REPORT TO SHAREHOLDERS

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

Sino-Forest's net income increased 35.9% to $12.9 million in the three months ended March 31, 2007 compared to $9.5 million in the first quarter 2006, and diluted earnings per share of $0.09 rose from $0.07 last year. Revenue increased 21.3% to $119.9 million in the first quarter of 2007. EBITDA rose to $48.0 million – representing an increase of 13.6%. Our gross profit increased 49.1% to $33.4 million in the first quarter this year, and gross profit margin increased to 27.9% in the first quarter of 2007, compared to 22.7% last year. Cash flows from operating activities decreased 24.6%, to $49.2 million in the first quarter of 2007.

Although our business is subject to seasonality whereby the first and second quarters of the year tend to be slower in terms of activities, we are pleased with the strong performance that Sino-Forest has achieved in this quarter. At the corporate level, we focused our efforts on two major business transactions – the $200 million strategic private placement, which will facilitate the expansion of Sino-Forest's operations; and the signing of a 200,000 hectare standing timber acquisition agreement in Yunnan Province with a competitive lock-up price over the next 10 years. Both of these transactions strengthen Sino-Forest's future.

Wood Fibre Operations, include standing timber, imported wood products and wood chips and logs.

- Revenue from sales of standing timber increased 18.0% to $51.3 million in the first quarter of 2007. The higher revenue was due to the 117.1% increase in the average selling price per hectare offset by a 45.7% reduction in hectares sold.
- Revenue from sales of imported wood products increased 38.6%, from $39.7 million in the first quarter of 2006 to $55.0 million in the first quarter of 2007.
- Revenue from sales of wood chips and logs were $7.9 million in the first quarter of 2007, compared to $11.7 million last year, down 32.1%. This decrease was due to a decline of 34.7% in the volume of wood chips sold and no commission income earned which was partially offset by a 5.6% increase in the average selling price of wood chips and higher revenue generated from wood logs from Inner Mongolia.

Manufacturing and Other Operations, include particleboard, flooring, oriented strand board, finger-joint board and nursery businesses. Revenue increased 41.7% from $4.0 million in the first quarter of 2006 to $5.7 million in the first quarter of 2007.

For 2007, we are going to focus our efforts on a new execution model as we are shifting from sales of standing timber to sales of logs harvested from our own plantations especially in Hunan and Yunnan Province to maximise usage and increase monetary value of our fibre, and importantly to reduce waste of residual timber.

Lastly, we are excited to introduce new types of forest land to our portfolio – secondary natural forest in Yunnan Province, where we will conduct regeneration (i.e. re-growing) of original species harvested to maintain bio-diversity and sustainability of those unique species.

Allen T.Y. Chan
Chairman and Chief Executive Officer

May 14, 2007

Q1 2007 FINANCIAL RESULTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 14, 2007

Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of Sino-Forest's operations for the three months ended March 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 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 for the year ended December 31, 2006 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 limitations, 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 March 31, 2007, we had approximately 355,000 hectares of forestry plantations located mainly in southern 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, sale of standing timber, wood chips and logs, and complementary manufacturing of downstream engineered wood products.

Strategic Business Units

Sino-Forest's operation is comprised of two core business segments - **Wood Fibre Operations** is the major revenue contributor, while our **Manufacturing & Other Operations** enable us to realise added value from downstream operation.

Revenue from Wood Fibre Operations are derived from three main sources as follows:

- Standing Timber – we acquire, cultivate and sell standing timber from our purchased and planted trees plantations;
- Wood Chips and Logs – we source logs from PRC suppliers and process and sell them as wood chips through an authorized intermediary and earn commission income from agency services in the sales of wood chips;
- Imported Wood-based Products – we source logs, veneer, sawn timber and other wood-based products globally and sell them in the domestic PRC market.

Our Manufacturing & Other Operations include:

- particleboard manufactured in Gaoyao, Guangdong Province;
- engineered wood flooring produced in Suzhou, Jiangsu Province, and sold over 200 stores nationwide in the PRC;
- oriented strand board manufactured in Muling City, Heilongjiang Province;
- finger joint board produced in Hongjiang City, Hunan Province;
- greenery & nurseries operation 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 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;
- 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 value of our wood fibre;
- 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 are sensitive to changes in industry capacity and output levels, general timber industry conditions and cyclical changes in the world and PRC economies, any of which can have a significant impact on selling prices of wood products. The demand for wood products is also substantially affected by the level of new construction activity, which is subject to fluctuations that may or may not correspond to overall economic trends. Decreases in the level of construction activity generally reduce demand for wood products. The demand for wood products is also affected by the level of interior design activity and the demand for wood chips in the pulp and paper markets. These activities are, in turn, subject to fluctuations due to, among other factors:

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

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 authorized intermediaries for our wood chips and trading activities. We rely on a few large customers for a significant percentage of our total revenue. We rely on a few 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 upon our senior management in relation to their expertise 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 PRC CJV partners, major customers and others.

We are subject to regulation under a variety of PRC national and local laws and regulations. Violations of a variety of PRC laws and 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 dollar, Canadian dollar or otherwise, of our revenue and net income.

Significant Accounting Policies and Interpretation

Cost of Sales

Our costs of sales consists of: (1) depletion of timber holdings as they are sold; (2) the costs of logs used as raw materials in our sales of wood chips; (3) processing fees and administrative charges associated with wood chip sales; (4) the costs of imported logs and wood-based products acquired in our sales and trading activities of these products; and (5) the costs incurred at our manufacturing plants.

Depletion of Timber Holdings

Timber holdings include acquisition costs for young trees and standing timber, 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, research and development, 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, 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.

SIGNIFICANT BUSINESS ACTIVITIES

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

$200 million Strategic Placement

In March 2007, the Company has entered into an agreement to issue approximately 25.3 million common shares, which represents approximately 16% of the diluted total shares outstanding, to several institutional investors including Temasek Holdings (Pte) Ltd (“Temasek Holdings”) and United Capital Investments Group Limited. Temasek Holdings, an Asia investment firm, headquartered in Singapore will subscribe for approximately 85% of the offering. The offering raised gross proceeds of $200 million at a price of Cdn.$9.15 per share. The proceeds are being used for the acquisition of standing timber, and acquisition or construction of related processing facilities and for working capital. The strategic placement was completed in April 2007.

Acquisition of 200,000 hectares of Plantation Trees 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 plantation trees 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 refusal to lease the land for 50 years after harvesting.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

First Quarter Financial Information

The following table sets forth selected unaudited financial information for the three months ended March 31, 2007 and 2006 and our financial position as at March 31, 2007 and December 31, 2006.

(in thousands, except earnings per share and common shares outstanding)	**2007** $	2006 $
Operating Results		
Revenue	**119,949**	98,864
Cost of sales	**86,535**	76,458
Gross profit (1)	**33,414**	22,406
Net income from operations	**25,192**	15,813
Net income	**12,858**	9,464
EBITDA (2)	**47,960**	42,202
Basic earnings per share	**0.09**	0.07
Diluted earnings per share	**0.09**	0.07

	As at March 31 **2007** **$**	As at December 31 2006 $
Financial Position		
Current assets	**291,676**	333,609
Non-current assets	**926,685**	873,646
Total assets	**1,218,361**	1,207,255
Current liabilities	**147,905**	151,596
Long-term debts	**440,675**	450,000
Total shareholders' equity (net assets)	**620,017**	605,659
Cash dividends declared per share	**Nil**	Nil
Common shares outstanding	**137,999,548**	137,999,548

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 tendency of timber companies to take advantage of the peak growing seasons in the spring and summer before harvesting the trees, as well as the difficulty of the logging and hauling of timber during the rainy season in the first half of the year.

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

(in thousands, except per share amounts)	Revenue $	Net Income $	Earnings Per Share Basic $	Earnings Per Share Diluted [(3)] $
2007				
March 31	**119,949**	**12,858**	**0.09**	**0.09**
2006				
December 31	250,306	42,528	0.31	0.30
September 30	188,535	45,104	0.33	0.32
June 30	107,274	14,360	0.10	0.10
March 31	98,864	9,464	0.07	0.07
2005				
December 31	170,411	27,535	0.20	0.20
September 30	144,359	33,175	0.24	0.24
June 30	102,886	13,241	0.10	0.10

RESULTS OF OPERATIONS – Q1 2007 VS Q1 2006

Revenue

The following table sets forth the breakdown of our total revenue for the first quarters ended March 31, 2007 and 2006:

	2007		2006	
	$'000	**%**	$'000	%
Wood Fibre Operations				
Standing timber	**51,316**	**42.8**	43,492	44.0
Imported wood products	**55,048**	**45.9**	39,723	40.2
Wood chips and logs	**7,900**	**6.6**	11,636	11.8
Manufacturing and Other Operations	**5,685**	**4.7**	4,013	4.0
Total revenue	**119,949**	**100.0**	98,864	100.0

Revenue increased 21.3%, from $98.9 million in the first quarter of 2006 to $119.9 million in the first quarter of 2007. The increase was due primarily to higher revenue from standing timber and imported wood products and manufacturing operations partially offset by a decline in revenue from wood chips and logs.

Wood Fibre Operations Revenue

Standing Timber

For the first quarters ended March 31, 2007 and 2006, standing timber sales were as follows:

	2007			2006		
	Hectares	**Sales per hectare**	**Total revenue**	Hectares	Sales per hectare	Total revenue
		$	**$'000**		$	$'000
Purchased plantations	**11,150**	**4,430**	**49,395**	4,557	2,954	13,460
Heyuan Pine Undertaking	**880**	**1,667**	**1,467**	17,291	1,664	28,770
Planted plantations	**261**	**1,739**	**454**	769	1,641	1,262
Total	**12,291**	**4,175**	**51,316**	22,617	1,923	43,492

Revenue from sales of standing timber increased 18.0% in the first quarter of 2007 due primarily to higher average selling price per hectare with trees of higher yields, offset by a 45.7% reduction in hectares sold.

The overall selling price increased 117.1% to $4,175 per hectare as a result of higher proportion of sales from purchased plantations which has a higher yield in terms of cubic metre and therefore commanded higher selling price per hectare. Standing timber sales comprised 42.8% of total revenue in the first quarter of 2007, compared to 44.0% in the same period of 2006.

Imported Wood Products

Revenue from sales of imported wood products increased 38.6% in the first quarter of 2007, primarily due to the increase in sales of logs from South America, which comprised 45.9% of total revenue in the first quarter of 2007, compared to 40.2% in the first quarter of 2006.

Wood Chips and Logs

The following table sets forth revenue from wood chips and logs for the first quarters ended March 31, 2007 and 2006.

	2007			2006		
	BDMT	**Average selling price**	**Revenue**	BDMT	Average selling price	Revenue
		$	**$'000**		$	$'000
Wood chips	**62,840**	**114**	**7,172**	96,230	108	10,360
Wood logs			**728**			—
Commission	—	—	—	84,240	15	1,276
Total			**7,900**			11,636

Revenue from sales of wood chips and logs decreased 32.1% in the first quarter of 2007, due to a decline of 34.7% in the volume of wood chips sold, which was partially offset by a 5.6% increase in the average selling price of wood chips and new revenue generated from wood logs from Inner Mongolia. Wood chips sales volume in the first quarter of 2007 decreased 34.7%. The decline was due to limited wood chipping capacity available to us. Management expects the wood chip revenue and commission to drop to zero from the second quarter onwards due to the lack of availability of wood chipping capacity. Wood chips and logs sales comprised 6.6% of total revenue in the first quarter of 2007, compared to 11.8% in the first quarter of 2006.

Manufacturing and Other Operations Revenue

Revenue from our manufacturing and other operations increased 41.7% from $4.0 million in the first quarter of 2006 to $5.7 million in the first quarter of 2007 mainly due to an increase in revenue from the flooring operation.

Cost of Sales

Cost of sales increased 13.2%, from $76.5 million in the first quarter of 2006 to $86.5 million in the first quarter of 2007. The increase in cost of sales was due primarily to an increase in sales volumes of imported wood products and manufacturing and other operations.

Wood Fibre Operations Cost of Sales

Standing timber cost of sales decreased 15.5%, from $25.6 million in the first quarter of 2006 to $21.6 million in the first quarter of 2007. This reflected primarily the 94.9% drop in hectare sold under the Heyuan Pine Undertaking. Cost of sales per hectare of standing timber increased 55.5%, from $1,131 per hectare in the first quarter of 2006 to $1,759 per hectare in the first quarter of 2007, primarily reflecting the decrease in hectare sales under Heyuan Pine Undertaking which commanded lower acquisition cost.

Imported wood products cost of sales increased 38.3%, from $38.6 million in the first quarter of 2006 to $53.4 million in the first quarter of 2007, primarily reflecting an increase in the sales volumes of our imported logs trading business.

Wood chips and logs cost of sales decreased 24.7%, from $8.7 million in the first quarter of 2006 to $6.5 million in the first quarter of 2007. The decrease in cost of sales reflected primarily a decrease in sales volume due to the reason mentioned above partially offset by an increase in the cost of wood chips.

Manufacturing and Other Operations Cost of Sales

Manufacturing and other operations cost of sales increased 37.7% from $3.6 million in the first quarter of 2006 to $5.0 million in the first quarter of 2007, primarily reflecting an increase in the sales of flooring products.

Gross Profit

Gross profit increased 49.1%, from $22.4 million in the first quarter of 2006 to $33.4 million in the first quarter of 2007. Gross profit margin, or gross profit as a percentage of total revenue, increased from 22.7% in the first quarter of 2006 to 27.9% in the first quarter of 2007 mainly due to the increase in gross margin percentage on sales of standing timber.

Wood Fibre Operations Gross Profit

Gross profit margin from sales of standing timber increased from 41.2% in the first quarter of 2006 to 57.9% in the first quarter of 2007 as the sales mix of standing timber changed. In 2006, we sold more hectares from the Heyuan Undertaking at lower margin compared to the hectares sold in 2007.

Gross profit margin from sales of imported wood products increased slightly from 2.8% in the first quarter of 2006 to 3.0% in the first quarter of 2007.

Gross profit margin from sales of wood chips and logs (excluding commission) increased from 16.7% in the first quarter of 2006 to 17.7% in the first quarter of 2007 as a result of higher selling price for wood chips and logs.

Manufacturing and Other Operations Gross Profit

Gross margin from our manufacturing and other operations increased from 9.4% in the first quarter of 2006 to 11.9% in the first quarter of 2007 primarily due to increase in sales of flooring products during the period.

Selling, General and Administration Expenses

Selling, general and administration expenses increased 22.5%, from $5.8 million in the first quarter of 2006 to $7.1 million in the first quarter of 2007, due primarily to additional staff compliment.

Depreciation and Amortization

Depreciation and amortization in the first quarter of 2007 increased 40.8% to $1.1 million compared to $0.8 million in the first quarter of 2006 reflecting primarily increased depreciation charges for our manufacturing plants.

Income from Operations

Income from operations increased 59.3% from $15.8 million in the first quarters of 2006 to $25.2 in the first quarter of 2007 due to the factors discussed above. Income from operations as a percentage of revenue increased from 16.0% in the first quarter of 2006 to 21.0% in the first quarter of 2007.

Interest Expense

Interest expense increased 45.8%, from $7.6 million in the first quarter of 2006 to $11.1 million in the first quarter of 2007, due primarily to higher bank indebtedness and the partial drawn down of the syndicated loans in first quarter of 2006.

Interest Income

Our interest income increased 28.9% from $1.1 million in the first quarter of 2006 to $1.5 million in the first quarter of 2007, primarily due to higher cash and cash equivalents and short-term deposits offset by the decrease in interest accrued on the loan to Mandra Holdings.

Exchange (Losses) Gains

Exchange losses amounted to $0.5 million in the first quarter of 2007 as compared to an exchange gain of $1.5 million in the first quarter of 2006 due to depreciation of the Hong Kong dollar against the U.S. dollar during the quarter.

Net Income

As a result of the foregoing, our net income for the first quarter of 2007 increased 35.9%, from $9.5 million in the first quarter of 2006 to $12.9 million in the first quarter of 2007. Net income as a percentage of sales increased from 9.6% in the first quarter of 2006 to 10.7% in the first quarter of 2007.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funding have been short-term and long-term borrowings, equity offering 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 and develop our manufacturing facilities.

Cash Flows

The following table is a condensed summary of our statement of cash flows.

Three months ended March 31, *(in millions)*	**2007** **$**	2006 $
Cash flows from operating activities		
Net cash provided by operations [4]	**36.7**	36.3
Net change in working capital [5]	**12.5**	29.0
Total	**49.2**	65.3
Cash flows used in investing activities	**(80.1)**	(88.3)
Cash flows from financing activities	**2.0**	49.5
Effect of exchange rate changes on cash and cash equivalents	**0.3**	—
Net (decrease) increase in cash and cash equivalents	**(28.6)**	26.5

Cash Flows From Operating Activities

Cash flows from operating activities decreased 24.6%, from $65.3 million in the first quarter of 2006 to $49.2 million in the first quarter of 2007. The decrease was primarily due to decrease in cash provided by working capital mainly resulting from the settlement of accounts payable and accrued liabilities.

Cash Flows Used In Investing Activities

In the first quarters of each of 2006 and 2007, cash flows used in investing activities were primarily for capital expenditures to acquire additional forestry plantations and for investments in manufacturing plants. Cash outlays for our forestry plantations amounted to $92.8 million in the first quarter of 2006 and $77.3 million in the first quarter of 2007. Cash outlays for our manufacturing plants and other capital assets amounted to $5.3 million in the first quarter of 2006 and $1.0 million in the first quarter of 2007. In the first quarter of 2007, non-pledged short-term deposits have increased $1.8 million compared to a decrease of $19.3 million in the first quarter of 2006. In addition, we have paid a deposit of $9.5 million for purchase of logs in Inner Mongolia in the first quarter of 2006.

Cash Flows From Financing Activities

In the first quarter of 2007, cash flows from financing activities was $2.0 million reflecting primarily an increase in bank indebtedness of $0.9 million and a decrease in pledged short-term deposits of $1.1 million. In the first quarter of 2006, cash flows from financing activities was $49.5 million reflecting primarily an increase in bank indebtedness of $3.4 million and long-term debts of $50.0 million which was offset by an increase in deferred financing costs of $2.9 million and pledged short-term deposits of $1.0 million.

Finance Arrangements and Contractual Obligations

As of March 31, 2007, we had secured and unsecured short-term liabilities of $72.1 million, comprising $19.4 million of short-term bank loans and $52.7 million of trust receipt loans. We had long-term debts of $450.0 million. Our borrowings are denominated in U.S. dollars and Renminbi.

Short-Term Borrowings

As of March 31, 2007, we had $87.9 million short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements of which $72.1 million was being utilized. Interest is payable on those short-term borrowings at rates ranging from 3.2% to 12.3% per annum, and the borrowings are either repayable on demand or due within one year. As of March 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 $5.8 million and certain bank deposit of $5.1 million.

Other Contractual Obligations

As of March 31, 2007, we had other contractual obligations relating to: (1) approximately $19.3 million in respect of capital contributions to a PRC wholly foreign-owned enterprise; (2) $10.3 million of capital commitments in respect of buildings, timber holdings, and plant and machinery; (3) $40.5 million of purchase commitments mainly in respect of logs; and (4) commitments under operating leases of approximately $41.6 million.

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

	Payment Due by Period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
	$’000	$’000	$’000	$’000	$’000
Long-term debts [6]	450,000	—	—	450,000	—
Capital contributions	19,295	19,295	—	—	—
Capital commitments [7]	10,292	10,292	—	—	—
Purchase commitments	40,474	40,474	—	—	—
Operating leases [8]	41,582	1,654	2,571	2,441	34,916
Total Contractual Cash Obligations	561,643	71,715	2,571	452,441	34,916

Capital Expenditures

The following table sets forth the breakdown of our capital expenditures for the first quarters ended March 31, 2007 and 2006.

	2007		2006	
(in millions)	**Hectares**	**$**	Hectares	$
Tree acquisition – Purchased plantations	**14,416**	**73.6**	26,937	55.0
Tree acquisition – Heyuan Pine Undertaking	—	—	15,865	17.7
Re-planting and maintenance of plantations		**3.4**		5.6
Panel manufacturing and others		**1.0**		5.3
Total		**78.0**		83.6

Total cash payments for timber holdings for the three months period ended March 31, 2007 amounted to $77.3 million which includes settlement of $0.3 million payable for timber holdings carried forward from last year.

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, and 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 has monitoring processes intended to mitigate credit risk and maintain appropriate provisions for 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					
	Total Accounts Receivable $'000	0-30 Days $'000	31-60 Days $'000	61-90 Days $'000	91-180 Days $'000	181-360 Days $'000	Over One Year $'000
As at March 31, 2007	**100,841**	**35,970**	**19,145**	**31,751**	**13,384**	**591**	**—**
As at December 31, 2006	125,307	84,739	33,651	5,118	1,610	189	—

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements. 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.

TRANSACTIONS WITH RELATED PARTIES

Pursuant to the respective service agreements, we pay consultancy fees to companies controlled by certain directors who are also executive officers in lieu of their compensation. The consultancy fees incurred for the period amounted to approximately $151,000 [March 31, 2006 - $529,000].

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

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 the annual 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 and wood chips, asset impairment of timber holdings, and capital assets and income tax provision.

CHANGES IN ACCOUNTING POLICIES

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 Hedging, 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 the presentation of consolidated statement of comprehensive income.

The adoption of these new standards is done retroactively without restatement of the consolidated financial statements of prior periods. As at January 1, 2007, the impact on the consolidated balance sheet of the accounting policies for deferred financing costs and measuring derivatives at fair value as at January 1, 2007 was a decrease in long-term debts of $9,810,000 and other assets of $8,713,000 and an increase in derivatives financial instrument liabilities of $9,786,000; a decrease in opening accumulated other comprehensive income of $9,786,000 and increase in opening retained earnings of $1,097,000.

The effect of these changes in accounting policies on net income for the first quarter of fiscal 2007 is insignificant.

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

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 to provide reasonable assurance that all relevant information required to be disclosed is gathered and reported on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under Multilateral Instrument 52-109 was conducted as of March 31, 2007 by and under the Company's management, including the CEO and CFO. Based on that evaluation, the CEO and CFO 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 believe that disclosure controls and procedures can provide a reasonable level of assurance and they are effective, they do not expect disclosure controls and procedures can 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.

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

The design of internal controls over financial reporting was assessed as of December 31, 2006. The Company identified certain material weaknesses and the need for improvement of controls and procedures in areas such as: segregation of duties, 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, completeness and accuracy and timeliness of the period close process including reviewing and monitoring recording of reoccurring and non-reoccurring of journal entries and translation of foreign currency transactions and subsidiary company results and information systems are subject to general control deficiencies including lack of effective controls over spreadsheets.

There has been no change in the design of the Company's internal control over financial reporting during the three months ended March 31, 2007, that would materially affect or are reasonably likely to materially affect Sino-Forest's internal control over financial reporting.

MARKET RISKS

There are no significant changes to market risks in general as described in the 2006 Annual Information Form.

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

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

EBITDA is calculated as follows:

	Three months ended March 31,	
	2007	2006
	$'000	$'000
Income from operations	**25,192**	15,813
Add: depreciation	**1,143**	812
depletion of timber holdings	**21,625**	25,577
	47,960	42,202

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

(4) Represents net income as adjusted for depletion of timber holdings, depreciation and amortization, amortization of deferred financing costs, interest earned from Mandra, stock-based compensation and other.

(5) Represents decreases (increases) in accounts receivable, inventories, due from PRC CJV partners, prepaid expenses and other assets and increases (decreases) in accounts payable and accrued liabilities and income taxes payable.

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

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

(8) These represent mainly leases of plantation land.

SINO-FOREST CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

[Expressed in thousands of U.S. dollars, except for earnings per share amounts] [Unaudited]

Three months ended March 31	2007 $	2006 $
Revenue	**119,949**	98,864
Costs and expenses		
Cost of sales	**86,535**	76,458
Selling, general and administration	**7,079**	5,781
Depreciation and amortization	**1,143**	812
	94,757	83,051
Income from operations before the undernoted	**25,192**	15,813
Interest expense	**(11,114)**	(7,621)
Interest income	**1,467**	1,138
Exchange (losses) gains	**(467)**	1,516
Amortization of deferred financing costs	—	(365)
Other income	**297**	332
Income before income taxes	**15,375**	10,813
Provision for income taxes	**(2,517)**	(1,349)
Net income for the period	**12,858**	9,464
Earnings per share *[note 11]*		
Basic	**0.09**	0.07
Diluted	**0.09**	0.07
Retained earnings		
Retained earnings, beginning of period	**423,450**	311,994
Cumulative impact of accounting changes relating to financial instruments *[note 2]*	**1,097**	—
Net income for the period	**12,858**	9,464
Retained earnings, end of period	**437,405**	321,458

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

[Expressed in thousands of U.S. dollars] [Unaudited]

Three months ended March 31	2007 $	2006 $
Net income for the period	**12,858**	9,464
Other comprehensive income, net of tax:		
Change in fair value of derivatives designated as cash flow hedges	**(314)**	—
Losses on derivatives designated as cash flow hedges transferred to net income in the current period	**572**	—
Changes in gains and losses on derivatives designated as cash flow hedges	**258**	—
Unrealized gains on foreign currency translation of self-sustaining operations	**9,476**	1,511
Other comprehensive income	**9,734**	1,511
Comprehensive income	**22,592**	10,975

See accompanying notes

SINO-FOREST CORPORATION

CONSOLIDATED BALANCE SHEETS
[Expressed in thousands of U.S. dollars]

	Unaudited As at March 31 2007 $	Audited As at December 31 2006 $
ASSETS		
Current		
Cash and cash equivalents	**124,331**	152,887
Short-term deposits *[note 3]*	**19,407**	18,550
Accounts receivable	**100,841**	125,307
Due from PRC CJV partners	**2,503**	2,771
Inventories	**22,201**	15,178
Prepaid expenses and other	**22,393**	18,916
Total current assets	**291,676**	333,609
Timber holdings	**814,136**	752,783
Capital assets, net *[note 4]*	**88,338**	87,939
Other assets	**24,211**	32,924
Total non-current assets	**926,685**	873,646
Total assets	**1,218,361**	1,207,255
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 3]*	**72,080**	70,958
Accounts payable and accrued liabilities *[note 5]*	**74,727**	79,517
Income taxes payable	**1,098**	1,121
Total current liabilities	**147,905**	151,596
Long-term debts *[note 6]*	**440,675**	450,000
Derivative financial instrument *[note 12]*	**9,764**	—
Total non-current liabilities	**450,439**	450,000
Total liabilities	**598,344**	601,596
Commitments and Contingencies *[notes 14 and 15]*		
Shareholders' equity		
Share capital *[note 7]*	**143,511**	143,511
Contributed surplus *[note 8]*	**5,181**	4,726
Retained earnings	**437,405**	423,450
Accumulated other comprehensive income *[note 9]*	**33,920**	33,972
Total shareholders' equity	**620,017**	605,659
	1,218,361	1,207,255

See accompanying notes

SINO-FOREST CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
[Expressed in thousands of U.S. dollars] [Unaudited]

Three months ended March 31	**2007** **$**	2006 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**12,858**	9,464
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	**21,625**	25,577
Depreciation and amortization	**1,143**	812
Stock-based compensation	**455**	372
Amortization of deferred financing costs	—	365
Interest income from Mandra	—	(300)
Other	**683**	(38)
	36,764	36,252
Net change in non-cash working capital balances *[note 10]*	**12,471**	29,023
Cash flows from operating activities	**49,235**	65,275
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	**(77,273)**	(92,760)
Additions to capital assets	**(1,031)**	(5,348)
(Increase) decrease in non-pledged short-term deposits	**(1,761)**	19,307
Increase in other assets	—	(9,500)
Cash flows used in investing activities	**(80,065)**	(88,301)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term debt	—	50,000
Increase in bank indebtedness	**916**	3,448
Increase in deferred financing costs	—	(2,900)
Decrease (increase) in pledged short-term deposits	**1,054**	(1,062)
Cash flows from financing activities	**1,970**	49,486
Effect of exchange rate changes on cash and cash equivalents	**304**	88
Net (decrease) increase in cash and cash equivalents	**(28,556)**	26,548
Cash and cash equivalents, beginning of period	**152,887**	108,418
Cash and cash equivalents, end of period	**124,331**	134,966
Supplemental cash flow information		
Cash payment for interest charged to income	**16,658**	14,275
Interest received	**1,575**	838

See accompanying notes

1. BASIS OF PRESENTATION

The interim consolidated financial statements are unaudited and follow the accounting policies as outlined in Note 1 of the Notes to the consolidated financial statements for the year ended December 31, 2006 with the exceptions of certain changes in accounting policies as mentioned in Note 2 below. These interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and should therefore be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2006.

The quarterly results are not necessarily indicative of results to be expected for the entire year. Revenue is typically the lowest in the first quarter of the year and represents approximately 15% of the entire year.

2. CHANGES IN ACCOUNTING POLICIES

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 Hedging, 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 the presentation of consolidated statement of comprehensive income. The principal changes in the accounting for financial instruments and hedges due to the adoption of these accounting standards are described below.

Section 3855 Financial Instruments - Recognition and Measurement

This section establishes guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The standard requires that financial instruments within scope, including derivatives, be included on the Company's balance sheet and measured, either at fair value or, in limited circumstances, at cost or amortized cost. All financial instruments must be classified into a defined category, namely, held-to-maturity investments, held-for-trading financial assets or financial liabilities, loans and receivables, available-for-sale financial assets, and other financial liabilities. This classification will determine how each instrument is measured and how gains and losses are recognized. Based on financial instrument classification, gains and losses on financial instruments are recognized in either net income or other comprehensive income.

The Company has made the following classifications:

- Cash and cash equivalents 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 method.
- Bank indebtedness, accounts payable and accrued liabilities and long-term debts 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.

In addition, unamortized 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 netted 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 income statement 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 straight-line method. This resulted in a decrease in long-term debts and an increase in opening retained earnings of $1,097,000 net of tax of nil.

Sections 1530 Comprehensive Income

This section consists of net income and other comprehensive income (“OCI”). OCI includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of hedging instruments. The components of comprehensive income are disclosed in the consolidated statement of comprehensive income.

Section 3865 Hedges

This section establishes guidance addressing the accounting treatment of qualifying hedging relationships and necessary disclosures. The standard defines three specific hedging relationships, namely, fair value hedges, cash flow hedges, and hedges of a net investment in self-sustaining foreign operations, and defines how the accounting should be performed.

The Company elected to apply hedge accounting for its foreign currency swap which is designated as a cash flow hedge. It is measured at fair value at the end of each period and the effective portion of the gain or loss resulting from re-measurement is recognized in other comprehensive income. The ineffective portion is recognized in net income in the period. This derivative is measured at fair value at the end of each period. The resulting gain or loss is recognized in other comprehensive income for cash flow hedge.

The adoption of these new standards is done retroactively without restatement of the consolidated financial statements of prior periods. As at January 1, 2007, the impact on the consolidated balance sheet of the accounting policies for deferred financing costs and measuring derivatives at fair value as at January 1, 2007 was a decrease in long-term debt of $9,810,000 and other assets of $8,713,000 and an increase in derivatives financial instrument liabilities of $9,786,000; a decrease in opening accumulated other comprehensive income of $9,786,000 and increase in opening retained earnings of $1,097,000.

The effect of these changes in accounting policies on net income for the first quarter of fiscal 2007 is insignificant.

3. BANK INDEBTEDNESS

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

[a] charges over certain of the Company’s land-use rights, buildings and timber holdings which have an aggregate net book value at the consolidated balance sheet date of $5,772,000 [December 31, 2006 – $6,940,000]; and

[b] certain short-term deposits at the consolidated balance sheet date of $5,064,000 [December 31, 2006 – $6,071,000].

Total interest expense for the three months period ended March 31, 2007 amounted to $1,273,000 [March 31, 2006 – $587,000].

[Tabular figures are expressed in thousands of U.S. dollars, unless otherwise indicated] [Unaudited]

4. CAPITAL ASSETS

Capital assets consist of the following:

	Unaudited March 31, 2007		Audited December 31, 2006	
	Cost $	**Accumulated depreciation and amortization $**	Cost $	Accumulated depreciation and amortization $
Machinery and equipment	**81,975**	**11,180**	81,161	10,458
Buildings	**11,643**	**1,700**	11,235	1,574
Land-use rights	**5,198**	**714**	5,148	679
Office furniture and equipment	**1,563**	**849**	1,577	899
Vehicles	**3,498**	**1,096**	3,425	997
	103,877	**15,539**	102,546	14,607
Less: accumulated depreciation and amortization	**(15,539)**		(14,607)	
Net book value	**88,338**		87,939	

As at March 31, 2007, buildings, machinery and equipment of $32,714,000 [December 31, 2006 – $31,427,000] are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation.

5. 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 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 all PRC taxes on behalf of the BVI subsidiaries that arise from the Authorized Sales Activities, including but not limited to, income tax, value-added tax and business tax. Accordingly, the BVI Subsidiaries 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 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 March 31, 2007 is a balance of the provision for these tax related liabilities amounting to $41,545,000 [December 31, 2006 – $39,106,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries over the three previous years.

[Tabular figures are expressed in thousands of U.S. dollars, unless otherwise indicated] [Unaudited]

6. LONG-TERM DEBTS

Long-term debts consist of the following:

	Unaudited March 31, 2007 $	Audited December 31, 2006 $
Senior Notes [a]	**300,000**	300,000
Syndicated Loans [b]	**150,000**	150,000
Unamortized deferred financing costs	**(9,325)**	—
	440,675	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.

Total interest expense on the notes for the three months period ended March 31, 2007 amounted to $7,178,000 [March 31, 2006 – $6,847,000].

[b] On February 24, 2006, the Company entered into a $150 million five-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 debts 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 is guaranteed by the Subsidiary Guarantors and ranks at least pari passu with the claims of all other unsecured, unsubordinated creditors of the Company and the Subsidiary Guarantors, 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 has been fully drawn down. Out of the $150,000,000, $37,500,000 will be repayable in 2010 and the remaining balance in 2011.

Total interest expense on the syndicated loans for the three months period ended March 31, 2007 amounted to $2,663,000 [March 31, 2006 – $187,000].

[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).

[Tabular figures are expressed in thousands of U.S. dollars, unless otherwise indicated] [Unaudited]

7. SHARE CAPITAL

	Unaudited Three months ended March 31, 2007		Audited Twelve months ended December 31, 2006	
	Number of Common Shares	**Common Share Capital $**	Number of Common Shares	Common Share Capital $
Balance, beginning of period/year	**137,999,548**	**143,511**	137,789,548	142,815
Exercise of options	—	—	210,000	513
Transfer from contributed surplus	—	—	—	183
Balance, end of period/year	**137,999,548**	**143,511**	137,999,548	143,511

8. CONTRIBUTED SURPLUS

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

	Unaudited Three months ended March 31, 2007 $	Audited Twelve months ended December 31, 2006 $
Balance, beginning of period	**4,726**	1,804
Stock-based compensation	**455**	3,105
Transfer to share capital	—	(183)
Balance, end of period	**5,181**	4,726

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

Year ended December 31, 2006 (Audited)	**Cumulative translation adjustment $**	**Hedging reserve $**	**Total** $
Balance at January 1, 2006	11,396	—	11,396
Unrealized gains on translation of financial statements of self-sustaining operations	22,576	—	22,576
Balance at December 31, 2006	33,972	—	33,972
Three months ended March 31, 2007 (Unaudited)			
Balance at January 1, 2007 as previously reported	33,972	—	33,972
Cumulative impact of accounting changes relating to financial instruments	—	(9,786)	(9,786)
Balance at January 1, 2007 as restated	33,972	(9,786)	24,186
Unrealized gains on translation of financial statements of self-sustaining operations	9,476	—	9,476
Changes in gains and losses on derivatives designated as cash flow hedges	—	258	258
Balance at March 31, 2007	**43,448**	**(9,528)**	**33,920**

As at March 31, 2007, losses on foreign currency derivatives designated as cash flow hedges of $1,900,000 net of income taxes of nil, reported in Accumulated Other Comprehensive Income in the consolidated balance sheet are expected to be reclassified to net income within the next twelve months.

[Tabular figures are expressed in thousands of U.S. dollars, unless otherwise indicated] [Unaudited]

10. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

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

Three months ended March 31	Unaudited **2007** **$**	2006 $
Accounts receivable	**25,673**	29,577
Due from PRC CJV partners	**295**	337
Prepaid expenses and other	**(3,368)**	(2,688)
Inventories	**(5,574)**	(3,218)
Accounts payable and accrued liabilities [a]	**(4,537)**	4,932
Income taxes payable	**(18)**	83
	12,471	29,023

[a] As at March 31, 2007, the Company had an aggregate amount of $5,225,000 [March 31, 2006 – $10,741,000] payable in respect of timber holdings acquired during the period included in accounts payable and accrued liabilities.

11. EARNINGS PER SHARE

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

Three months ended March 31	Unaudited **2007**	2006
Weighted average shares for basic earnings per share	**138,000,000**	137,790,000
Stock options	**3,441,000**	1,635,000
Adjusted weighted average shares and assumed conversions for diluted earnings per share	**141,441,000**	139,425,000

12. FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to reduce its exposure to foreign currency risk associated with its long-term debts. The Company's policy is to use derivatives for managing existing financial exposures and not for trading or speculative purposes. The Company uses hedge accounting to account for a derivative financial instrument designated as a hedging instrument. In order for a derivative to qualify for hedge accounting, the Company designates the hedge relationship and formally documents at its inception, the particular risk management objective and strategy, the specific asset, liability or cash flow being hedged, as well as how effectiveness is assessed. On an ongoing basis, an assessment is made as to whether the designated derivative financial instrument continues to be effective in offsetting changes in fair values or cash flows of the hedged transaction both at inception and over the term of the hedging relationship.

On August 16, 2004, the Company entered into a five-year currency swap contract to minimize the impact of currency fluctuations. 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 contract is made with an international financial service company and matures on August 17, 2009. This contract is designated as a hedge, in accordance with the new accounting standards, and therefore this loss has been included in other comprehensive income. Management estimates that a loss of $9,764,000, being fair value of the contract, would be realized if the contract was terminated on March 31, 2007.

13. SEGMENTED INFORMATION

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. The segments were organised to reflect the Company's role as a key wood fibre supplier and provider of value-added wood products through its manufacturing operations. Summary details of the industry segments are as follows:

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

[b] the manufacturing segment engages in the manufacturing of particleboard, melamine faced chipboard, sawn timber, flooring products and nursery products and services.

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

[Tabular figures are expressed in thousands of U.S. dollars, unless otherwise indicated] [Unaudited]

By industry segment

	Unaudited							
	March 31, 2007				March 31, 2006			
	Wood Fibre $	**Manu-facturing $**	**Cor-porate $**	**Total $**	Wood Fibre $	Manu-facturing $	Cor-porate $	Total $
Revenue from external customers								
Sale of standing timber	**51,316**	**—**	**—**	**51,316**	43,492	—	—	43,492
Sale of imported wood products	**55,048**	**—**	**—**	**55,048**	39,723	—	—	39,723
Sale of wood chips and logs	**7,900**	**—**	**—**	**7,900**	11,636	—	—	11,636
Sale of manufacturing and other operations' products	**—**	**5,685**	**—**	**5,685**	—	4,013	—	4,013
	114,264	**5,685**	**—**	**119,949**	94,851	4,013	—	98,864
Income (loss) from operations before interest, other income, exchange (losses) gains and amortization of deferred financing costs	**31,398**	**(2,245)**	**(3,961)**	**25,192**	21,013	(1,613)	(3,587)	15,813
Interest income	**92**	**103**	**1,272**	**1,467**	433	39	666	1,138
Interest expense	**1,010**	**263**	**9,841**	**11,114**	488	99	7,034	7,621
Depreciation and amortization	**69**	**1,046**	**28**	**1,143**	54	730	28	812
Provision for income taxes	**2,512**	**5**	**—**	**2,517**	1,339	10	—	1,349
Identifiable assets	**973,029**	**169,112**	**76,220**	**1,218,361**	717,220	125,841	107,086	950,147
Depletion of timber holdings included in cost of sales	**21,625**	**—**	**—**	**21,625**	25,577	—	—	25,577
Additions to timber holdings and capital assets	**76,969**	**968**	**62**	**77,999**	78,186	5,373	4	83,563

By geographic segment

The Company conducts substantially all of its operations in one geographic area, North Asia. During the quarter ended March 31, 2007, sales in the PRC and to other countries amounted to approximately $116,639,000 [March 31, 2006 – $98,624,000] and $3,310,000 [March 31, 2006 – $240,000], respectively.

[Tabular figures are expressed in thousands of U.S. dollars, unless otherwise indicated] [Unaudited]

14. 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, and changes in tax treaties between various tax jurisdictions in which the Company operates. 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.

15. COMMITMENTS

As at March 31, 2007, the Company has a commitment to make capital contributions to a PRC wholly foreign-owned enterprise of $19,295,000 [December 31, 2006 – $25,000,000]. In addition, the Company has capital commitments in respect of buildings, timber holdings, plant and machinery of $10,292,000 [December 31, 2006 – $12,305,000] and purchase commitments mainly in respect of logs of $40,474,000 [December 31, 2006 – $17,538,000]. Commitments under operating leases for land and buildings are as follows:

	Unaudited **$**
Within one year	1,654
In the second year	1,314
In the third year	1,257
In the fourth year	1,222
In the fifth year	1,219
Thereafter	34,916
	41,582

16. RELATED PARTY TRANSACTIONS

Pursuant to the respective service agreements, the Company pays consultancy fees to companies controlled by certain directors who are also executive officers in lieu of their compensation. The consultancy fees incurred for the period amounted to $151,000 [March 31, 2006 – $529,000].

In addition, as at March 31, 2007, the Company had an aggregate amount of $3,150,000 [December 31, 2006 – $3,150,000] owed to these related companies.

17. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the March 31, 2007, consolidated financial statements.

18. SUBSEQUENT EVENT

In April 2007, the Company closed a private placement in which approximately 25.3 million common shares were issued for gross proceeds of $200 million at a price of Cdn.$9.15 per common share.