CONSOLIDATED BALANCE SHEETS

As at December 31 [Expressed in thousands of United States dollars]	2005 $	2004 $
ASSETS		
Current		
Cash and cash equivalents	**108,418**	201,166
Short-term deposits [note 3]	**30,268**	24,089
Accounts receivable [note 4]	**119,989**	81,787
Due from PRC CJV partners [note 5]	**3,842**	3,890
Inventories [note 6]	**7,622**	2,736
Prepaid expenses and other	**7,201**	6,992
Total current assets	**277,340**	320,660
Timber holdings	**513,412**	359,607
Capital assets, net [note 7]	**81,077**	66,269
Other assets [note 8]	**23,442**	9,513
	895,271	756,049
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 3]	**41,312**	28,508
Accounts payable and accrued liabilities [note 12]	**85,212**	54,719
Income taxes payable	**738**	568
Total current liabilities	**127,262**	83,795
Long-term debt [note 9]	**300,000**	300,000
Total liabilities	**427,262**	383,795
Commitments and Contingencies [notes 17 and 18]		
Shareholders' equity		
Share capital [note 10]	**142,815**	138,915
Contributed surplus [note 11]	**1,804**	3,032
Cumulative translation adjustment	**11,396**	—
Retained earnings	**311,994**	230,307
Total shareholders' equity	**468,009**	372,254
	895,271	756,049

See accompanying notes

On behalf of the Board:

Allen T.Y. Chan
Director

James M.E. Hyde
Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended December 31 [Expressed in thousands of United States dollars, except for earnings per share information]	2005	2004
	$	$
Revenue	493,301	330,945
Costs and expenses		
Cost of sales	356,430	229,433
Selling, general and administration	21,165	22,007
Depreciation and amortization	3,099	2,470
Impairment of capital assets	–	3,646
	380,694	257,556
Income from operations before the undernoted	112,607	73,389
Interest expense	(28,994)	(15,875)
Interest income	4,179	1,366
Other exchange gains	1,253	2,682
Amortization and write-off of deferred financing costs	(1,338)	(4,317)
Other income	1,236	383
Exchange gains on long-term debt	–	190
Income before income taxes	88,943	57,818
Provision for income taxes [note 12]	(7,256)	(5,044)
Net income for the year	81,687	52,774
Retained earnings, beginning of year	230,307	177,533
Retained earnings, end of year	311,994	230,307
Earnings per share [note 13]		
Basic	0.59	0.43
Diluted	0.59	0.43

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 [Expressed in thousands of United States dollars]	2005 $	2004 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	81,687	52,774
Add [deduct] items not affecting cash		
Depletion of timber holdings included in cost of sales	140,204	45,158
Depreciation and amortization	3,099	2,470
Stock-based compensation	2,672	6,932
Amortization and write-off of deferred financing costs	1,338	4,317
Interest income from Mandra	[767]	–
Other	[153]	438
Impairment of capital assets	–	3,646
Amortization of redemption premium on long-term debt	–	2,015
	228,080	117,750
Net change in non-cash working capital balances [note 14]	[31,625]	1,612
Cash flows from operating activities	196,455	119,362
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase [decrease] in bank indebtedness	12,532	[10,517]
[Increase] decrease in pledged short-term deposits	[1,024]	3,398
Increase in long-term debt	–	300,000
Repayment of long-term debt	–	[101,189]
Issuance of shares, net of issue costs [note 10]	–	67,576
Increase in deferred financing costs	–	[9,364]
Decrease in amounts due to related parties	–	[3,937]
Cash flows from financing activities	11,508	245,967
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	[265,158]	[159,101]
Additions to capital assets	[16,584]	[6,083]
Increase in other assets	[14,501]	[95]
Increase in non-pledged short-term deposits	[5,155]	[5,813]
Cash flows used in investing activities	[301,398]	[171,092]
Effect of exchange rate changes on cash and cash equivalents	687	–
Net [decrease] increase in cash and cash equivalents	[92,748]	194,237
Cash and cash equivalents, beginning of year	201,166	6,929
Cash and cash equivalents, end of year	108,418	201,166
Supplemental cash flow information		
Cash payment for interest charged to income	28,994	9,038
Cash payment for interest capitalized	–	1,826

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. For the periods beginning January 1, 2005, the consolidated financial statements of the Company include the accounts of entities for which the Company is the primary beneficiary.

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 asset impairment of timber holdings and capital assets and income taxes.

Revenue Recognition

Revenue from standing timber is recognized when the contract for sale is entered into which establishes a fixed or determinable sales price with the customer whereby ultimate collection of the revenue is reasonably assured.

Revenue from the sale of wood chips is recognized when the products are processed by the authorized intermediaries on our behalf. We regularly evaluate the facts and circumstances in relation to the criteria within appropriate accounting guidelines and use our best judgment to determine whether to report on a gross or net basis for wood chips processed by authorized intermediaries. Currently, the facts and circumstances surrounding the wood chips business support the reporting of the sales on a gross basis as the Company acts as a principal to the transaction. The sales and cost of sales relating to this business reported on a gross basis was $142,301,000 and $119,208,000 respectively [2004 – $142,194,000 and $117,162,000]. 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 the sale of logs and other products is recognized when the logs and other products are shipped to the customer.

Foreign Currency Translation

Management has reassessed its evaluation of the method of translation for its foreign subsidiaries and has concluded that the current rate method is more appropriate. This change resulted from a combination of the continued increase in the operational exposure in the Renminbi dollar, substantially Renminbi dollar based assets of the foreign operations and their continued growth in the business activities conducted in Renminbi dollars. The Company's reporting currency will continue to be U.S. dollars. The change did not have a material impact on the previous financial statements as the Renminbi was pegged against the U.S. dollar prior to August 2005. Accordingly, the assets and liabilities of the foreign operations 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 cumulative translation adjustment 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.

Derivative Financial Instruments

The Company operates substantially in the PRC, which gives rise to risks that its earnings and cash flows may be adversely impacted by fluctuations in foreign exchange conversion rates. The Company uses derivative financial instruments such as foreign currency swaps to hedge its risk associated with fluctuations. The Company does not enter into derivative financial instruments for trading or speculative purposes. Gains and losses arising from these contracts offset the foreign exchange losses or gains from the underlying hedged amount.

Inventories
Inventories are stated at lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate portion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Timber Holdings
Timber holdings 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 when the significant risks and rewards of ownership have been transferred to the buyer, which occurs when the contract for sale is entered into with the customer.

Investments
Investments where the Company does not have significant influence 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, as determined by the discounted future cash flows of the asset group.

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.

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 are deferred and amortized over the term of the related long-term debt on a straight-line basis.

Offsetting of Financial Assets and Financial Liabilities
Financial assets and financial liabilities are presented net when we have 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.

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2005 the Company adopted the accounting guideline for Consolidation of Variable Interest Entities (AcG-15). AcG-15 relates to the application of consolidation of certain entities which the usual condition (ownership of voting interest) of consolidation does not exist. The purpose of AcG-15 is to provide guidance for determining when a company includes the assets, liabilities and results of activities of such an entity (a "variable interest entity") in its consolidated financial statements.

An entity is classified a variable interest entity ("VIE") under AcG-15 if it has (1) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) equity investors that cannot make significant decisions about the entity's operations, or that do not absorb the expected losses or receive the expected returns of the equity. A company must consolidate a VIE if the company is its primary beneficiary. A company is a primary beneficiary of a VIE if the company holds variable interests that expose it to absorb a majority of the expected losses or will receive the majority of the expected residual returns or both, as a result of ownership, contractual or other financial interests in the VIE.

Entities that are outside of the scope of AcG-15 or that do not meet the definition of variable interest entities are consolidated if the Company owns a majority of the entity's voting interests.

Co-operative Joint Ventures

The Company, through wholly-owned subsidiaries of Sino-Wood Partners, Limited ("Sino-Wood"), a directly wholly-owned subsidiary of the Company, entered into agreements to form four Co-operative Joint Ventures ("CJVs"). Under the terms of the agreements, the CJV partners are required to provide the CJVs with land-use rights for up to 583,000 hectares of land for tree plantations. Sino-Wood's subsidiaries are responsible for providing funds to the CJVs for all planting, maintenance and harvesting costs incurred on the phased-in land. The subsidiaries are entitled to 70% of the timber harvested on the phased-in land and the CJV partners are entitled to the balance.

Since the Company provides all of the financing of the CJVs they are within the scope of AcG-15. The CJV's are not eligible for voting control assessment as there is no equity instrument that typically provides voting rights which would be used to assess voting control for purposes of consolidation. The variable interest in the CJV is the CJV agreement itself which outlines the party's rights to revenue, responsibility for costs and for providing capital to fund the operations. On the basis of the terms of the engagement, the Company is the primary beneficiary and therefore should consolidate the CJV's assets, liabilities and results of activities.

Prior to the assessment of the impact of these new standards the Company accounted for the CJV's on the proportionate consolidation basis. The Company consolidated the balance sheet of the CJV's as if it is a 100% owned subsidiary which is consistent with the current accounting treatment. The CJV records the costs associated with forestry plantation management fees and forestry plantation operation servicing fees, including the costs for forestry planning, soil preparation, planting and fertilizing as standing timber assets and then as cost of sales when the trees are sold.

Once the trees are sold the CJV records 100% of the amount of the sale and reflects the revenue obligation and records the obligation to the CJV partner. The amount is recorded in the CJV income statement as a reduction of revenue rather than as an expense. The Company is responsible for paying 70% of PRC taxes and charges and other operating expenses incurred by the CJV. The CJV records these costs as expenses in the income statement as incurred. The PRC partner is responsible for 30% of PRC taxes and charges and other operating expenses. One hundred percent of the other operating expenses are recorded by the CJV. The PRC partner then reimburses the CJV for its 30% share of the other operating expenses. The CJV partner records the reimbursement as a credit to actual expenses such that only 70% of the other operating expenses are recorded in the CJV's income statement.

The change in the accounting policy has no financial impact on the Company's financial statements.

The revenue of the CJV's recorded by the Company in its consolidated financial statements for the years ended December 31, 2005 and 2004 were $3,538,000 and $2,531,000 respectively.

3. SHORT-TERM DEPOSITS AND BANK INDEBTEDNESS

[a] Short-term Deposits

As at December 31, 2005, short-term deposits are made for varying periods of between one month to twelve months [2004 – one month to twelve months] depending on the immediate cash requirements of the Company, and earn interest at rates of 1.2% to 4.3% per annum [2004 – 0.4% to 2.6%].

[b] Bank Indebtedness

Subsidiaries of the Company have established several credit facilities to a maximum of approximately $54,137,000 [2004 – $38,591,000]. These credit facilities bear interest at 4.1% to 7.3% per annum as at December 31, 2005 [2004 – 3.9% to 5.9%] and are repayable on demand or due in less than one year.

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

	2005	2004
	$	$
Trust receipt loans	27,253	17,334
Bank loans	14,059	11,174
	41,312	28,508

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, 2005 of $3,713,000 [2004 – $4,600,000]; and

[b] certain short-term deposits at December 31, 2005 of $6,166,000 [2004 – $5,142,000].

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 PRC and denominated in Renminbi and U.S. dollars. Accounts receivable as at December 31, 2005 included $45,731,000 due from three customers [2004 – $43,136,000 due from three customers]. Included in accounts receivable are amounts due from authorized intermediaries of $25,881,000 [2004 – $50,179,000] which represents amounts receivable from the sale of wood chips by the authorized intermediaries less amounts payable to them for the purchase of timber on behalf of the Company and processing costs to convert the timber into wood chips by them on the Company's behalf totaling $21,607,000 [2004 – $41,501,000]. The Renminbi currency 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 wood chips and standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other PRC liabilities.

5. DUE FROM PRC CJV PARTNERS

The amounts due from PRC CJV partners relate primarily to commission income and accounts receivable related to wood chips trading and sales and for reimbursement of office expenses. The amounts are unsecured and non-interest bearing. Amounts due from PRC CJV partners are expected to be settled in the next twelve months.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS [cont'd]

6. INVENTORIES

Inventories consist of the following:

	2005 $	2004 $
Nursery	2,890	–
Wood products	2,730	1,098
Raw materials	1,207	604
Work in progress	795	1,034
	7,622	2,736

7. CAPITAL ASSETS

Capital assets consist of the following:

	2005		2004	
	Cost $	Accumulated depreciation and amortization $	Cost $	Accumulated depreciation and amortization $
Machinery and equipment	75,059	8,604	59,270	6,281
Buildings	8,760	1,079	7,683	780
Land-use rights	4,980	539	4,862	435
Office furniture and equipment	1,362	764	1,011	634
Vehicles	2,574	672	2,003	430
	92,735	11,658	74,829	8,560
Less: accumulated depreciation and amortization	[11,658]		[8,560]	
Net book value	81,077		66,269	

Buildings, machinery and equipment of $42,034,000 [2004 – $29,677,000] 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 year [2004 – $1,826,000].

8. OTHER ASSETS

Other assets consist of the following:

	2005 $	2004 $
Investment in Mandra Holdings	2	–
Subordinated loan and interest receivable	15,767	–
Deferred financing costs, net	7,531	8,869
Other	142	644
	23,442	9,513

On May 11, 2005, 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").

Mandra Forestry Finance Limited ("Mandra Finance") has raised third party debt financing to implement the Mandra Project (the "Financing"), which Mandra Finance is currently undertaking. The Financing was in the form of an international private placement consisting of $195 million of debt securities, together with warrants to subscribe for up to 20% (on a fully diluted basis) of the ordinary equity shares of Mandra Forestry Holdings Limited ("Mandra Holdings"), the parent corporation of Mandra Finance, for nominal consideration. In connection with the completion of the Financing, the parties entered into agreements pursuant to which the Company has made a $15 million subordinated loan (the "Subordinated Loan") to Mandra Holdings, acquired 15% equity in Mandra Holdings for nominal consideration, and will have the exclusive right and commitment to purchase the timber harvested from the Plantations at prevailing market prices less a 3% discount. In addition, the Company will provide an array of advisory services and technical expertise to assist Mandra Finance in identifying, acquiring and developing these resources. Subject to certain conditions, the Company will have an option to acquire all the other outstanding shares of Mandra Holdings at their then fair market value.

Mandra is a VIE under AcG-15. Since the Company is not the primary beneficiary it does not include the assets, liabilities and results of activities of Mandra in its consolidated financial statements.

The Subordinated Loan carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of the $195 million of debt securities due in May 2013. The Subordinated Loan is secured on 75% equity interest in Mandra Holdings. Included in the balance of the subordinated loan and interest receivable is accrued interest of $767,000. The Company's maximum exposure of loss from Mandra is limited to the Company's investment in and subordinated loan to Mandra Holdings and related interest receivable.

9. LONG-TERM DEBT

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 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 notes; and
- 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.

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. The Company received $750,000 from the counterparty to enter into this contract. This amount is amortized into income over the term of the contract on a straight-line basis.

The fair value of the non-convertible guaranteed senior notes and the currency swap contract as at December 31, 2005 were approximately $322,000,000 [2004 – $330,000,000] and $9,230,000 [2004 – $11,550,000] respectively.

Interest expense for the year was $27,375,000 [2004 – $10,219,000].

Under the terms of the above debt agreement, 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). The Company complied with all of these financial and non-financial covenants as at December 31, 2005.

10. SHARE CAPITAL

Share capital consists of the following:

	2005 $	2004 $
Authorized		
Unlimited common shares, without par value		
Unlimited preference shares, issuable in series, without par value		
Issued		
137,789,548 common shares [2004 – 136,589,548 common shares]	**142,815**	138,915
	142,815	138,915

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, 2005 is Cdn.$227,820,790 [2004 – Cdn.$222,668,470].

Pursuant to articles of amendment filed by the Company on June 22, 2004, the Class A Subordinate Voting Shares of the Company were reclassified as common shares and the Class B Multiple Voting Shares of the Company were eliminated during the year ended December 31, 2004.

During the years ended December 31, 2004 and 2005, the movement in share capital were as follows:

[a] During the year ended December 31, 2004, 200,000 stock options were exercised for proceeds of $272,000.

[b] In May 2004, the Company completed a placement of 38,970,000 common shares for aggregate gross proceeds of $74,284,000. Share issue costs relating to the placement amounted to $6,980,000.

In conjunction with the completion of the equity offering in May 2004, the Company purchased from management certain rights to acquire shares in Sino-Wood pursuant to securities purchase agreements for a pre-determined purchase price not to exceed Cdn.$12,000,000. The amount was settled by the issuance of 2,400,000 common shares valued at Cdn.$2.65 per share based upon the offering price. One half of the shares vested 90 days following the completion of the offering and the remaining one half vested on the first anniversary of the completion of the offering. The Company has recorded the compensation expense of approximately $7,800,000 over the vesting period. The compensation expense recorded in 2005 was $1,432,000 [2004 – $6,368,000]. As a result, in August 2004 and May 2005, 1,200,000 common shares each were issued to management in settlement for the rights described above for $3,900,000 each. [note 11]

Authorized

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

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

Stock Options

The Company's Stock Option Plan provides for the issuance of up to a maximum of 10,000,000 common shares at an exercise price equal to the market price of the Company's common shares on the date of the grant. The option period for the Stock Option Plan is five years. Options granted may be vested over certain time periods within the option period, which will limit the number of options exercisable during each option year. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option. As at December 31, 2005 options to purchase 4,437,000 common shares have been granted and options to purchase 4,763,000 common shares remain available to be granted under the Stock Option Plan.

In the second quarter of 2005, options to acquire 450,000 common shares granted on May 11, 2004 were cancelled.

During the year ended December 31, 2005, options to acquire 1,942,000 common shares [2004 – 2,820,000] were granted to employees and directors at exercise prices ranging from Cdn.$2.70 to Cdn.$3.90 in accordance with the Company's Stock Option Plan. The options granted will vest over 3 years and expire in 5 years. The fair value of the stock options granted was estimated on the date of grant using the Black Scholes option-pricing model with the following assumptions:

	September 14, 2005	April 5, 2005	January 21, 2005	May 11, 2004
Number of options	292,000	1,350,000	300,000	2,820,000
Exercise price (in Cdn. $)	$2.70	$3.67	$3.90	$2.72
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Volatility	53.9%	53.3%	54.3%	54.6%
Risk-free interest rate	3.4%	3.6%	3.4%	3.7%
Expected option lives (in years)	3.5	3.5	3.5	3.5
Weighted average fair value of each option (in U.S. dollars)	$0.98	$1.26	$1.35	$0.87

The compensation expense recorded for the year 2005 with respect to the above options granted amounted to $1,240,000 [2004 – $564,000].

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

	2005		2004	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		Cdn.$		Cdn.$
Balance, beginning of year	2,945,000	2.68	325,000	1.79
Granted	1,942,000	3.56	2,820,000	2.72
Cancelled	(450,000)	2.72	–	–
Exercised	–	–	(200,000)	1.79
Balance, end of year	4,437,000	3.06	2,945,000	2.68
Exercisable at year-end	915,000	2.59	125,000	1.79

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2005:

Range of exercise prices	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable	Options non-exercisable	Weighted average exercise price
Cdn.$1.00 – Cdn.$2.00	125,000	2.20 years	Cdn.$1.79	125,000	–	Cdn.$1.79
Cdn.$2.00 – Cdn.$3.00	2,662,000	3.50 years	Cdn.$2.72	790,000	1,872,000	Cdn.$2.72
Cdn.$3.00 – Cdn.$4.00	1,650,000	4.22 years	Cdn.$3.71	–	1,650,000	Cdn.$3.71

11. CONTRIBUTED SURPLUS

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

	2005	2004
	$	$
Balance, beginning of year	3,032	–
Stock-based compensation	2,672	6,932
Transfer to share capital [note 10]	(3,900)	(3,900)
Balance, end of year	1,804	3,032

12. PROVISION FOR INCOME TAXES

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

	2005	2004
	$	$
Income before income taxes	88,943	57,818
Expected statutory tax rate	36.12%	36.12%
Expected income tax expense	32,126	20,884
Increase (decrease) in income taxes resulting from:		
Unrecognized income tax losses arising from losses of the Company and its subsidiaries	16,043	14,559
Income tax at different rates in foreign jurisdictions	(22,045)	(18,382)
Profits not subject to taxation as the authorized intermediaries are responsible to pay applicable taxes therefrom on behalf of the Company [b]	(25,884)	(17,367)
	240	(306)
Additional tax reserves on Authorized Sales Activities [b]		
Provision for the year [b]	10,437	8,140
Reversal of prior years' provision [b]	(3,421)	(2,790)
	7,256	5,044

[a] Income Tax Rates of Major Tax Jurisdictions in which the Company Operates

The PRC wholly foreign-owned enterprises ("WFOEs") and CJVs are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"). Pursuant to the Income Tax Laws, WFOEs, Sino-foreign equity and co-operative joint venture enterprises are subject to corporate income tax at an effective rate of 33% [30% state income taxes plus 3% local income taxes] on income as reported in their statutory financial statements. The PRC WFOEs and CJVs are eligible for an exemption from state and local income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward, followed by a 50% exemption for the next three years. Subject to the approval of the relevant authorities, foreign invested enterprises categorized as forestry projects may be allowed a 15% to 30% reduction of the amount of income tax payable for a further period of 10 years after tax holidays.

Hong Kong profits tax has been provided at the rate of 17.5% [2004 – 17.5%] on the estimated assessable profits arising in Hong Kong during the year.

[b] Provision for Tax Related Liabilities

Two of the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of wood chips and standing timber and earning commission income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises. In accordance with Income Tax Laws, foreign companies deriving income from sources in the PRC are subject to corporate income tax as a foreign investment enterprise. 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 all PRC taxes on behalf of the BVI subsidiaries that arise from the Authorized Sales Activities, including but not limited to, corporate income tax, value-added tax and business tax. Accordingly, the BVI Subsidiaries are not required to and therefore did not directly pay any PRC taxes with respect to the profits earned in the PRC. The relevant income remitted to the Company should have already been taxed and not subject to additional PRC taxes.

If PRC tax authorities were to determine that the AI did not pay applicable PRC taxes as required 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 the corporate 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. The yearly provision is reversed to the income statement after a period of three years based on management's best estimate of the liability. This means that the Company always maintains a three-year provision for tax on the profits earned from the Authorized Sales Activities of the three most recent years.

Included in accounts payable and accrued liabilities as at December 31, 2005 is the balance of the provision for these tax related liabilities amounting to $25,379,000 [2004 – $17,936,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries over the three previous years.

[c] Losses Carry Forward

As at December 31, 2005, the Company has income tax losses of approximately $37,562,000 which can be applied against future years' taxable income in Canada. Approximately $1,974,000 of these tax losses will expire in 2006, $1,696,000 in 2007, $1,476,000 in 2008, $1,145,000 in 2009, $992,000 in 2010, $1,018,000 in 2011, $9,700,000 in 2012 and $19,561,000 in 2013. In addition, as at December 31, 2005, the Company's PRC WFOEs and CJVs have incurred tax losses in the PRC of approximately $18,451,000 [2004 – $12,197,000].

The benefit of these losses, has not been reflected in the financial statements as management does not consider it to be more likely than not that the related future income tax asset will be realized. There are no other material temporary differences.

13. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	2005	2004
Weighted average shares for basic earnings per share	137,359,000	121,374,000
Stock-based payments and options	230,000	305,000
Adjusted weighted average shares and assumed conversions for diluted earnings per share	137,589,000	121,679,000

14. STATEMENTS OF CASH FLOWS

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

	2005 $	2004 $
Cash provided by [used for]:		
Accounts receivable	**[38,920]**	[14,442]
Due from PRC CJV partners	**143**	2,798
Prepaid expenses and other	**[61]**	[1,565]
Inventories	**[4,819]**	[1,566]
Accounts payable and accrued liabilities [a]	**11,862**	16,693
Income taxes payable	**170**	[306]
	[31,625]	1,612

[a] As at December 31, 2005, the Company had an aggregate amount of $25,286,000 [2004 – $7,377,000] payable in respect of timber holdings acquired during the year which was included in accounts payable and accrued liabilities.

[b] During the year, 1,200,000 [2004 – 1,200,000] common shares were issued to management as consideration for the purchase of certain rights to acquire shares in Sino-Wood [note 10]. The corresponding contributed surplus of $3,900,000 [2004 – $3,900,000] was transferred to share capital.

15. FINANCIAL INSTRUMENTS

The Company is 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.

The Company uses financial instruments, including variable rate debt, to finance our operations and to manage risks associated with our interest rate risks. With respect to the non-convertible guaranteed senior notes, the Company has entered into a currency swap agreement to fix interest payments at $27.4 million per annum over the next 5 years. The Company does not otherwise engage in other hedging transactions with respect to our foreign exchange risks or interest rate risks.

Exchange Rate Risk

The Company conducts its business primarily in Renminbi, and partly in U.S. dollars and Hong Kong dollars. In 2005 and 2004, 82.7% and 81.8% of our sales were received in Renminbi and 17.3% and 18.2% of our sales were received in U.S. dollars and Hong Kong dollars. The Company translates its results of operations in U.S. dollars. It is expected in the future substantially all of our sales will be received in Renminbi. The majority of the Company's operating expenses are denominated in Renminbi and Hong Kong dollars.

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

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under the Company's capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration of Foreign Exchange. Developments relating to the PRC's economy and actions taken by the PRC government could cause future foreign exchange rates to vary significantly from current or historical rates. The Renminbi to U.S. dollar exchange rate has been relatively stable since 1994 except for a revaluation against the U.S. dollar in July 2005. The Company cannot predict nor give any assurance of its future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars of the Company's net assets, net profits and any declared dividends. The Company cannot give any assurance that any future movements in the exchange rates of Renminbi against the U.S. dollar and other foreign currencies will not adversely affect its results of operations, financial condition and cash flows.

As of December 31, 2005, the Company had Renminbi denominated bank accounts of RMB298.6 million (equivalent to $37.0 million), U.S. dollar denominated bank accounts of $88.6 million, Canadian dollar denominated bank accounts of Cdn.$12.2 million (equivalent to $10.5 million), Hong Kong dollar denominated bank accounts of HK$2.2 million (equivalent to $0.3 million) and Euro denominated bank accounts of €2.0 million (equivalent to $2.4 million). The Company also had U.S. dollar denominated accounts receivable of $31.3 million.

The Company incurred foreign currency denominated debt for capital expenditures primarily relating to the development and acquisition of its forestry plantations and investment in its manufacturing plants. To the extent that the Renminbi (which has moved within a stable range in relation to the U.S. dollar since 1994), or the U.S. dollar devalues against any of these currencies, it would correspondingly increase our repayment costs on these loans.

Credit Risk and Concentration of Sales and Economic Dependence

The Company is exposed to credit risk with respect to accounts receivable from customers. The Company has credit evaluation and monitoring processes intended to mitigate credit risks and maintains appropriate provisions for potential credit losses. Historically these subsidiaries have made arrangements with its debtors to settle amounts payable with respect to the purchase of standing timber on behalf of the Company.

During the year ended December 31, 2005, the purchase of timber supplies and sales of processed wood chips in the PRC has been conducted through two domestic wood dealers who act as authorized intermediaries to facilitate the purchase of timber supplies and sales of processed wood chips. The Company's relationship with two of our authorized intermediaries is governed by master agreements as supplemented by certain operational procedures relating to the wood chips sales transaction. Since the fourth quarter of 2005, the Company only engaged one wood dealer as the Company's authorized intermediary.

Entering into derivative financial instruments can give rise to additional credit risks. Credit risks arise from the possibility that counterparty will default on its contractual obligations and it's limited to those contracts where the Company would incur a loss in replacing the instrument. The Company minimizes credit risk by entering into transactions only with institutions that possess investment grade credit ratings or have provided the Company with acceptable form of credit enhancement.

Interest Rate Risk

The Company is exposed to interest rate risk resulting from fluctuations in interest rates on our debt, primarily on our bank indebtedness. Our debt consists of fixed and variable rate debt obligations with original maturities ranging from less than one to seven years. The Company undertakes 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. The Company does not currently use any derivative instruments to modify the nature of our debt so as to manage our interest rate risk.

Commodity Price Risk

The Company is exposed to fluctuations in the prices of standing timber, wood chips and wood-based products. The Company imports wood-based products from suppliers outside of China. Such purchases are made at market prices. In addition, all 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.

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

Fair Value of Financial Instruments

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

16. SEGMENTED INFORMATION

Segmented information is presented by way of the Company's primary segment reporting basis, by industry segment. In determining the Company's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Company's revenue is derived from customers based in the PRC, and 90% of the Company's assets are located in the PRC.

The Company's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Company's industry segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other industry segment. Summary details of the industry segments are as follows:

[a] the plantation segment engages in the sale of wood chips, logs and standing timber and the provision of agency services in the sale of wood chips; and

[b] the wood-based segment engages in the sale of wood-based, manufactured, nursery and flooring products.

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

By Industry Segment

	2005				2004			
	Plantation $	Wood-based $	Corporate $	Total $	Plantation $	Wood-based $	Corporate $	Total $
Revenue								
Sale of wood chips and logs	146,130	–	–	146,130	143,418	–	–	143,418
Sale of imported logs	–	84,136	–	84,136	–	58,689	–	58,689
Sale of wood-based products and others	–	12,466	–	12,466	–	9,702	–	9,702
Sale of standing timber	240,829	–	–	240,829	105,126	–	–	105,126
Commission income	9,740	–	–	9,740	14,010	–	–	14,010
	396,699	96,602	–	493,301	262,554	68,391	–	330,945
Income [loss] from operations before interest, exchange gains, other income and amortization and write-off of deferred financing costs	125,763	[4,696]	[8,460]	112,607	91,414	[8,683]	[9,342]	73,389
Identifiable assets	659,815	154,589	80,867	895,271	441,842	133,244	180,963	756,049
Interest income	1,151	302	2,726	4,179	11	52	1,303	1,366
Interest expense	83	1,536	27,375	28,994	1,273	1,119	13,483	15,875
Depreciation and amortization	268	2,823	8	3,099	105	2,357	8	2,470
Provision for [recovery of] income taxes	7,016	240	–	7,256	5,348	[306]	2	5,044
Depletion of timber holdings included in cost of sales	140,204	–	–	140,204	45,158	–	–	45,158
Additions to timber holdings and capital assets	283,801	15,844	6	299,651	173,908	4,689	5	178,602

Revenue from the Company's largest customer for the year amounted to approximately 18% [2004 – 23%] of total revenue. During the year, there were three [2004 – three] customers who each individually accounted for more than 10% of the Company's revenue and this revenue in aggregate represented approximately 42% [2004 – 58%] of total revenue.

Purchases from the Company's largest vendor for the year accounted for approximately 20% [2004 – 26%] of total purchases. During the year, four [2004 – two] vendors who each individually accounted for more than 10% of the Company's purchases and these purchases in aggregate represented approximately 64% [2004 – 51%] of total purchases.

By Geographic Segment

The Company conducts substantially all of its operations in one geographic area, East Asia. During the year, sales in the PRC and to other countries amounted to approximately $483,561,000 [2004 – $316,634,000] and $nil [2004 – $301,000], respectively.

As at December 31, 2005, approximately $36,954,000 [2004 – $13,003,000] of the Company's cash and cash equivalents were denominated in Renminbi.

As at December 31, 2005, all of the Company's timber holdings and approximately $80,520,000 [2004 – $65,829,000] of the Company's capital assets were located in the PRC.

17. CAPITAL CONTRIBUTIONS AND COMMITMENTS

The Company's principal business activities include the management and operation of tree plantations in the PRC and sale of logs, lumber, and wood-based products (collectively "wood-based") and wood chips in the PRC, and other Asia-Pacific markets. Apart from these activities, the Company also provides agency services for the sale of wood-based products and wood chips in the PRC and other Asia-Pacific markets from which it earns commission income. Capital contributions and commitments for the Company's principal business activities are as follows:

[a] Tree Plantation and Wood Chip Operations

In September 2004, Sino-Wood, through its wholly-owned subsidiaries, established a WFOE ("Heyuan WFOE"). The principal business activities of the Heyuan WFOE are tree plantation, sales and manufacturing of wood-based products. The Heyuan WFOE was formed for a period of 30 years and Sino-Wood is required to contribute $5,000,000 for its 100% equity. In 2004, Sino-Wood had made contributions of $2,100,000. On January 11, 2005, Sino-Wood made the remaining contribution of $2,900,000.

[b] Wood-based Operations

In March 2000, SFR China Inc. ("SFR China"), an indirectly wholly-owned subsidiary of the Company, established a WFOE (the "SFR WFOE"). The principal business activity of the SFR WFOE is to manufacture wood-based products. The SFR WFOE was formed for a period of 50 years and SFR China is required to contribute $10,000,000 for its 100% equity interest. As of December 31, 2005, the Company has made total contributions of $10,000,000 [2004 – $1,908,000].

In January 2001, SFR China established another WFOE (the "Jiafeng WFOE") to undertake certain projects in Suzhou that will be funded by the International Finance Corporation ("IFC"), part of the World Bank Group, and other lenders. The Jiafeng WFOE was formed for a period of 50 years and SFR China is required to contribute $15,000,000 for its 100% equity interest. As of December 31, 2005, SFR China has made contributions of $8,475,000 [2004 – $6,475,000]. In December 2005, the Company has obtained approval to convert part of the IFC projects loans repaid $6,525,000 by the Company on behalf of Jiafeng as capital contributions for the remaining balance.

In May 2005, Sino-Panel (North East China) Limited ("Sino-Panel"), an indirectly wholly-owned subsidiary established a WFOE (the "Jiamu WFOE"). The principal business activity of the Jiamu WFOE is to manufacture wood-based products. The Jiamu WFOE was formed for a period of 50 years and Sino-Panel is required to contribute $3,500,000 for its 100% equity interest. As of December 31, 2005, Sino-Panel has made total contributions of $3,500,000. Subsequent to year end, the registered capital of Jiamu WFOE was increased to $5,500,000 which was fully paid up.

In November 2005, the Commission of Foreign Trade and Economic Co-operation has approved the registered capital of our WFOE, Guangdong Jia Yao Wood Products Development Co. Ltd. to increase from $24,000,000 to $49,000,000. The increase in capital contribution will be in the form of machinery and 15% of the capital contribution to be contributed within three months and the remaining 85% within eighteen months.

[c] Operating Leases

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

	$
2006	1,720
2007	1,173
2008	1,001
2009	942
2010	943
2011 and thereafter	30,032
	35,811

18. CONTINGENCIES FOR TAX RELATED LIABILITIES

The provision for income taxes and tax related liabilities is subject to a number of different estimates and judgment made by management. A change in 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 and Hong Kong) that have different tax laws and rates. Income tax and other taxes are subject to audit by both domestic and foreign 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, changes in tax treaties between various tax jurisdictions in which the Company operates. Due to the absence of a tax treaty between the PRC and Hong Kong, it is probable that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction. Should the PRC tax authorities recover income tax, business tax and value added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for up to three years in practice. Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble amount of the tax underpaid.

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

Management evaluate the provision for tax related liabilities on an annual basis or as necessary and believe adequate but not excessive provision for tax related liabilities has been recognized in the financial statements.

19. RELATED PARTY TRANSACTIONS

[a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the year amounted to $2,737,000 [December 31, 2004 – $1,491,000].

In addition, as at December 31, 2005, the Company had an aggregate amount of $2,129,000 [December 31, 2004 – $1,019,000] owed to these related companies.

[b] In 1999, Sino-Wood entered into an agreement to issue an aggregate of $20,000,000 Guaranteed Exchangeable Redeemable Notes ("Exchangeable Notes"). The Exchangeable Notes were for a period of five years from January 29, 1999 to January 28, 2004 and bore interest at a note of 5% per annum payable semi-annually in arrears.

In 2004, the balance of the Exchangeable Notes including interest was repaid. Interest expense for the year ended December 31, 2004 was $27,000. One of the directors of the Company is an officer and shareholder in a company that provides certain advisory, management and general administrative services to the entity that ultimately held the Exchangeable Notes.

[c] On March 5, 2003, Sino-Wood entered into an exchange agreement whereby the holder of the Exchangeable Notes exchanged $9,844,000 in principal amount of the Exchangeable Notes (having an accrued value which comprised of principal and accrued interest of approximately $15,500,000) for approximately $15,500,000 of convertible instruments ("Convertible Instruments"). The Convertible Instruments were issued at par value, bore interest at a rate of 4% per annum payable in semi-annual installments and had a maturity of 18 months. Since Sino-Wood was not listed prior to the maturity date, the Convertible Instruments were to be redeemed on the maturity date at 106.24% of the subscription price plus unpaid interest.

In 2004, the balance of the Convertible Instruments was repaid. Interest expense and redemption premium for the year ended December 31, 2004 was $433,000. One of the directors of the Company is an officer and shareholder in a company that provides certain advisory, management and general administrative services to the entity that ultimately held the Convertible Instruments.

20. COMPARATIVE FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 consolidated financial statements.

21. SUBSEQUENT EVENT

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 1.30% 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 will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. As at March 27, 2006, $50 million of the available facility has been drawn down.

INDEPENDENT DIRECTORS

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

Director since 2004, chair of the Audit Committee and member of the Corporate Governance Committee; previously Vice President Finance and Chief Financial Officer, GSW Inc., Partner, Ernst & Young LLP and Senior Vice President, Ernst & Young Corporate Finance Inc.

JOHN (JACK) LAWRENCE
Toronto

Director since 1997, chair of Compensation Committee, Chairman, Lawrence & Company; previously Chairman and Chief Executive Officer, Bank of Montreal Investment Counsel Limited, Deputy Chairman, Nesbitt Burns Inc., and Chairman and Chief Executive Officer, Burns Fry Limited.

EDMUND MAK
MBA, Vancouver

Director since 1994, member of Audit Committee; engaged in real estate marketing for Re/Max Select Properties; previously worked 30 years with public, multi-national and private corporations in North America and Hong Kong, in the real estate, computer and high technology equipment, transportation, construction, oil & gas, textile and China trade industries.

SIMON MURRAY
Hong Kong

Director since 1999, member of Compensation Committee; Chairman, GEMS (General Enterprise Management Services Limited); previously worked 35 years in Asia as founder Simon Murray & Associates, Executive Chairman, Asia Pacific, Deutsche Bank Group, co-founder, Distacom, and Group Managing Director, Hutchison Whampoa.

W. JUDSON MARTIN
Toronto

Director since 2006, member of Audit, Corporate Governance and Compensation Committees; corporate director; previously Senior Executive Vice President & Chief Financial Officer, Alliance Atlantis Communications Inc., Senior EVP, CFO & Chief Operating Officer, MDC Corporation, President & CEO, Trilon Securities Corporation, EVP & CFO, Brookfield Development Corporation, Vice President Finance, Trizec Corporation Ltd.

DIRECTORS AND OFFICERS

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

Director since 1994, after co-founding Sino-Forest in 1992; previously worked 12 years as a management consultant and project manager in China; previously worked for Hong Kong government in new town development and management programs.

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

Director since 1994, after co-founding Sino-Forest in 1992; previously worked 15 years with Guangdong Forestry Bureau as engineer engaged in forest product trading and manufacturing.

KEE Y. WONG
FCA, Vice Chairman, Hong Kong

Director since 1997; joined Sino-Forest in 1996; previously Partner, Ernst & Young in Toronto, acting as auditor and business advisor to many growth-oriented companies; previously worked 10 years in England as an accountant.