commission operations which has been classified as discontinued operations in the Consolidated Financial Statements

Independent forest asset valuation

Sino-Forest has commissioned Pöyry Forest Industry Ltd. ("Pöyry") yearly to conduct a market valuation of our forestry assets that includes purchased-tree and planted-tree plantations; Pöyry's full report is available on our website.

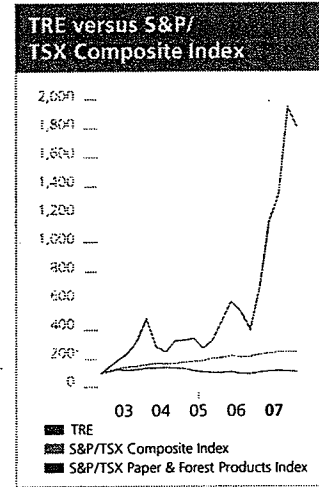
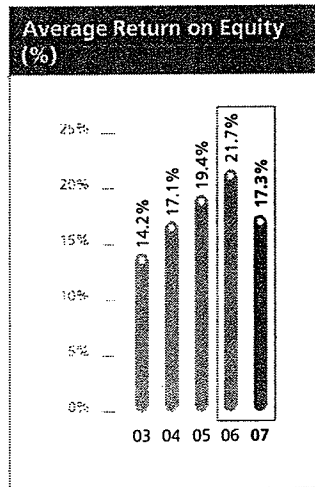
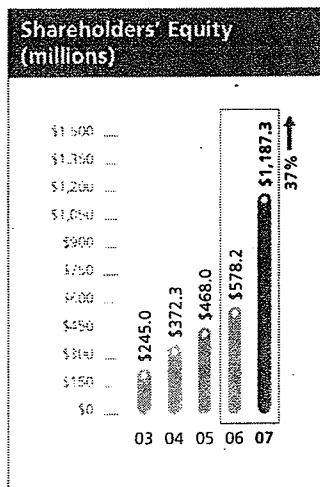
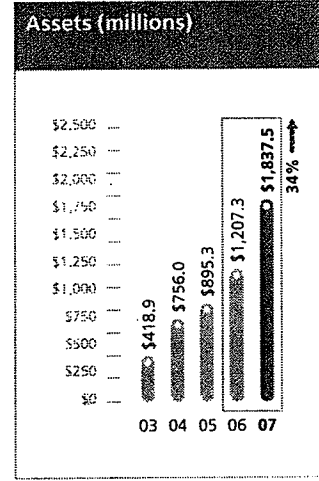
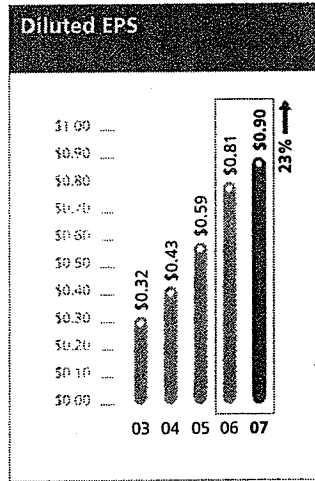
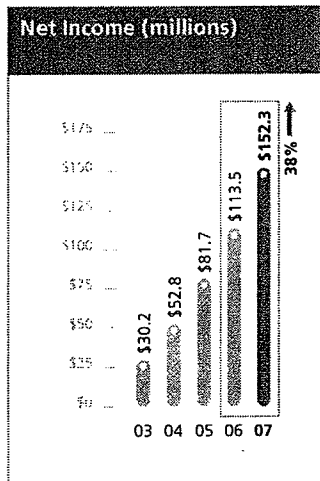
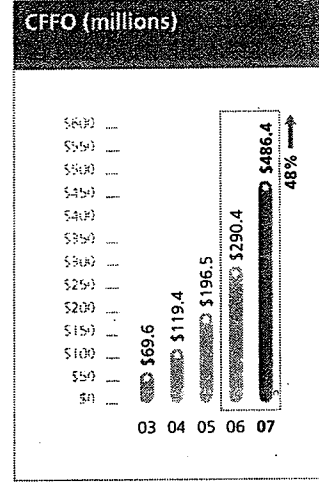
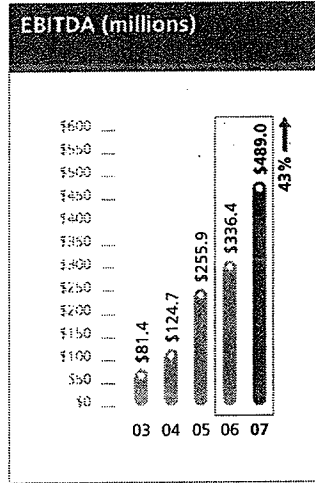
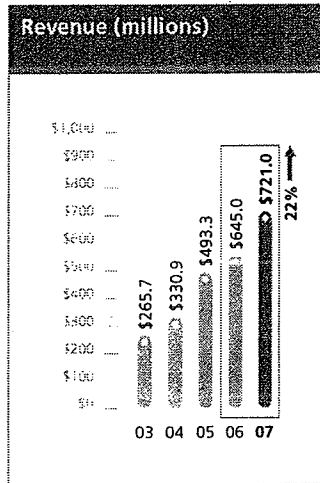
Pöyry Valuation	2007	2006	Change (%)	2005
Hectares of trees under management at year end	312,000	352,000	(11%)	324,000
Hectares excluding trees under 4 years old	45,000	36,000	25%	16,775
Value of existing forest assets (\$ billions)*	1.2	0.9	35%	0.7
Value of perpetual rotation (\$ billions)**	3.2	1.4	124%	1.0
Total volume (million m ³)	31.3	27.4	14%	23.8
Average yield (m ³ per hectare)	100.5	86.7	15%	77.7

* Based on a single rotation – a one-off harvesting of standing timber (note: valuation excludes trees under 4 years old)

** Based on perpetual re-planting and cultivation of plantation land after harvesting through many rotations over a 60-year period

Our five-year growth

Sino-Forest has orchestrated double-digit growth by every measure:



Our Investment Appeal

Sino-Forest appeals to investors because it has the following unique combination of attributes:

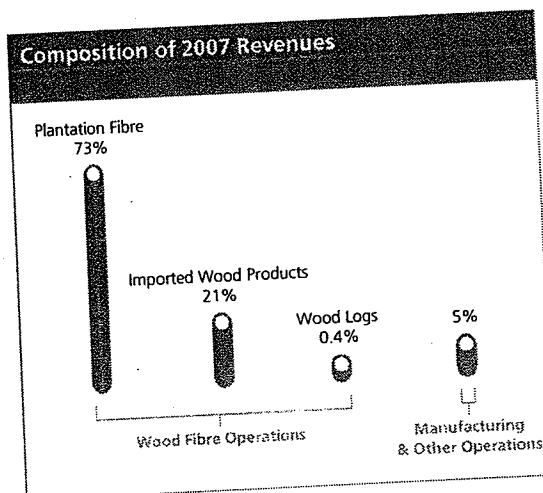
1. We hold a unique, strong position as a leading supplier of commercial wood fibre to enormous, growing markets across China; our plantations are located strategically near major manufacturing and consumer markets.
2. Sino-Forest's stream of growing income is broadly diversified by type of forest product and by geographic region.
3. Our experienced management team has a 14-year track record of exceptional prosperity and growth, as well as foresight and insight; we have recognized technical expertise in the highly productive cultivation of plantation trees.
4. Our plans for growth are strategically aligned with the PRC's 5-year Plan (2006-2010) for enhanced forestry and economic development.
5. We have a strong balance sheet and access to capital around the world to fund further growth.

Our Sources of Income

Over the past 14 years, our experienced and capable management team and valuable business relationships have enabled us to succeed in a variety of forest product operations, and given us unique foresight and insight in China's forestry industry.

- **Plantation Fibre** – we acquire, cultivate and sell standing timber or harvested logs from our plantations, then lease land for sustainable re-planting.
- **Wood Logs** – we source logs from PRC suppliers, assist in regeneration of secondary natural forests and receive income from harvested logs.
- **Imported Wood Products** – we import large-diameter, high-value logs and other forest products, and sell them to domestic customers.
- **Manufacturing & Other Operations** – we produce particleboard, engineered wood flooring, oriented strand board, and provide other forest products and services.


US\$ (millions)	2007
Wood Fibre Operations	
– Plantation Fibre	524.5
– Imported Wood Products	150.7
– Wood Logs	3.2
Manufacturing & Other Operations	38.4
Total Revenue	713.8



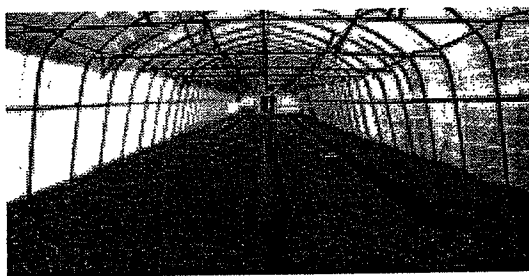
Plantation models – process differences and similarities

Plantations Model	Acquire Standing Timber	Sell Standing Timber / Harvest Logs	Lease Land	Replant	Harvest Logs / Sell Standing Timber	Integrated Manufacturing
Purchased	Standing Timber					
Planted			Lease Land		Standing Timber	
Integrated		Harvest Logs			Harvest Logs	Integrated Manufacturing


Our plantation operations



Purchased Plantations
 We purchase young trees at attractive prices and capture the fibre growth during ownership. We then sell the standing timber to customers.



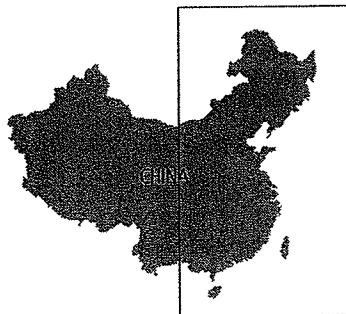
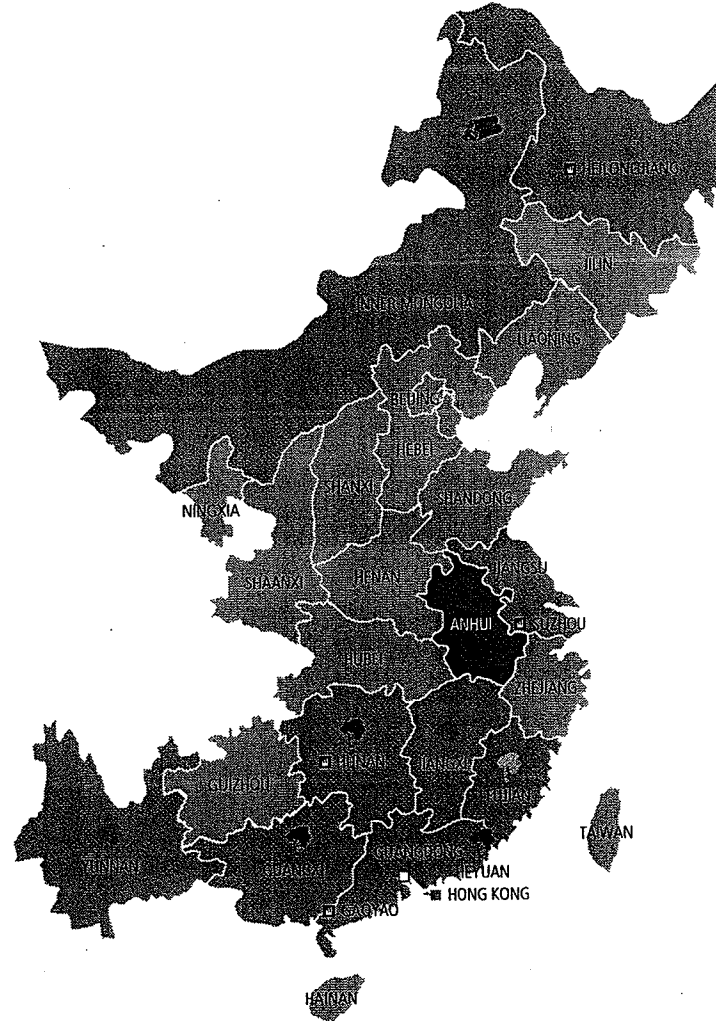
Planted Plantations
 We invest in R&D to improve seedlings and apply scientific techniques to cultivating trees, which significantly increases the yield of trees on land we lease for 30 to 50 years and ensures long-term sustainable harvesting.



Integrated Plantations
 We purchase mostly mature trees, harvest and sell the logs or vertically integrate the fibre with our manufacturing facilities to produce value-added wood products.

Our geographic scope of operations

Sino-Forest has rapidly expanded its operations into geographically widespread markets in ten provinces of China.



Legend

- Executive Office
- China Office
- Manufacturing Operation
- Mandra Forestry Plantations Managed by Sino-Forest
- Long-term Wood Fibre and Forestry Regeneration

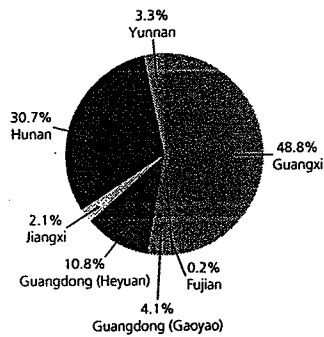
Forest Area (ha)

- <5,000
- 5,000 - 20,000
- 20,000 - 60,000
- 60,000 - 100,000
- 100,000 - 160,000

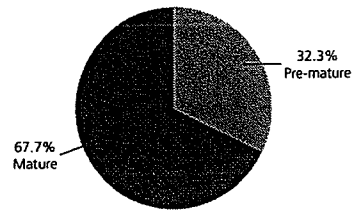
Our geographical niche

As at December 31, 2007, Sino-Forest owned and managed 312,000 hectares of trees, 80% of which was located in the south-western part of China where we intend to develop a regional wood resources market. Approximately 60% of our trees there are mature and can be harvested immediately to fund the development of our integrated operations and secure land for re-planting.

Geographic composition of trees under management

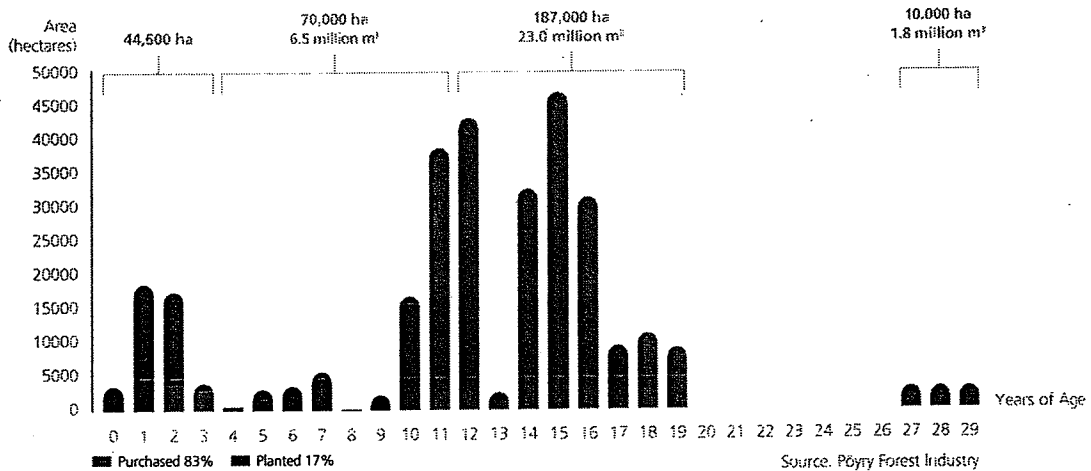


Maturity of trees under management



Our profile of tree maturities

Sino-Forest's plantation trees consist of an assortment of species that mature at various ages.



O ur Foresight and Insight

Sino-Forest's first foresight was in 1992 during the Earth Summit in Rio de Janeiro when we envisaged the economic potential of supplying quality wood fibre to China's huge, growing markets by cultivating fast-growing trees and increasing the yield of forest plantations.

In 1995, we had the foresight to develop cooperative joint ventures with local forestry bureaus to plant trees on barren, abandoned land; this would underpin our business relations and cooperation with domestic partners in strategically important regions. Over the years, we accumulated technical expertise and insight by investing in forestry research and development, by experimenting and testing, and developing superior silviculture techniques and sustainable plantation management practices.

In 2004, we foresaw the opportunity to rapidly build up the scale of our plantations – an undertaking to acquire 200,000 hectares of mature pine in Heyuan, Guangdong Province. The undertaking provided Sino-Forest with immediate cash flow from harvesting and land for replanting, and placed Sino-Forest in a different league of forestry operators in China.

In 2006, as market conditions were changing, we had the foresight to move inland to regions where infrastructure was less developed but where there were abundant resources and opportunities for Sino-Forest to secure wood fibre and develop its sustainable re-plantation plan.

We also had the insight to align our plans for growth and diversification with the Central Government's 11th 5-Year Plan (2006-2010) to lessen China's growing wood deficit with increased forest resources, and reduce poverty in rural areas through accelerated regional economic development.

Now we foresee our development of cost-effective and sustainable, integrated operations that will link our high-yield, upstream plantations, including a variety of tree species, to nearby manufacturing facilities that produce value-added, engineered-wood products.



Our Message to Shareholders

“ To help preserve China’s natural forests, we believe it is crucial to make our commercial plantations flourish, so that they provide much more of the quality wood fibre the country needs for economic and rural development.”



Allen Chan, Chairman and CEO

Over the past twelve months, Sino-Forest reported double-digit increases in all its key performance indicators in 2007, and significantly expanded its access to wood fibre in three strategically located provinces. During the next twelve months, we will continue to use our **foresight and insight** to significantly expand our plantation operations and strengthen our market position in China as a leading supplier of quality wood products, while continuing to ramp up infrastructure for our integrated operations.

Our market opportunities

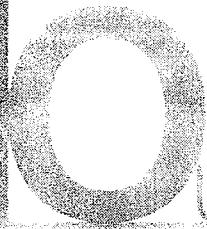
Since China is so large and diverse, its provinces and regions have different climates, landscapes, operating practices and growth opportunities. In 2006, the PRC had over 1.3 billion consumers, and only 18% of its land area was forested. So the country consists of many enormous markets, yet, according to China’s Global Environment Institute, the country has 21% of the world’s population but only 3% of the world’s forests. Accordingly, there is an acute shortage of wood fibre which it is expected to increase with rising domestic urbanization, growth in disposable income and an increased demand in the construction, furniture and interior decoration, and pulp and paper sectors. Demand is also being fuelled by declining availability of imported wood products due to the rise in export logs tax levied by the Russian government and to logging bans imposed by governments of neighboring countries.

This rising demand is expected to continue to drive up plantation wood fibre prices, which have been increasing steadily, depending on the species and locations of the trees. One of the solutions to China’s wood deficit is to increase the yield output of the country’s forests by developing more high-yield plantations with fast-growing trees, and maximizing usage of the wood fibre by adopting new technology and reducing waste and inefficiencies.

Since we founded Sino-Forest in 1994, we have developed valuable business contacts, plantations and manufacturing operations in as many as nine of China’s 34 provinces, municipalities and regions. This has given our people insight into Chinese market dynamics and the ability to foresee and pursue an abundance of forestry sector opportunities.

Our growth strategy

Moving forward, our growth strategy will be founded on primarily four cornerstones: burgeoning plantations, advanced research and development, value-added manufactured products, and our expertise. That is to say: we will continue to build on our core strengths and competitive advantages.



Our Burgeoning Plantations



Our burgeoning plantations

Sino-Forest has gained a strong foothold in nine provinces across the country and we have chosen the south-western part of China as our geographic base, where we will develop our integrated operations model.

Over the past years, we signed master agreements in Hunan, Yunnan and Guangxi, which give Sino-Forest access to 750,000 hectares of trees. Our strategy was to move inland where forests are denser, and the acquisition of trees and leasing of underlying land is more cost effective. These agreements provide enormous potential to create value in the long term and essentially lock in our cost per cubic metre, mostly at beneficial pricing levels. Although the fibre in Guangxi will cost more compared to the other two provinces, its climate and geographical location are very conducive to eucalyptus plantation, and it is strategically located close to a key domestic market and ASEAN countries via Beihai port. The agreements also give us first rights to lease land for decades for re-planting, which will allow us to improve substantially the fibre yield per hectare.

Long-term Wood Fibre Agreements	Hunan	Yunnan	Guangxi	Total
Hectares	100,000	280,000	150,000	750,000
Duration of agreements (years)	10	10	10	=
Estimated fibre yield (m ³ /ha)	700-1200	185-210	100-120	=
Estimated volume of wood fibre (m ³)	40-48	21-42	15-18	76-108
Duration of land rental for re-planting after securing land lease (years)	10	10	10	

With the 312,000 hectares we currently manage, and after acquiring the additional 750,000 hectares, in time Sino-Forest will have approximately one million hectares in its portfolio of plantations. Our goal is to supply 15 to 20 million m³ of fibre wood annually to PRC markets by 2010.

One of our strategic goals in the south-west region of China is to establish income contributions in three phases:

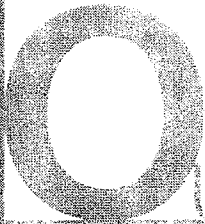
1. Acquire a substantial amount of plantation trees annually; harvest and sell logs to the market or use them for our manufacturing operations: this will provide immediate cash flow for re-planting and expand our operations into new regions.
2. Lease land and re-plant in the following year to create a critical mass of sustainable plantation trees, with a goal of producing 20 million m³ of fibre output annually: this will improve our plantation fibre yield output, narrow China's wood fibre deficit, and provide rural farmers with ongoing income from land rental.
3. Build integrated manufacturing operations to supply value-added, wood-based products to the market and further diversify Sino-Forest's revenue streams: this will enable us to secure long-term fibre agreements; create regional fibre markets that attract other downstream operations to the region; and improve employment in rural areas.



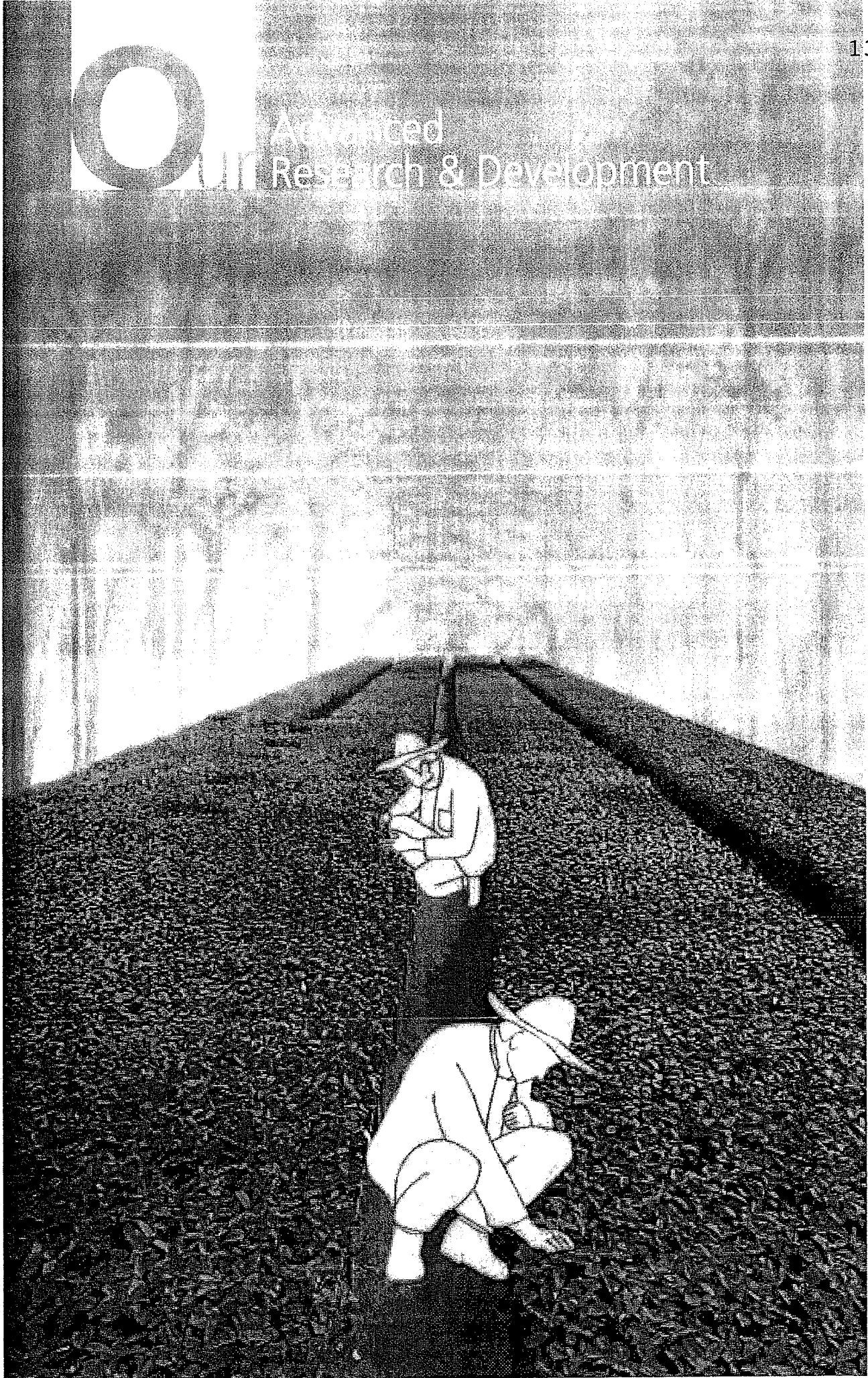
Sophisticated R&D application to create seedlings that flourish and produce quality fibre.



Our eucalyptus plantations can achieve a fibre yield of 120-150 m³ with trees ranging 18 to 20 cm in diameter after a 5 to 6 year growing cycle.



Advanced Research & Development



Our advanced research and development

Sino-Forest is unique in its commitment to and investment in the research and development of forest bio-technologies and plantation ecosystem management techniques. For well over a decade, our R&D team has been working in laboratories, greenhouses, nurseries and fields, and in cooperation with many academic and scientific institutions, to steadily improve plantation yield, reduce cultivation costs, increase the quality and value of harvested wood outputs, and maintain or enhance forest ecosystems and land productivity. This work has included – study, development and testing of gene banks and breeding of superior clones that make our seedlings more resistant to bacterial wilt, pests, disease and cold temperatures; fertilizer treatment experiments; short-rotation silviculture models, and forest protection trials.

We have a particular forte in mass propagation of superior genetic materials and fast-growing eucalyptus woods. One of many important results has been the versatility of the fibre from this small-diameter tree, not only for pulp and paper, but also for particleboard and high-density fibre (“HDF”) flooring and other wood products. Since R&D has greatly increased the yield, quality and usage of eucalyptus, we intend to do the same for other species such as Chinese fir and pine.

During the course of this leading scientific work, we have developed valuable intellectual capital that is beneficial to our forest management and product manufacturing, as well as to the whole forestry sector. Our scientific and conscientious approach to quality plantation management has also led to Forest Stewardship Council and ISO certifications at some of our plantations and manufacturing facilities. We were also selected as a founding member of the China Green Carbon Foundation to work with China’s State Forestry Administration on developing carbon credit trading and forest biofuels to mitigate greenhouse gas emissions.

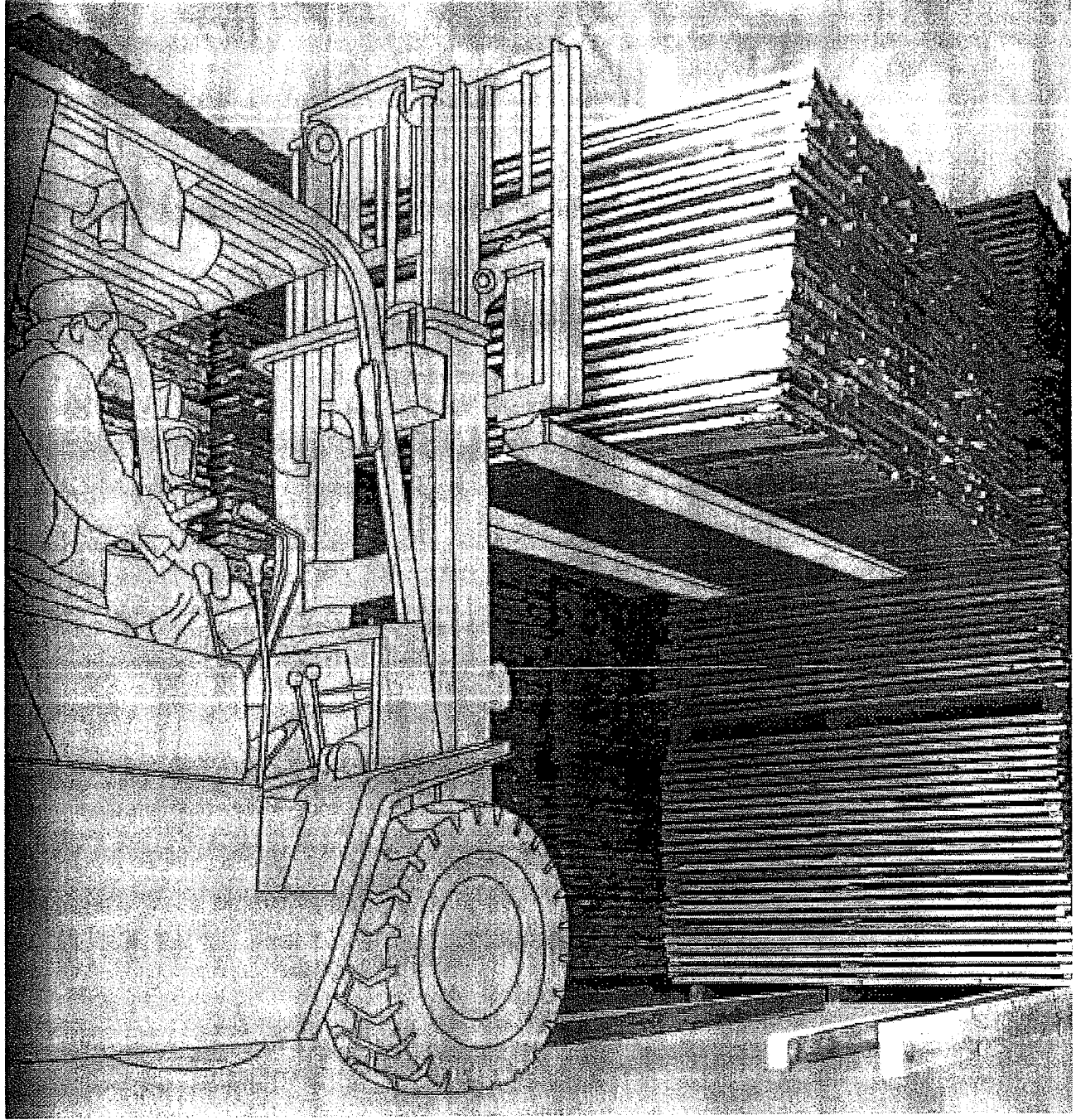


We use superior genetic materials to maximize seedling propagation.



R&D pilot testing at this designated area in Gaoyao, Guangdong Province illustrates how we increase yield through scientific silviculture.

Velje
Mand



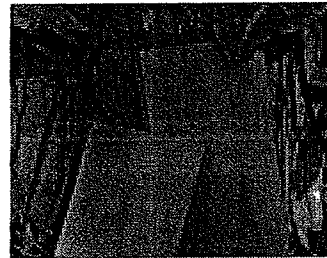
Our value-added manufactured products

Another key cornerstone of our strategic plan is the continued growth and diversity of our manufacturing facilities. We produce particleboard and melamine chipboard in the province of Guangdong, engineered wood flooring in Jiangsu, finger-joint board and block board in Hunan and oriented strand board in Heilongjiang.

Some critics say that it has been a long road to profitability for Sino-Forest manufacturing, but we have committed our efforts and capital to profitably producing downstream products because we believe it fits strategically in our integrated operations. Here too, we have applied foresight and insight: anticipating insatiable demand for quality construction materials and value-added interior decoration products. Our multi-product facilities enable us to maximize the usage of harvested logs and residual wood fibre. Consistent supply of value-added products tends to attract more downstream manufacturers to forest plantation areas, thus creating regional wood supply markets.



We are at the forefront of a new trend toward using small-diameter logs to make engineered-wood products.



Value-added products such as blockboard and finger-joint board allow us to maximize the usage and market value of our wood fibre.

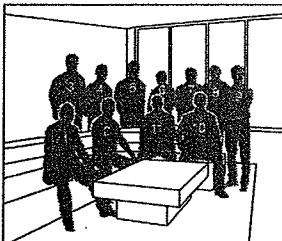


Our expertise

Sino-Forest is wealthy in human resources. We have many experienced and talented managers dedicated to product and service excellence and capable of achieving challenging goals. And they are guided by a driven executive team focused on executing a sensible strategic plan and delivering exceptional results.

To support our extensive and rapid expansion, our plantation planning and management team located across nine provinces in China tripled to 230 people in 2007, and our manufacturing workforce doubled to 1,640. All in all, we have a strong management team and experienced workforce of over 2,000 people to make our commercial plantations flourish. To ensure successful growth, we have trained and promoted staff from within our organization, and hired knowledgeable people with relevant working experience and industry expertise – some joined us from forestry bureaus in various regions and provinces and/or state-owned tree farms. Many of our managers are university graduates from forestry and/or technology faculties; many of them have previously worked for domestic wood product manufacturing companies or pulp and paper companies.

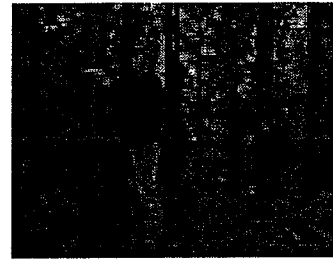
The broad knowledge and resilience of our workforce have allowed us to sustain strong earnings growth while expanding our operations quickly and to adapt to changing market circumstances and shift our resources toward more promising sources of income.



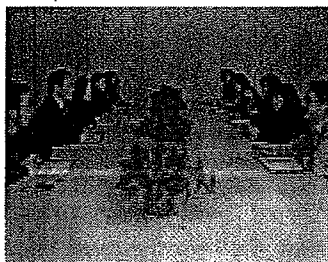
1. Based in Shanghai, General Manager ("GM") and in-charge of Sino-Maple flooring operations; graduated from Beijing Forestry University **[Mr. Zhou]**
2. Based in Guangzhou, Chief engineer, veteran in plantation operation and overseeing plantation quality and operational control; graduated from South China Agricultural University **[Mr. Kang]**
3. Based in Guangxi, Engineer responsible for our planted plantations, ex-professor, graduated from Forestry College of Guangxi University **[Mr. Zhang]**
4. Based in Heyuan, Guangdong, Deputy GM responsible for Heyuan plantations, previously with forestry bureau; studied at Yangdongxian Dangxiao **[Mr. Liang]**
5. Based in Hunan, Plantation controller, graduated from Hunan Agricultural University, previously Assistant Manager of state-owned farm trees in Hunan **[Mr. Xie]**
6. Based in Guangzhou, In-house legal counsel, graduated from Zhongshan University with LLB and LLM (Master in Law) **[Ms. Tang]**
7. Based in Guangxi, GM and Chief Engineer, graduated from Forestry College of Guangxi University **[Mr. Huang]**
8. Based in Suzhou, Deputy GM, graduated from Beijing Forestry University, previously factory manager for a domestic plywood manufacturing company in Guangdong **[Mr. Yu]**
9. Based in Guangzhou, Responsible for Administration division, major in business and commerce **[Mr. Liu]**
10. Based in Xiangxi, Hunan Province, Responsible for manufacturing operation, previously purchase manager of domestic wood construction company; graduated from Guangdong Xijiang University **[Mr. Huang]**
11. Based in Shaoyang, Hunan Province, Responsible for manufacturing operation, previously manager of pulp and paper company in Jiangxi; graduated from Jiangxi University **[Mr. Liu]**



Occupational health and safety are ensured in our plantations and operations.



Our managers are consistent and meticulous with their monitoring and supervisory responsibilities.



Our executive team is continuously focused on creating value for our vastly diverse stakeholders.



We practice sustainable development at our plantations in order to preserve and propagate nature's resources for current and future generations.

Our commitment to shareholders and other stakeholders

Sino-Forest has a strong track record of achieving most of its stated goals. We have delivered exceptional earnings and competitive returns on a consistent basis since inception. We received favourable recognition, which has been reflected in our stock price. In addition, our investor base broadened globally and our investment analyst coverage increased with initiating coverage from Merrill Lynch (China), Deutsche Bank (US), Morgan Stanley (Singapore), TD Newcrest (Canada), Credit Suisse (Canada) and Scotia Capital (Canada) over the past year. Our market capitalization surpassed the \$3 billion milestone, and Sino-Forest has the largest weighting (48%) in the S&P TSX Paper & Forest Index. What's more, Sino-Forest now ranks among the world's largest forestry companies.

Our outlook

A variety of other factors may affect Sino-Forest's financial performance: China's economic growth following the Olympic Games; continuing appreciation of the yuan vis-à-vis the US dollar, increasing export tax levies by the Russian government; and supportive Chinese policies and tax reductions on forestry products.

As an industry leader, however, we are continuously striving to be at the forefront of the forestry sector and to outperform ourselves. In 2008, we will maintain our growth strategy by executing with diligence our new, long-term fibre acquisition agreements and establishing our integrated operations, particularly in Hunan, Yunnan and Guangxi. This will require investments in setting up facilities and putting excellent managers in place, but we are convinced that our integrated operations will be highly rewarding for Sino-Forest and for China's rural areas as we develop regional forestry markets.

We are grateful for the relations and alliances we have built with our investors, customers, employees and other business partners. With their support, Sino-Forest will continue to lead China's forestry sector through integrated development, optimization, and added value at multiple levels of our wood fibre supply chain.

Allen Chan
Chairman and Chief Executive Officer

March 31, 2008



Environmental Stewardship

Sino-Forest's business is inherently sustainable because wood fibre is a natural, non-toxic and renewable material. Trees absorb and store carbon dioxide, produce oxygen and provide habitats for many plants and wildlife. We see plantations as a form of sustainable development – producing wood for today's generation and for generations in the future. So we are committed to managing our plantations in an environmentally responsible manner.

We list below how Sino-Forest's operations are helping China deal with the world's imminent global warming problem vis-à-vis some of the key forestry sector mitigation measures proposed by the Intergovernmental Panel on Climate Change ("IPCC") in its 2007 Synthesis Report. The IPCC is a scientific, international organization set up by the World Meteorological Organization and the United Nations Environment Programme.

IPCC's Proposed Mitigation Technologies	Sino-Forest Related Activities and Contributions
Reduced Deforestation	<p>Sino-Forest harvests trees only with the permission of the state and local forestry administrations, which grant logging quotas mainly for mature or over-mature trees.</p> <p>We assist in the re-generation of secondary natural forest in Inner Mongolia and Yunan, thus preserving the indigenous forest trees and other biodiversity. We operate primarily high-yield commercial plantations in an environmentally and socially friendly manner, which indirectly reduces logging from natural or other non-commercial forests.</p>
Reforestation and Afforestation	<p>Plantation development is an important part of reforestation and afforestation in China, with its relatively poor forest resources. Sino-Forest's plantation program increases not only the forest coverage by planting trees on barren and abandoned lands, but also the yield and quality of forests by investing substantially in the management and operation of its plantations.</p>
Forest Management	<p>Sino-Forest is highly regarded in China's forestry sector for abiding by PRC laws and implementing best practices and procedures with respect to plantation management and environmental protection. We have received a Forest Stewardship Council Certificate at our plantation in Gaoyao, Guangdong Province – the only commercial plantation operator in China to receive and maintain such accreditation.</p>
Harvested Wood Product Management	<p>Sino-Forest is developing integrated operations that link its upstream plantations to its nearby small-to-mid-scale manufacturing mills that fabricate multi-wood products. These mills efficiently process trees of various species and diameters, reduce wastage and improve wood fibre utilization.</p>
Use of Forest Products for Bio-energy to Replace Fossil Fuel Use	<p>Sino-Forest is one of the founding members and the only forestry company to join the State Forestry Administration in establishing the China Green Carbon Foundation in 2007. The goal of the Foundation is to develop a carbon credit trading platform in China, renewable energy from forest bio-fuel and methods for managing forests in a sustainable manner to increase absorption of carbon dioxide – all to mitigate greenhouse gas emissions from fossil fuels.</p>
Tree Species Improvement to Increase Biomass Productivity and Carbon Sequestration	<p>Sino-Forest R&D has led to significant increases in wood fibre yield as well as carbon sequestration at our planted plantations (e.g. in each of Heyuan and Gaoyao, we have increased the existing cubic metres per hectare from 90 to 120, in its second growth cycle).</p>



Our Corporate Citizenship



We believe that fostering the education of our next generation is paramount for the betterment for our community.



We are helping "Project Hope" to build schools in Hunan and Heilongjiang Provinces.

In the many rural communities where Sino-Forest acquires, cultivates, harvests and re-plants trees and manufactures downstream wood products, we create and sustain tens of thousands of long-term, permanent and seasonal jobs. But our corporate responsibility also goes beyond these employment benefits.

Applied Research Centre for the Pearl River Delta Environment

Air and water pollution are becoming increasingly detrimental to the environment and people's health in China, including the Pearl River Delta, where Sino-Forest has over 40,000 hectares of plantations under management in Guangdong Province. To help deal with this ecological and social problem, Sino-Forest contributed approximately \$760,000 in 2008 to the establishment of the "Applied Research Centre for the Pearl River Delta Environment" at the Hong Kong Baptist University. A primary goal of the research centre is to develop a competent team to study the pollution problems and provide solutions for industries in the Pearl Delta River region.

Project Hope

Since education improves people's livelihood, Sino-Forest is an enthusiastic supporter of providing the next generation in rural areas with important learning opportunities. Last year, we teamed up with China's Youth League Central Committee and Youth Development Foundation in support of "Project Hope". The project encourages young dropouts and students at risk of dropping out in China's poverty-stricken areas to continue schooling by subsidizing long-term grants, construction or refurbishment of schools, teaching materials and scholarships for upper education. Committed to such community causes, Sino-Forest donated approximately \$150,000 to help fund the construction of three primary schools in the Huaihua County of western Hunan Province, and in Muling City in northern Heilongjiang Province.

Jiangxi Committee of CPPCC

Being a good corporate citizen also involves giving precious time. Sino-Forest's Chairman and CEO Allen Chan has recently joined the Jiangxi Committee of the Tenth Session of the Chinese People's Political Consultative Conference ("CPPCC"). Jiangxi Province is located in southern China, where the company has significant operations. The CPPCC consists of government and non-government members who discuss Chinese policies and principles, and its role and powers are somewhat analogous to an advisory legislative upper house.

Renmin University of China

In addition, Mr Chan has been appointed as Executive Council Member of Renmin University of China ("RUC", also known as the People's University of China) for a three-year term. The RUC is considered the Chinese Party State university. It ranked among top universities in terms of the number of scholars who have gained official recognition from the national and Beijing municipal governments.



O ur Governance

Message from the Lead Director

It has been a year since I was appointed Lead Director on the Board, and I am pleased to report that Sino-Forest is more profitable, its balance sheet stronger and its shareholder returns higher, than at any time in the corporation's history. This is a testament to the leadership and strategic vision of Allen Chan, who is supported by an experienced, talented and committed group of senior managers.

As the market value of Sino-Forest increases, corporate governance and Board and committee practices are improving. While we have made significant progress recently, the Board's mandate, on behalf of shareholders, is to continually strive for and achieve higher levels of stewardship and oversight.

In April 2007, Temasek Holdings became Sino-Forest's largest investor after the private placement of common shares. In accordance with the terms of the private placement, Temasek is eligible to appoint a Director, who will be independent. The Board is pleased that an institution of this caliber will be involved in the Company's strategic as well as corporate governance processes.

In August 2007, Peter Wang was appointed to the Board, which is now comprised of five independent directors and two management Directors. Mr. Wang is an experienced and respected businessman in the PRC and we welcome his valuable insight and knowledge.

The Board continues to refine and extend the breadth and depth of our corporate governance policies and procedures. We have recently completed a thorough review of all committee charters, mandates, policies and procedures including a comprehensive review of CEO, senior management and Board compensation policies.

During 2007, the Board met eight times, and the three standing committees of the Board (Audit, Corporate Governance, and Compensation and Nominating) met as required, with and without the presence of management, in order to carry out their specific mandates. Two of our long-standing Directors, K. K. Poon and Simon Murray, are not able to attend Board meetings as often as would be preferred, but they continue to be well versed on all material issues facing Sino-Forest and to play important roles. Mr. Poon is a co-founder of Sino-Forest and is well respected within the PRC, so it is important to the corporation's day-to-day business and to shareholders that he retains his Director position. Since 1999, Mr. Murray has provided valued advice and counsel to Allen Chan and Sino-Forest's executive team. He is a well-respected international business leader and his presence on the Board continues to be in the best interests of the corporation and its shareholders.

I wish to thank all members of management and the Board of Directors for their contributions during 2007, and look forward to assisting them with creating additional shareholder value this year and beyond.



Judson Martin
Lead Director

March 31, 2008

“ While we have made significant progress recently, the Board's mandate, on behalf of our shareholders, is to continually strive for and achieve higher levels of stewardship and oversight.”

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) relates to the financial condition and results of Sino-Forest Corporation's operations for the year ended December 31, 2007. Throughout this MD&A, unless otherwise specified, "Sino-Forest", "Company", "we", "us" and "our" refer to Sino-Forest Corporation and its subsidiaries. Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP). This MD&A should be read in conjunction with Sino-Forest's audited consolidated financial statements and notes thereto. The United States dollar is our reporting and functional currency and all figures contained herein are in United States dollars unless otherwise indicated.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements which reflect management's expectations regarding Sino-Forest's future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are forward-looking statements within the meaning of securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sino-Forest. These statements are not historical facts but instead represent only Sino-Forest's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors Sino-Forest currently believes to be material such as, but not limited to, our ability to acquire rights to additional standing timber, our ability to meet our expected plantation yields, the cyclical nature of the forest products industry and price fluctuation in and the demand and supply of logs, our reliance on joint venture partners, authorized intermediaries, key customers, suppliers and third party service providers, our ability to operate our production facilities on a profitable basis, changes in currency exchange rates and interest rates, evaluation of our provision for income and related taxes and PRC economic, political and social conditions and government policy, other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although Sino-Forest has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements. The Company does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report.

OVERVIEW OF BUSINESS

About Sino-Forest

We are a leading, foreign-owned, commercial forestry plantation operator in the People's Republic of China ("PRC"). As at December 31, 2007, we had approximately 312,000 hectares of forestry plantations located in southern, south-western and eastern China.

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

Strategic Business Units

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

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

Plantation Fibre

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

Other Fibre

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

Our Manufacturing & Other Continuing Operations include:

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

Our Vision and Strategy

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

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

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

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

Other Key Factors Affecting Our Business

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)

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

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

Our decisions and abilities to develop and operate future forestry plantations are subject to various factors and uncertainties. Should we be unable to exercise our rights to obtain additional forestry plantations, our business, financial condition and results of operations could be materially and adversely affected.

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

We rely on our relationships with joint venture partners, authorized intermediaries, key customers, suppliers and third party service providers for our forestry plantations and trading activities. We rely on our joint venture partners to, among other things, fulfill their obligations under the agreements. We rely on a number of large suppliers for a significant percentage of our timber supply. We rely to a significant extent on third party service providers for day-to-day operations of our plantations.

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

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

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

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

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

Significant Accounting Policies and Interpretation

Cost of Sales

Our costs of sales consist of: (1) depletion of timber holdings as they are sold; (2) the costs of logs acquired in the domestic PRC market; (3) the costs of imported logs and wood-based products acquired in our sales and trading activities of these products; and (4) the costs incurred at our manufacturing plants.

Depletion of Timber Holdings

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

EBITDA

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

SIGNIFICANT BUSINESS ACTIVITIES

Significant activities that have occurred during the year ended December 31, 2007 and to the date of this report were as follows:

Updated Valuation of Forest Plantation Assets in China

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

Acquisition of 150,000 hectares of Standing Timber in Guangxi Province

In December 2007, the Company entered into a master agreement with Zhanjiang Bo Hu Wood Company Limited, which will act as the authorized agent for the original plantation rights holders to acquire 150,000 hectares of plantation trees in Guangxi Province with a price not to exceed RMB380 per cubic meter ("m³") or approximately US\$51.40 per m³ over a 5-year period. The agreement also provides the Company with pre-emptive rights to lease the land at a price not to exceed RMB525 per hectare per annum for 30 years.

Appointment of Director

In August 2007, the Company announced the appointment of Mr. Peter Wang to its Board of Directors. Mr. Wang's distinguished background and nationwide contacts accumulated over several decades working for numerous state-owned enterprises in the PRC are expected to benefit the Company, especially in regard to his valuable network and knowledge of protocol for working with mainland Chinese officials.

\$189 million Public Offering

In June 2007, the Company completed a public offering of 15,900,000 common shares at Cdn.\$12.65 per share for gross proceeds of Cdn.\$201.1 million (equivalent to \$188.5 million at June 12, 2007).

\$200 million Strategic Placement

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.\$232.0 million (equivalent to \$200.0 million at April 10, 2007).

Acquisition of 200,000 hectares of Standing Timber in Yunnan Province

In March 2007, the Company entered into a master agreement with Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd to acquire approximately 200,000 hectares of standing timber in Yunnan Province for a total of approximately \$0.7 billion to \$1.4 billion over a ten-year period. The agreement also provides the Company with a first right of refusal to lease the land for 50 years after harvesting.

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)

SELECTED ANNUAL FINANCIAL INFORMATION

The following selected financial information has been derived from our consolidated financial statements for the three years ended December 31, 2007, 2006 and 2005:

Years ended December 31 (in thousands, except earnings per share and common shares outstanding)	2007 \$	[Restated] 2006 \$	2005 \$
OPERATING RESULTS			
Revenue ⁽¹⁾	713,866	555,480	341,260
Cost of sales ⁽¹⁾	(470,825)	(380,508)	(237,222)
Gross profit ⁽²⁾	243,041	174,972	104,038
Net income from continuing operations	142,431	92,212	48,743
Net income	152,273	113,480	81,687
EBITDA ⁽³⁾	487,640	316,850	223,631
Net earnings from continuing operations per share ⁽⁴⁾			
Basic	0.85	0.67	0.35
Diluted	0.84	0.66	0.35
Net earnings per share ⁽⁴⁾			
Basic	0.91	0.82	0.59
Diluted	0.90	0.81	0.59

If the new policy for accounting for uncertainty in income taxes was adopted on January 1, 2005, this would have resulted in a decrease in net income of \$5,535,000 in the year 2005.

FINANCIAL POSITION			
Current assets	527,028	333,609	277,340
Non-current assets	1,310,469	873,646	617,931
Total assets	1,837,497	1,207,255	895,271
Current liabilities (including current portion of long-term debt)	197,003	179,048	127,262
Long-term debt (net of current portion)	441,985	450,000	300,000
Total shareholders' equity (net assets)	1,187,298	578,207	468,009
Cash dividends declared per share	Nil	Nil	Nil
Common shares outstanding	182,592,961	137,999,548	137,789,548

Over the past three fiscal years, we have focused on growing our standing timber plantation operations. Revenue has grown over these periods primarily due to increased sales of standing timber. Our revenue from standing timber increased from \$352.6 million (sold 111,367 hectares, 63.5% of revenue) in 2006 to \$521.5 million (sold 146,037 hectares, 73.1% of revenue) in 2007.

During these periods, our gross profit increased accordingly. Gross profit margin, being gross profit expressed as a percentage of revenue, increased to 34.0% in 2007 from 31.5% in 2006 due to a higher proportion of sales of standing timber which earned a higher gross profit margin than our other business segments.

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

2005	324,000 hectares
2006	352,000 hectares
2007	312,000 hectares

According to the recent forest asset valuation conducted by Poyry, the estimated volume of our merchantable standing timber increased 14.2% to approximately 31.3 million cubic meter by year end 2007, excluding trees less than 4 years of age.

In 2006, we obtained a 5-year and one day \$150 million syndicated loan for acquisition of additional standing timber and logs. In 2007, we completed financing of \$388.5 million through private placement and public offering.

RESULTS OF OPERATIONS – 2007 VS 2006

Revenue

The following table sets forth the breakdown of our total revenue for the years ended December 31, 2007 and 2006:

	2007		2006	
	\$'000	%	\$'000	%
Wood Fibre Continuing Operations				
Plantation Fibre	521,489	73.1	352,574	63.5
Other – Imported wood products	150,731	21.1	178,379	32.1
Other – Wood logs	3,233	0.4	495	0.1
Manufacturing and Other Continuing Operations	38,413	5.4	24,032	4.3
Total Revenue	713,866	100.0	555,480	100.0

Our revenue increased 28.5% to \$713.9 million in 2007. The increase in revenue was due primarily to the increase in sales of standing timber and manufacturing and other continuing operations, offset by a decrease in the sales of imported wood products.

Wood Fibre Continuing Operations Revenue

Standing Timber

The following table sets forth revenue from standing timber sales for the years ended December 31, 2007 and 2006:

	2007			2006		
	Hectares	Sales per hectare \$	Total revenue \$'000	Hectares	Sales per hectare \$	Total revenue \$'000
Purchased plantations	136,396	3,713	506,466	73,665	3,959	291,650
Heyuan Pine Undertaking	1,969	1,771	3,487	32,426	1,692	54,864
Planted plantations	7,672	1,504	11,536	5,276	1,149	6,060
Total	146,037	3,571	521,489	111,367	3,166	352,574

Revenue from sales of standing timber increased 47.9% to \$521.5 million in 2007. In 2007, we sold 146,037 hectares of standing timber, or 31% more than the previous year. The increase was mainly due to the sales of an additional 65,127 hectares of purchased and planted tree plantations, offset by a decrease of 30,457 hectares of standing timber sales from the Heyuan Pine Undertaking. The average selling price per hectare increased 12.8% to \$3,571 in 2007; this increase was primarily attributable to the higher proportion of sales of purchased plantations to total sales, which had a higher yield and therefore higher selling price per hectare.

Included in standing timber sales were the sales of logs harvested from our plantations in Hunan in the amount of \$6.2 million.

Standing timber sales comprised 73.1% of total revenue in 2007, compared to 63.5% in 2006.

Wood Logs

Revenue from sales of wood logs increased 553.1% to \$3.2 million in 2007, which was mainly due to sales of logs from Inner Mongolia.

Wood logs sales comprised 0.4% of total revenue in 2007, compared to 0.1% of total revenue in 2006.

Imported Wood Products

Revenue from sales of imported wood products decreased 15.5%, from \$178.4 million in 2006 to \$150.7 million in 2007. This decrease was primarily due to lower sales volume arising from higher Russian log export duties.

Manufacturing and Other Continuing Operations Revenue

Revenue from our manufacturing and other continuing operations increased 59.8% from \$24.0 million in 2006 to \$38.4 million in 2007 mainly due to higher revenue from the flooring operation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)

Cost of Sales

Cost of sales increased 23.7%, from \$380.5 million in 2006 to \$470.8 million in 2007, due primarily to higher sales volumes of standing timber, wood logs and manufacturing products.

Wood Fibre Continuing Operations Cost of Sales

Standing timber cost of sales increased 54.5%, from \$184.4 million in 2006 to \$284.8 million in 2007. The increase reflected primarily the 17.8% increase in cost of sales per hectare of standing timber from \$1,656 per hectare in 2006 to \$1,950 per hectare in 2007, because we sold substantially more hectares of purchased tree plantations in 2007 which had a higher average cost per hectare, compared to 2006.

Wood logs cost of sales increased 508.9%, from \$0.5 million in 2006 to \$2.9 million in 2007, as a result of sales of logs from Inner Mongolia.

Imported wood products cost of sales decreased 15.5%, from \$173.3 million in 2006 to \$146.4 million in 2007, primarily reflecting the decrease in the sales volumes of our imported log trading business.

Manufacturing and Other Continuing Operations Cost of Sales

The cost of sales of manufacturing and other continuing operations increased 64.1% from \$22.3 million in 2006 to \$36.7 million in 2007, primarily due to an increase in the sales from the flooring operation.

Gross Profit

Gross profit increased 38.9%, from \$175.0 million in 2006 to \$243.0 million in 2007. Gross profit margin (gross profit as a percentage of total revenue) increased from 31.5% in 2006 to 34.0% in 2007 mainly due to the higher proportion of sales of standing timber which earn a higher gross profit margin than our other business segments.

Wood Fibre Continuing Operations Gross Profit

Gross profit margin from sales of standing timber decreased from 47.7% in 2006 to 45.4% in 2007 due to lower yield of plantations sold in 2007 compared to 2006.

Gross profit margin from sales of imported wood products remained flat at 2.9% for both years.

Gross profit margin from sales of wood logs increased from 2.2% in 2006 to 8.8% in 2007 as a result of sales of logs from Inner Mongolia which commanded higher margin.

Manufacturing and Other Continuing Operations Gross Profit

Gross margin from our manufacturing and other continuing operations decreased from 7.1% in 2006 to 4.6% in 2007, primarily due to increased cost of production of manufacturing plants.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 12.2%, from \$35.9 million in 2006 to \$40.2 million in 2007, due primarily to additional staff complement and set up of new companies.

Depreciation and Amortization

Depreciation and amortization increased 34.9%, from \$4.0 million in 2006 to \$5.4 million in 2007, reflecting the increase in depreciation charges for our manufacturing plants.

Income from Operations

Income from operations increased 46.1%, from \$135.1 million in 2006 to \$197.5 million in 2007, due to the factors explained above. Our income from operations as a percentage of revenue increased from 24.3% in 2006 to 27.7% in 2007.

Interest Expense

Interest expense increased 17.7%, from \$37.3 million in 2006 to \$44.0 million in 2007, due primarily to partial draw-down of the syndicated loans in the second quarter of 2006 and to the reclassification of amortization of deferred financing cost to interest expense in 2007.

Interest Income

Our interest income increased 134.1%, from \$6.5 million in 2006 to \$15.2 million in 2007, due to higher cash and cash equivalents and short-term deposits from the financings completed last year and interest income earned on the loan to Mandra Holdings.

Exchange Gains

Exchange gains increased 237.6% from \$3.7 million in 2006 to \$12.4 million in 2007 due to appreciation of the Canadian dollar against the U.S. dollar in 2007.

Write-down of Capital Assets

The write-down of capital assets in 2007 amounted to \$20.8 million representing write-down of certain manufacturing facilities to fair market value due to continued losses over the years.

Other Income

Other income increased 144.4% from \$1.3 million in 2006 to \$3.2 million in 2007 mainly as a result of the gain on disposal of investment in Greenheart Resources Holding Limited ("Greenheart").

Provision for Income Taxes

In 2007, the provision for income taxes was \$18.0 million compared to \$13.2 million in 2006; the increase was due to the higher income earned.

Net Income from Continuing Operations

As a result of the foregoing, net income from continuing operations for 2007 increased 54.5%, from \$92.2 million in 2006 to \$142.4 million in 2007. Overall net profit margin from continuing operations increased from 16.6% in 2006 to 20.0% in 2007.

RESULTS OF OPERATIONS – Q4 2007 VS Q4 2006

The following table sets forth the selected financial information for the three months ended December 31, 2007 and 2006:

Three months ended December 31, (in thousands, except earnings per share)	2007	2006
	\$	\$
Revenue ⁽¹⁾	310,850	233,261
Cost of sales ⁽¹⁾	(212,522)	(151,167)
Gross profit ⁽²⁾	98,328	82,094
Net income from continuing operations	41,255	40,102
Net income	47,397	42,528
EBITDA ⁽³⁾	246,222	148,258
Net earnings from continuing operations per share ⁽⁴⁾		
Basic	0.23	0.29
Diluted	0.22	0.29
Net earnings per share ⁽⁴⁾		
Basic	0.26	0.31
Diluted	0.26	0.30

The quarterly financial information has not been restated to reflect the adoption of a new accounting policy for uncertain income tax positions as the effect of the change on net income is insignificant.

The following table sets forth the breakdown of our revenue in the fourth quarters of 2007 and 2006:

Three months ended December 31,	2007	2006
	\$'000	\$'000
Wood Fibre Continuing Operations		
Plantation Fibre	260,359	167,869
Other – Imported wood products	34,268	55,528
Other – Wood logs	301	64
Manufacturing and Other Continuing Operations	15,922	9,800
Total Revenue	310,850	233,261

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)

Revenue in the fourth quarter ended December 31, 2007 increased by 33.3% to \$310.9 million compared to \$233.3 million in the fourth quarter of 2006. The increase was primarily due to higher sales of standing timber and manufacturing and other continuing operations partially offset by a decline in imported wood products revenue.

In the fourth quarters of 2007 and 2006, standing timber sales were as follows:

	2007			2006		
	Hectares	Sales per hectare	Total revenue	Hectares	Sales per hectare	Total revenue
Three months ended December 31,		\$	\$'000		\$	\$'000
Purchased plantations	75,055	3,350	251,407	40,987	3,923	160,811
Heyuan Pine Undertaking	772	1,873	1,446	2,768	1,756	4,861
Planted plantations	5,668	1,324	7,507	1,821	1,206	2,197
Total	81,495	3,195	260,360	45,576	3,683	167,869

In the fourth quarter of 2007, sales of standing timber increased to 81,495 hectares, primarily due to increased sales of standing timber from our purchased plantations. The decrease in the average selling price of standing timber was due to lower yield of purchased plantations sold compared to 2006.

In the fourth quarter of 2007, revenue from our imported wood products business amounted to \$34.3 million, compared to \$55.5 million in the fourth quarter of 2006. The decrease was primarily attributable to lower volume arising from higher Russian log export duties.

In the fourth quarter of 2007, increase in revenue from manufacturing and other continuing operations was mainly due to the increase in the sale of flooring products.

Costs and expenses were \$230.9 million in the fourth quarter of 2007, an increase of 34.6% compared to \$171.6 million in the fourth quarter of 2006, largely attributable to an increase in sales. Selling, general and administration expenses decreased 14.6% to \$16.5 million in the fourth quarter in 2007, primarily due to a \$5.4 million termination payment made to an officer in the fourth quarter of 2006.

Net income from continuing operations increased 2.9% from \$40.1 million to \$41.3 million. Diluted earnings per share from continuing operations per share decreased 22.0% from \$0.29 to \$0.22.

ISSUED AND OUTSTANDING SHARE CAPITAL

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

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flows

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

Years ended December 31, (in millions)	2007 \$	2006 \$
Cash flows from operating activities of continuing operations		
Net cash provided by operations ⁽⁵⁾	455.5	280.7
Net change in working capital ⁽⁶⁾	27.0	(16.5)
Total	482.5	264.2
Cash flows from operating activities of discontinued operations	3.8	26.2
Cash flows used in investing activities	(692.3)	(423.0)
Cash flows from financing activities	376.9	176.2
Effect of exchange rate changes on cash and cash equivalents	4.9	0.9
Net increase in cash and cash equivalents	175.8	44.5

Cash Flows from Operating Activities of Continuing Operations

Cash flows from operating activities increased 82.6% to \$482.5 million in 2007. The increase was the result of an increase in cash provided by operations as a result of the stronger sales of standing timber.

Cash Flows Used in Investing Activities

In 2006 and 2007, cash flows used in investing activities were primarily used for capital expenditures to obtain additional forestry plantations and for investments in manufacturing facilities. Our cash outlays for our forestry plantations amounted to \$415.1 million in 2006 and \$640.3 million in 2007. Our cash outlays for our manufacturing facilities and other capital assets amounted to \$10.0 million in 2006 and \$12.6 million in 2007. Increase in non-pledged short-term deposits in 2007 amounted to \$8.7 million compared to a decrease in non-pledged short-term deposits of \$11.9 million in 2006. In addition, Sino-Forest invested \$6.0 million to acquire approximately 13% equity interest in Greenheart and \$1.8 million to acquire certain convertible bonds issued by Omnicorp Limited in 2007. Sino-Forest also paid \$23.6 million as prepaid plantation land leases in 2007.

Cash Flows From Financing Activities

In 2007, cash flows from financing activities consisted of net proceeds from the issuance of shares of \$389.9 million and decrease in pledged short-term deposits of \$6.2 million offset by the payment on derivative financial instrument of \$2.2 million and a decrease in bank indebtedness of \$17.0 million. In 2006, cash flows from financing activities consisted of an increase in bank indebtedness of \$29.2 million and long-term debt of \$150.0 million and decrease in pledged short-term deposits of \$0.4 million and net proceeds from the issuance of shares of \$0.5 million offset by an increase in deferred financing costs of \$3.0 million and payment on derivative financial instrument of \$0.9 million.

Financing Arrangements and Contractual Obligations

As of December 31, 2007, we had secured and unsecured short-term liabilities of \$55.4 million, comprising \$27.5 million of short-term bank loans and \$27.9 million of trust receipt loans. We had long-term debt of \$442.0 million. Our borrowings were denominated in U.S. dollars and Renminbi.

Short-Term Borrowings

As of December 31, 2007, we had \$133.9 million short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements of which \$55.4 million was being utilized. Interest is payable on these short-term borrowings at a weighted average rate of 6.2% per annum, and the borrowings are either repayable on demand or due in less than one year. As of December 31, 2007, the short-term credit facilities were secured by certain of our land-use rights, buildings and timber holdings having an aggregate net book value of approximately \$11.4 million and certain bank deposits of \$0.3 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)

Other Contractual Obligations

As of December 31, 2007, we had other contractual obligations relating to: (1) approximately \$18.6 million in respect of capital contributions to our Wholly Foreign Owned Enterprises ("WFOEs"); (2) \$16.5 million of capital commitments with respect to buildings, timber holdings, and plant and machinery; (3) \$21.5 million of purchase commitments mainly regarding logs, (4) commitments under operating leases of approximately \$68.1 million; and (5) \$442.0 million non-convertible guaranteed senior notes and syndicated loans.

Scheduled Maturity of Contractual Obligations

The following table presents the scheduled maturities of our contractual obligations as of December 31, 2007:

	Anticipated Payment Dates						
	Total	2008	2009	2010	2011	2012	Thereafter
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Long-term debt ⁽⁷⁾	441,985			37,500	404,485		
Capital contributions	18,600	18,600					
Capital commitments ⁽⁸⁾	16,523	16,523					
Purchase commitments	21,470	21,470					
Operating leases ⁽⁹⁾	68,123	22,548	2,281	2,033	1,754	1,790	37,717
Total contractual cash obligations	566,701	79,141	2,281	39,533	406,239	1,790	37,717

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees for fourteen years in Hunan, the Company has acquired 59,313 hectares of plantation trees for \$250.0 million as at December 31, 2007.

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

Under the master agreement entered in July 2006 to secure at least 1.5 million cubic meters of wood fibre for twelve years in Inner Mongolia, the Company has acquired 17,000 cubic meters of wood fibre as at December 31, 2007.

Under the master agreement entered in December 10, 2007 to acquire 150,000 hectares of plantation trees for 5-year in Guangxi, the Company has not acquired any wood fibre as at December 31, 2007.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of December 31, 2007, we had provided guarantees of approximately \$112.1 million to banks in connection with credit facilities granted to our subsidiaries. These guarantees expire at the maturity of the underlying debt, which are for varying terms of less than one year, unless the underlying debt is renewed.

Historical and Planned Capital Expenditures

The following table sets forth the breakdown of our capital expenditures for the fourth quarter and year ended December 31, 2007:

(in millions)	Three months ended		Twelve months ended	
	December 31, 2007		December 31, 2007	
	Hectares	\$	Hectares	\$
Tree acquisition – Purchased plantations	21,477	271.5	404,517	623.7
Re-planting and maintenance of plantations		10.1		23.3
Panel manufacturing and other operations		6.2		12.6
Total		287.8		659.6

Capital expenditures incurred in relation to forestry plantations were for obtaining additional purchased-tree plantations and planted-tree plantations, and a variety of plantation management costs, including land lease costs, the costs of planting, developing seedlings, fertilization, insecticide, labor and plantation maintenance service fees. Capital expenditures in relation to the manufacturing plants were for investing in manufacturing plants, including the costs of constructing the facilities and purchasing and installing production line equipment.

Forestry plantations capital expenditures for 2008 are expected to exceed \$700 million. Capital expenditures in 2008 relating to the manufacturing operations are expected to be approximately \$30 million.

It is expected that 2008 capital expenditures will be funded primarily by cash flows from operations.

Independent Valuation of our Forest Assets by Poyry

Poyry has determined the valuation of our forest assets as at December 31, 2007 to be \$1,245.3 million. This is the result of a valuation of the existing planted and purchased areas using a 11.5% discount rate applied to real, pre-tax cash flows. As at year end 2007, the book value of our timber holdings was \$1,174.2 million.

Poyry has also prepared an existing forest valuation that includes the revenues and costs of re-establishing and maintaining the plantation forests for a 50-year period (perpetual rotation valuation). Sino-Forest has an option to lease the land at purchased tree plantations for future rotations, the terms of which have yet to be agreed. Poyry has determined the valuation of our forest assets based on a perpetual rotation (including the planned expansion in Hunan, Yunnan and Guangxi Province) using a pre-tax discount rate of 11.5% to be \$3,205.2 million as at December 31, 2007.

The complete valuation report by Poyry will be available on our website at www.sinoforest.com under 'Filings' or filed with SEDAR at www.sedar.com on or about March 31, 2008.

Aging of Accounts Receivable

We recognize revenue from sales of standing timber when the buyer has signed the sales contract. The buyer is generally responsible for logging and hauling the timber from the plantations. After the buyer has entered into the sales contract, we generally give the buyers of our standing timber up to 18 months to log and haul the timber from the plantations, and generally grant buyers a credit period of up to nine months from the date of the sales contract. We generally require a partial payment of approximately 20% of the purchase price within 60 days of the sales contract, payment of 40% of the purchase price within 150 days of the sales contract and the remaining 40% within nine months of the sales contract. In addition, we have credit evaluation on customers as necessary and have monitoring processes intended to mitigate credit risk and maintain appropriate provisions for potential credit losses. We believe these measures mitigate our credit risks in our sales of standing timber. We generally grant our customers in our trading activities credit terms of 60 days for domestic sales of wood chips through authorized intermediaries, and 30 to 120 days with respect to domestic sales of imported logs and wood-based products. As a result, we may have large outstanding balances of accounts receivable with respect to sales of wood chips, wood-based products and standing timber. The following table sets forth an aging analysis of our accounts receivable for 2007 and 2006:

	Aging Analysis						Over One Year \$'000
	Total	0-30	31-60	61-90	91-180	181-360	
	Accounts Receivable \$'000	Days \$'000	Days \$'000	Days \$'000	Days \$'000	Days \$'000	
At December 31, 2007	105,329	81,980	6,006	13,360	3,704	279	
At December 31, 2006	124,784	84,216	33,651	5,118	1,610	189	-

Inflation

Inflation in the PRC has not had a significant impact on Sino-Forest's results of operations in recent years. According to the National Bureau of Statistics in the PRC, the change in the Consumer Price Index in the PRC was 1.8%, 1.5% and 4.8% in 2005, 2006 and 2007, respectively.

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 Corporate Income Tax Laws effective January 1, 2008 ("New CIT Law"), WFOEs, Sino-foreign equity and co-operative joint venture enterprises ("CJV") are subject to corporate income tax at an effective rate of 25% [2007 - 24% to 33%] on income as reported in their statutory financial statements. Pursuant to the old Income Tax Laws, qualifying PRC WFOEs and CJVs engaged in agriculture and manufacturing are eligible for an exemption from state 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 has not yet commenced, it will be deemed to begin on January 1, 2008. Pursuant to the New CIT Law, the PRC WFOEs and CJVs engaged in plantation are eligible for an exemption from income taxes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)

Sino-Forest's tax charges for the years ended December 31, 2007 and 2006 were \$18.0 million and \$13.2 million, respectively, which represented effective tax rates of 11.2% and 12.5%, respectively. Such effective tax rates are significantly lower than applicable corporate income tax rates because the majority of income remitted to Sino-Forest from authorized intermediaries was already taxed. 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, 2007. In the ordinary course of business, we enter into operating lease commitments, capital commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with Canadian GAAP and are more fully discussed above.

TRANSACTIONS WITH RELATED PARTIES

Pursuant to the respective service agreements, Sino-Forest pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred in 2007 amounted to \$4,587,000 [December 31, 2006 - \$4,136,000].

In addition, as at December 31, 2007, we had an aggregate amount of \$3,950,000 [December 31, 2006 - \$3,150,000] owed to these related companies.

QUARTERLY FINANCIAL INFORMATION

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

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended December 31, 2007:

(in thousands, except per share amounts)	Revenue \$	Net Income \$	Earnings Per Share ^{(B)(4)}	
			Basic \$	Diluted \$
2007				
December 31	310,850	47,397	0.26	0.26
September 30	161,475	67,024	0.37	0.37
June 30	128,764	24,994	0.15	0.15
March 31	112,777	12,858	0.09	0.09
2006				
December 31	233,261	42,528	0.31	0.30
September 30	150,818	45,104	0.33	0.32
June 30	84,173	14,360	0.10	0.10
March 31	87,228	9,464	0.07	0.07

The quarterly financial information has not been restated for the adoption of a new accounting policy for uncertain income tax positions as the effect of the change on net income for the year is insignificant.

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 63.9% of the Company's consolidated total assets as at December 31, 2007. Timber holdings are carried on the Company's consolidated balance sheet at cost which includes cost of young trees, standing timber, and planting and maintenance costs. The Company reviews the recoverability of the carrying value of its timber holdings on an annual basis or whenever events or changes in circumstances indicate that the carry amount may not be recoverable. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on timber holdings are measured as the amount by which the carrying value of the asset exceeds its fair value.

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

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

Capital Assets

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)

Revenue Recognition**Standing Timber**

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

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

Provision for Tax Related Liabilities

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

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

Included in accounts payable and accrued liabilities including discontinued operations as at December 31, 2007 is the balance of the provision for these tax related liabilities amounting to \$80,165,000 [2006 - \$66,558,000] 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 including prior periods.

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

Change in Accounting Policies

Financial Instruments and Comprehensive Income

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections, Section 3855 Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation, Section 3865 Hedges, Section 1530 Comprehensive Income and Section 3251 Equity. These accounting standards introduce new requirements for recognition and measurement of financial instruments, the application of hedge accounting, the reporting and display of comprehensive income as well as the recognition of certain transition adjustments. The adoption of these Sections is done retroactively without restatement of the consolidated financial statements of the prior period except for the presentation of unrealized foreign currency translation adjustments arising from self-sustaining foreign operations which are presented as part of other comprehensive income retroactively.

Deferred financing costs relating to the non-convertible senior notes and the syndicated loan facility amounting to \$8,713,000 as at January 1, 2007 that were previously reported in other assets, are now recorded against the carrying value of the related debt and amortized into interest expense using the effective interest method. Prior to the adoption of the new standards, the amortization of deferred financing costs was reported as a separate line in the consolidated statement of income. Deferred financing costs will no longer be amortized using the straight-line method, and will be taken into the income statement and recorded as interest expense using the effective interest method over the term of the related debt. Effective January 1, 2007, a cumulative adjustment was made to account for the difference between the accumulated amortization of deferred financing costs using the effective interest method and the straight-line method. This resulted in a decrease in long-term debt and an increase in equity of \$1,097,000 net of tax of nil.

Upon adoption of CICA Section 3865, the Company determined that its foreign currency swap [note 9] did not qualify for hedge accounting treatment. As a result, the fair value of the swap as at January 1, 2007 was included as a liability on the balance sheet through an adjustment to equity, decreasing it by \$9,786,000.

The effect of these changes in accounting policies on net income for the three month and twelve month periods ending December 31, 2007 is not significant.

Income Taxes

On January 1, 2007, the Company voluntarily adopted a new policy for accounting for uncertainty in income taxes. As a result of this change in accounting policy, the Company recorded a non-cash charge of \$28,094,000 in equity as of January 1, 2006 with an offset to current liabilities. Under its previous policy, the Company would reserve for tax contingencies if it was probable that an uncertain position would not be upheld, the amount of the reserve being the single best estimate that could be reasonably estimated.

Under its new accounting policy, the Company evaluates a tax position using a two-step process.

Step 1 – Recognition requires the Company to determine whether a tax position, based solely on technical merits, has a likelihood of more than 50 percent ("more-likely-than-not") that the tax position taken or to be 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 the recognition threshold has been met, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis, that is greater than 50% likely of being realized upon ultimate settlement.

The Company believes that this new policy will provide reliable and more relevant information because all uncertain tax positions of the Company will be affirmatively evaluated for recognition and derecognition using a consistent threshold of more-likely-than-not, based on the technical merits of a tax position.

The Company recognizes interest and penalties related to unrecognized tax benefits as an income tax expense.

The reader is referred to Note 2 in the accompanying consolidated financial statements for the year ended December 31, 2007 for further details regarding the adoption of these standards.

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)

Accounting Changes

In July 2006, the CICA reissued CICA Handbook Section 1506, "Accounting changes". CICA 1506 requires that voluntary changes in accounting policy are only made if they result in the financial statements providing reliable and more relevant information. In addition, the standard establishes the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. The revised standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007.

Future Accounting Standards

During the fourth quarter of 2006, the CICA issued three new accounting standards: CICA Handbook Section 1535 "Capital Disclosure", CICA Handbook Section 3863 "Financial Instruments – Presentation" and CICA Handbook Section 3862 "Financial Instruments – Disclosure". These standards are effective for interim and annual financial statements for the Company's reporting period beginning on January 1, 2008.

The Capital Disclosures section describes the standards for disclosing information about a company's objectives, policies and processes for managing capital, quantitative data about what a company regards as capital and whether a company has complied with any capital requirements and, if not, the consequences of such non-compliance. Financial Instruments – Presentation carries forward the guidance under Section 3861 with little change and Financial Instruments – Disclosures requires disclosure on the face of the balance sheet of each of the financial instrument categories as well as additional disclosure regarding credit, market and liquidity risk faced by the Company.

In March 2007, the CICA approved Handbook Section 3031 Inventories, which replaces the existing Section 3030 Inventories. This standard is effective for the Company's reporting period beginning on January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

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 chips, 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 over the next five years. 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 2007 and 2006, 81.6% and 68.9% of our sales were received in Renminbi respectively and 18.4% and 31.1% of our sales were received in U.S. dollars and Hong Kong dollars respectively. We translate our results of foreign operations in U.S. dollars. We expect in the future that substantially all of our sales will be received in Renminbi. The majority of our operating expenses are denominated in Renminbi and Hong Kong dollars.

A portion of our revenue in Renminbi is converted into other currencies to meet foreign currency financial obligations denominated in currencies other than Renminbi. We have a substantial amount of indebtedness denominated in U.S. dollars. We cannot predict the effect that currency exchange rate fluctuations may have on our U.S. dollar operating results or cash flows.

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. The Renminbi to U.S. dollar exchange rate has been relatively stable since 1994 until a revaluation against the U.S. dollar since July 2005. 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, 2007, we had Renminbi denominated bank accounts of RMB454.6 million (equivalent to \$62.0 million) [2006 – RMB250.3 million, equivalent to \$32.0 million], U.S. dollar denominated bank accounts of \$275.2 million [2006 – \$127.6 million], Canadian dollar denominated bank accounts of Cdn\$10.1 million (equivalent to \$10.2 million) [2006 – Cdn.\$10.6 million, equivalent to \$9.1 million], Hong Kong dollar denominated bank accounts of HK\$13.6 million (equivalent to \$1.7 million) [2006 – HK\$0.6 million, equivalent to \$0.1 million] and Euro denominated bank accounts of €1.2 million (equivalent to \$1.7 million) [2006 – €2.0 million, equivalent to \$2.7 million]. We also had U.S. dollar and Renminbi denominated accounts receivable of \$16.3 million [2006 – \$40.2 million] and RMB652.2 million (equivalent to \$89.0 million) [2006 – RMB661.5 million, equivalent to \$84.6 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.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debts, primarily on our bank indebtedness. Our debts consist of fixed and variable rate debt obligations with original maturities ranging from less than one to seven years. We undertake debt obligations to support general corporate purposes including capital expenditures and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of our debt obligations carried at fixed rate. We do not currently use any derivative instruments to modify the nature of our debts so as to manage our interest rate risk.

Commodity Price Risk

We are exposed to fluctuations in the prices of standing timber, wood chips 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, wood chips and wood-based products are made at market prices. Therefore, fluctuations in the prices of standing timber, wood chips 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 of standing timber, wood chips 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 establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting. An evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under Multilateral Instrument 52-109, was conducted as of December 31, 2007 to provide reasonable assurance that material information relating to the Company and its subsidiaries would have been summarized and reported on a timely basis and communicated to the Disclosure Committee and senior management. Additionally, the CEO and CFO, together with management, have designed internal controls over financial reporting in accordance with GAAP.

Based on that evaluation, the CEO and CFO have concluded that the design and operation of Sino-Forest's disclosure controls and procedures are effective except as outlined below. It should be noted that while the CEO and CFO have evaluated disclosure controls and procedures for the year ended December 31, 2007 and concluded that they are being maintained as designed, they expect that the disclosure controls and procedures or internal control over financial reporting may not prevent all errors and fraud. A control system, no matter how well designed or operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met.

The Company identified certain material weaknesses and the need for improvement of controls and procedures in areas such as: (i) segregation of duties, (ii) the Company does not have the optimum complement of financial personnel with the technical accounting knowledge in the foreign subsidiaries to address all complex and non-routine transactions that may arise, (iii) completeness, accuracy and timeliness of the period close process including reviewing and monitoring the recording of recurring and non-recurring of journal entries and translation of foreign currency transactions and subsidiary company results, and (iv) information systems are subject to general control deficiencies including lack of effective controls over spreadsheets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)

Over the past year, the Company has made improvements to its financial processes and information systems. Management expects to continue these efforts to further strengthen our internal controls in 2008 and beyond. During Q4 2007, improvements were made to our internal control systems as follows:

- implemented compensating review and monitoring controls by corporate accounting staff on a quarterly basis;
- added a qualified senior financial resource with oversight responsibility for the financial statement close process; and
- implemented changes in roles and responsibilities within the senior finance group.

As a result, management believes two of the four material weaknesses previously disclosed have been effectively remediated. Two remaining control weaknesses, being segregation of duties and information systems are subject to general control deficiencies including lack of effective controls over spreadsheets, continue to exist. During 2007, management has taken steps to address these deficiencies and will continue to monitor and mitigate these weaknesses which are expected to be completed in 2008.

- (1) The results have been revised to reflect the classification of wood chips and commission operations as discontinued operations.
- (2) Gross profit for any period is defined as total revenue less cost of sales. Gross profit is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating performance. Gross profit is not a recognized term under Canadian GAAP and should not be considered as an alternative to net income as an indicator of our operating performance or any other measure of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit may not be comparable to similar measures presented by other companies.
- (3) EBITDA for any period is defined as income from operations for the period after adding back depreciation and amortization, impairment of capital assets as well as depletion of timber holdings from cost of sales, for the period. EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP.

EBITDA is calculated as follows:

	Years ended December 31			Three months ended December 31	
	2007 \$'000	2006 \$'000	2005 \$'000	2007 \$'000	2006 \$'000
Income from continuing operations	197,468	135,145	80,328	79,958	61,710
Plus: depreciation	5,364	3,975	3,099	(1,910)	1,103
depletion of timber holdings	284,808	177,730	140,204	164,354	85,445
	487,640	316,850	223,631	246,222	148,258

- (4) Net Income per share is calculated using the weighted average number of common shares outstanding during each period.
- (5) Represents net income as adjusted for depletion of timber holdings, interest earned from Mandra, depreciation and amortization, amortization of deferred financing costs, stock-based compensation, write-down and loss on disposal of capital assets, gain on disposal of other assets, changes in fair value of financial instrument and other assets, exchange gains and others.
- (6) Represents decreases (increases) in accounts receivable, inventories, prepaid expenses and other assets and increases (decreases) in accounts payable and accrued liabilities and income taxes payable.
- (7) Represents the U.S. dollar denominated debts (after deduction of unamortized deferred financing costs) due in 2010 and 2011.
- (8) Represents commitments to invest in buildings, plant and machinery for investments in the manufacturing plants and timber holdings.
- (9) These represent mainly leases of plantation land.

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 12, 2008



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 sheet of **Sino-Forest Corporation** as at December 31, 2007 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the year ended December 31, 2007. 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 audit.

We conducted our audit 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 19, 2007.

Vancouver, Canada,
March 12, 2008.

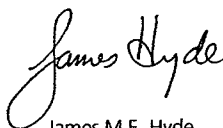
Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

	2007	2006
	\$	\$
As at December 31, (Expressed in thousands of United States dollars)		
ASSETS		
Current		
Cash and cash equivalents	328,690	152,887
Short-term deposits [note 3(a)]	22,163	18,550
Accounts receivable [note 4]	105,329	124,784
Inventories [note 5]	46,661	15,178
Prepaid expenses and other	24,185	19,524
Assets of discontinued operations [note 18]		2,686
Total current assets	527,028	333,609
Timber holdings	1,174,153	752,783
Capital assets, net [note 6]	78,608	87,939
Other assets [note 7]	57,708	32,924
	1,837,497	1,207,255
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 3(b)]	55,383	70,958
Accounts payable and accrued liabilities [note 13(b)]	107,989	68,669
Income taxes payable	1,615	1,121
Liabilities of discontinued operations [note 18]	32,016	38,300
Total current liabilities	197,003	179,048
Long-term debt [note 9]	441,985	450,000
Derivative financial instrument [notes 2 and 9]	11,211	-
Total liabilities	650,199	629,048
Commitments and Contingencies [notes 19 and 20]		
Shareholders' equity		
Share capital [note 10]	537,141	143,511
Contributed surplus [note 11]	3,906	4,726
Accumulated other comprehensive income [note 12]	105,287	32,590
Retained earnings	540,964	397,380
Total shareholders' equity	1,187,298	578,207
	1,837,497	1,207,255

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

	2007	[Restated see notes 2 & 18] 2006
Years ended December 31, (Expressed in thousands of United States dollars, except for earnings per share information)	\$	\$
Revenue	713,866	555,480
Costs and expenses		
Cost of sales	470,825	380,508
Selling, general and administration	40,209	35,852
Depreciation and amortization	5,364	3,975
	516,398	420,335
Income from operations before the undernoted	197,468	135,145
Interest expense	(43,960)	(37,340)
Interest income	15,184	6,486
Exchange gains	12,409	3,676
Write-down of capital assets [note 6]	(20,846)	(877)
Loss on changes in fair value of financial instrument	(2,996)	(1,179)
Other income	3,206	1,312
Amortization of deferred financing costs [note 2]		(1,819)
Income before income taxes	160,465	105,404
Provision for income taxes [note 13]	(18,034)	(13,192)
Net income from continuing operations	142,431	92,212
Net income from discontinued operations [note 18]	9,842	21,268
Net income for the year	152,273	113,480
Earnings per share [note 14]		
Basic	0.91	0.82
Diluted	0.90	0.81
Earnings per share from continuing operations		
Basic	0.85	0.67
Diluted	0.84	0.66
Earnings per share from discontinued operations		
Basic	0.06	0.15
Diluted	0.06	0.15
Retained earnings		
Retained earnings, beginning of year, as previously presented	397,380	311,994
Cumulative impact of accounting changes relating to income taxes [note 2]		(28,094)
Cumulative impact of accounting changes relating to financial instruments [note 2]	(8,689)	-
Retained earnings, beginning of year, as restated	388,691	283,900
Net income for the year	152,273	113,480
Retained earnings, end of year	540,964	397,380

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2007	2006
	\$	\$
(Expressed in thousands of United States dollars)		
Net income for the year	152,273	113,480
Other comprehensive income, net of tax:		
Unrealized loss on financial assets designated as available-for-sale	(738)	-
Unrealized gains on foreign currency translation of self-sustaining operations	73,435	21,194
Other comprehensive income	72,697	21,194
Comprehensive income	224,970	134,674

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, (Expressed in thousands of United States dollars)	[Restated see notes 2 & 18]	
	2007	2006
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	152,273	113,480
Net income from discontinued operations	(9,842)	(21,268)
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	284,808	177,730
Depreciation and amortization	5,364	3,975
Stock-based compensation	2,898	3,105
Amortization of deferred financing costs	-	1,819
Loss on disposal of capital assets	135	212
Write-down of capital assets [note 6]	20,846	877
Gain on disposal of other assets	(3,369)	-
Loss on changes in fair value of financial instrument	2,996	1,179
Loss on changes in fair value of other assets	1,663	-
Interest income from Mandra	(2,100)	(300)
Other	1,645	(150)
Exchange gains	(1,816)	-
	455,501	280,659
Net change in non-cash working capital balances [note 15]	27,000	(16,456)
Cash flows from operating activities of continuing operations	482,501	264,203
Cash flows from operating activities of discontinued operations	3,856	26,169
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	(640,257)	(415,087)
Increase in other assets	(31,225)	(10,000)
Additions to capital assets	(12,571)	(10,028)
(Increase) decrease in non-pledged short-term deposits	(8,698)	11,912
Business acquisition [note 8]	(795)	-
Proceeds from disposal of capital assets	1,073	167
Proceeds from disposal of other assets	151	-
Cash flows used in investing activities	(692,322)	(423,036)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term debt	-	150,000
(Decrease) increase in bank indebtedness	(17,015)	29,175
Issuance of shares, net of issue costs [note 10]	389,912	513
Decrease in pledged short-term deposits	6,180	385
Payment on derivative financial instrument	(2,165)	(872)
Increase in deferred financing costs	-	(3,001)
Cash flows from financing activities	376,912	176,200
Effect of exchange rate changes on cash and cash equivalents	4,856	933
Net increase in cash and cash equivalents	175,803	44,469
Cash and cash equivalents, beginning of year	152,887	108,418
Cash and cash equivalents, end of year	328,690	152,887
Supplemental cash flow information		
Cash payment for interest charged to income	41,971	35,642
Interest received	12,693	6,025

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 inventory obsolescence, product warranty, estimated useful lives of assets, asset impairment of timber holdings and capital 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 the sale of wood chips is recognized when the products are processed by the authorized intermediaries on our behalf and shipped to the customer in accordance with the agreed upon customer terms.

Commission income relating to wood chips sales represents transactions when the Company acts as an agent to the transaction and is recorded on a net basis. Commission income is recognized when the services are rendered.

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 logs and other products are shipped to the customer.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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

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

Derivative financial instruments

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

Convertible Bonds

Convertible bonds 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 fair values of any bifurcated derivative instrument assets exceeds the total disbursement paid, 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.

Inventories

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

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 are depleted when the trees are harvested on the basis of the area of timber cut. Timber holdings from standing timber sales are depleted based on the area of timber sold when the significant risks and rewards of ownership have been transferred to the buyer.

Investments

Investments where the Company does not have significant influence or control are accounted for on the cost basis. 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 and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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

Impairment of long-lived assets

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.

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 expense 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.

Earnings per share ("EPS")

Basic EPS is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method, which assumes that all outstanding stock options grants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

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 intend 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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

2. CHANGES IN ACCOUNTING POLICIES

Financial Instruments and Comprehensive Income

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections, Section 3855 Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation, Section 3865 Hedges, Section 1530 Comprehensive Income, and Section 3251 Equity. These accounting standards introduce new requirements for recognition and measurement of financial instruments, the application of hedge accounting, the reporting and display of comprehensive income as well as the recognition of certain transition adjustments. The adoption of these Sections is done retroactively without restatement of the consolidated financial statements of the prior period except for the presentation of unrealized foreign currency translation adjustments arising from self-sustaining foreign operations which are presented as part of other comprehensive income retroactively.

Deferred financing costs relating to the non-convertible senior notes and the syndicated loan facility amounting to \$8,713,000 as at January 1, 2007 that were previously reported in other assets, are now recorded against the carrying value of the related debt and amortized into interest expense using the effective interest rate method. Prior to the adoption of the new standards, the amortization of deferred financing costs was reported as a separate line in the consolidated statement of income. Deferred financing costs will no longer be amortized using the straight-line method, and will be taken into the income statement and recorded as interest expense using the effective interest rate method over the term of the related debt. Effective January 1, 2007 a cumulative adjustment was made to account for the difference between the accumulated amortization of deferred financing costs using the effective interest rate method and the straight-line method. This resulted in a decrease in long-term debt and an increase in equity of \$1,097,000 net of tax of nil.

Upon adoption of CICA Section 3865, the Company determined that its foreign currency swap [note 9] did not qualify for hedge accounting treatment. As a result, the fair value of the swap as at January 1, 2007 was included as a liability on the balance sheet through an adjustment to equity, decreasing it by \$9,786,000.

Income Taxes

On January 1, 2007, the Company voluntarily adopted a new policy for accounting for uncertainty in income taxes. As a result of this change in accounting policy, the Company recorded a non-cash charge of \$28,094,000 in equity as of January 1, 2006 with an offset to current liabilities. Under its previous policy, the Company would reserve for tax contingencies if it was probable that an uncertain position would not be upheld, the amount of the reserve being the single best estimate that could be reasonably estimated.

Under its new accounting policy, the Company evaluates a tax position using a two-step process.

Step 1 – Recognition requires the Company to determine whether a tax position, based solely on technical merits, has a likelihood of more than 50 percent ("more-likely-than-not") that the tax position taken or to be 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 the recognition threshold has been met, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis, that is greater than 50% likely of being realized upon ultimate settlement.

The Company believes that this new policy will provide reliable and more relevant information because all uncertain tax positions of the Company will be affirmatively evaluated for recognition and derecognition using a consistent threshold of more-likely-than-not, based on the technical merits of a tax position.

The Company recognizes interest and penalties related to unrecognized tax benefits as an income tax expense.

Accounting Changes

On January 1, 2007, the Company adopted the revised Section 1506 Accounting Changes, relating to changes in accounting policies, changes in accounting estimates, and errors. Adoption of these recommendations had no effect on the consolidated financial statements for the year ended December 31, 2007, except for the disclosure of accounting changes that have been issued by the CICA but have not yet been adopted by the Company because they are not effective until a future date (refer to Future Accounting Standards below).

Future Accounting Standards

During the fourth quarter of 2006, the CICA issued three new accounting standards: CICA Handbook Section 1535 "Capital Disclosures", CICA Handbook Section 3863 "Financial Instruments – Presentation" and CICA Handbook Section 3862 "Financial Instruments – Disclosures". These standards are effective for interim and annual financial statements for the Company's reporting periods beginning on January 1, 2008.

Capital Disclosures section describes the standards for disclosing information about a company's objectives, policies and processes for managing capital, quantitative data about what a company regards as capital and whether a company has complied with any capital requirements and, if not, the consequences of such non-compliance. Financial Instruments – Presentation carries forward the guidance under Section 3861 with little change and Financial Instruments – Disclosures requires disclosure on the face of the balance sheet of each of the financial instrument categories as well as additional disclosure regarding credit, market and liquidity risk faced by the Company.

In March 2007, the CICA approved Handbook Section 3031 Inventories, which replaces the existing Section 3030 Inventories. This standard is effective for interim and annual financial statements for the Company's reporting period beginning on January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

3. SHORT-TERM DEPOSITS AND BANK INDEBTEDNESS

[a] Short-term deposits

As at December 31, 2007, short-term deposits were made for varying periods less than twelve months [2006 – less than twelve months] depending on the immediate cash requirements of the Company, and earn interest at rates of 1.4% to 5.6% per annum [2006 – 1.4% to 5.1%].

[b] Bank indebtedness

Subsidiaries of the Company have established several credit facilities to a maximum of approximately \$133,908,000 [2006 – \$90,569,000]. These credit facilities bear interest at a weighted average rate of 6.2% per annum as at December 31, 2007 [2006 – 6.4%] and are repayable on demand or due in less than one year.

As at December 31, the following credit facilities were utilized:

	2007	2006
	\$	\$
Trust receipt loans	27,848	49,482
Bank loans	27,535	21,476
	55,383	70,958

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, 2007 of \$11,445,000 [2006 – \$6,940,000]; and
- [b] certain short-term deposits at December 31, 2007 of \$260,000 [2006 – \$6,071,000].

4. ACCOUNTS RECEIVABLE

The Company reviews its outstanding accounts receivable and records an allowance for doubtful accounts when accounts are determined to be uncollectible. Accounts receivable are substantially from companies located in the People's Republic of China ("PRC") and denominated in Renminbi and U.S. dollars. Accounts receivable as at December 31, 2007 included \$40,132,000 due from three customers [2006 – \$56,765,000 due from three customers] representing 38% [2006 – 45%] of outstanding accounts receivable. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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

5. INVENTORIES

Inventories consist of the following:

	2007	2006
	\$	\$
Raw materials	1,271	1,169
Work in progress	15,172	6,685
Finished goods	5,471	2,240
Timber logs	20,826	2,360
Nursery	3,921	2,724
	46,661	15,178

6. CAPITAL ASSETS

Capital assets consist of the following:

	2007		2006	
	Cost	Accumulated depreciation and amortization	Cost	Accumulated depreciation and amortization
	\$	\$	\$	\$
Machinery and equipment	59,155	3,581	81,161	10,458
Buildings	15,694	2,160	11,235	1,574
Land-use rights	5,816	842	5,148	679
Office furniture and equipment	2,203	1,060	1,577	899
Vehicles	4,692	1,309	3,425	997
	87,560	8,952	102,546	14,607
Less: accumulated depreciation and amortization	(8,952)		(14,607)	
Net book value	78,608		87,939	

Buildings, machinery and equipment of \$25,841,000 [2006 – \$31,427,000] 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 the fourth quarter of 2007, the Company completed an impairment analysis for certain manufacturing facilities. This analysis 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 market value resulting in a capital assets write-down of \$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:

	2007	2006
	\$	\$
Investment in Mandra Holdings [a]	2	2
Subordinated loan and interest receivable [a]	18,167	16,067
Prepaid plantation costs [b]	23,565	-
Investment in Omnicorp and Greenheart [c]	4,354	-
Convertible bond [c]	919	-
Derivative financial instrument [c]	3,149	-
Deferred financing costs, net [note 2]	-	8,713
Deposit for purchase of logs [d]	5,700	8,000
Other	1,852	142
	57,708	32,924

- [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 Holdings at their then fair market value.

The subordinated loan carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of its \$195 million of debt securities due in May 2013. The subordinated loan is secured by a 75% equity interest in Mandra Holdings. Included in the balance of the subordinated loan and interest receivable is accrued interest of \$3,167,000 [2006 – \$1,067,000]. The Company's maximum exposure of loss from Mandra is limited to the Company's investment in and subordinated loan and related interest receivable.

- [b] In September 2007, the Company entered into two agreements to lease 10,438 hectares of plantation land in Yunnan for 30 years for approximately \$21.9 million of which \$9.3 million was paid. The remaining amount represents 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 cubic meters of logs from Suriname for \$175 per cubic meter up to January 31, 2009. In addition, the Company invested \$6.0 million to acquire approximately 13% of the equity interests in Greenheart. In August 2007, Omnicorp Limited ("Omnicorp"), a listed company in Hong Kong, entered into an agreement with the existing shareholders of Greenheart to acquire approximately 60.3% of the equity interests in Greenheart with an option to acquire the remaining equity interests within 18 months after the completion of the sale. The transaction was completed on November 8, 2007 for consideration to the Company consisting of 7,860,000 Omnicorp common shares, convertible bonds at a principal amount of \$3,975,000 (equivalent to HK\$31,047,000) issued by Omnicorp which matures on November 9, 2009 and cash of \$302,000 (equivalent to HK\$2,358,000) resulting in a gain of \$3,369,000 being recorded in other income. In October 2007, the Company acquired convertible bonds issued by Omnicorp for \$1,756,000 (equivalent to HK\$13,650,000) from other bondholders. The bonds are convertible at HK\$2.00 of face value per Omnicorp common shares.

The convertible bonds were assessed under CICA Handbook 3855 as containing an embedded derivative financial instrument. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. This derivative asset was initially recorded at its fair value using the Black Scholes model at inception of \$4,965,000 and adjusted to its fair value of \$3,149,000 at December 31, 2007 resulting in a charge of \$1,816,000 recorded in other income.

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). 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 of \$153,000 recorded in other income.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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

8. BUSINESS ACQUISITION

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 consist of the following:

	2007	2006
	\$	\$
Senior Notes [a]	300,000	300,000
Syndicated Loans [b]	150,000	150,000
Unamortized deferred financing costs	(8,015)	-
	441,985	450,000

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

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

On August 16, 2004, the Company entered into a currency swap contract. Under the terms of the contract, the Company hedged RMB113,290,070 on each of August 17 and February 17 in exchange for \$13,687,500. The U.S. dollars will be used to fully pay the Company's interest payments on the \$300,000,000 senior notes due on those dates. The term of the contract is five years. Management estimates that a loss of \$11,211,000, being the fair value of the contract, would be realized if the contract was terminated on December 31, 2007. The fair value decrease of \$1,425,000 has been recorded in loss on changes in fair value of financial instrument.

The fair value of the non-convertible guaranteed senior notes as at December 31, 2007 were approximately \$316,000,000 [2006 – \$324,000,000].

Total interest expense on the notes for the year was \$28,616,000 [2006 – \$27,375,000].

[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 1.10% per annum. EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortization and all other non-cash items reducing consolidated net income (except depletion of timber holdings) less all non-cash items increasing consolidated net income. The facility is guaranteed by the Subsidiary Guarantors and rank at least pari passu with the claims of all other unsecured, unsubordinated creditors of the Company and the Subsidiary Guarantors, except for obligations mandatory preferred by law applying to companies generally. The facility will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. The facility was fully drawn down in 2006. Principal of \$37,500,000 will be repayable in 2010 and the remaining balance in 2011.

Total interest expense on the syndicated loans for the year was \$10,573,000 [2006 – \$6,714,000].

The carrying amount of the syndicated loans approximates their fair value.

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

10. SHARE CAPITAL

Share capital consists of the following:

	2007		2006	
	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	137,999,548	143,511	137,789,548	142,815
Issue of shares	41,255,191	379,142	-	-
Exercise of options	3,338,222	10,770	210,000	513
Transfer from contributed surplus		3,713	-	183
Balance, end of year	182,592,961	537,141	137,999,548	143,511

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, 2007 is Cdn.\$677,547,313 [2006 – Cdn.\$ 228,637,336].

During the years ended December 31, 2006 and 2007, the movements in share capital were as follows:

- [a] During the year ended December 31, 2006, 210,000 stock options were exercised for proceeds of \$513,000.
- [b] 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.
- [c] 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.
- [d] During the year ended December 31, 2007, 3,338,222 stock options were exercised for proceeds of \$10,770,000.