

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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

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

**COMPENDIUM OF THE AD HOC COMMITTEE OF PURCHASERS
OF THE APPLICANT'S SECURITIES, INCLUDING THE
REPRESENTATIVE PLAINTIFFS IN THE ONTARIO CLASS ACTION**

(Motion Returnable May 8, 2012)

May 7, 2012

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of the Applicant's Securities, including the
Representative Plaintiffs in the Ontario Class
Action**

TAB	DOCUMENT
1	Affidavit of Judson Martin dated March 30, 2012 ("Martin Affidavit")
2	Exhibit "B" to Martin Affidavit, Restructuring Support Agreement dated March 30, 2012
3	Exhibit "E" to Martin Affidavit, Press Release dated January 10, 2012
4	Exhibit "M" to Martin Affidavit, Muddy Waters Report dated June 2, 2011
5	Exhibit "R" to Martin Affidavit, Second IC Report dated November 13, 2011
6	Initial Order of Justice Morawetz dated March 30, 2012
7	Affidavit of Daniel Bach, sworn April 11, 2012 ("Bach Affidavit")
8	Excerpt from Exhibit "A" to Bach Affidavit, Affidavit of Dennis Deng, undated, without exhibits
9	Excerpt from Exhibit "A" to Bach Affidavit, Affidavit of Alan Mak, sworn March 2, 2012, without exhibits
10	Excerpt from Exhibit "A" to Bach Affidavit, Affidavit of Steven Gowan Chandler, sworn February 29, 2012, without exhibits
11	Excerpt from Exhibit "A" to Bach Affidavit, Affidavit of Carol-Ann Tjon-Pian-Gi, sworn March 1, 2012, without exhibits
12	Exhibit "B" to Bach Affidavit, Amended Statement of Claim dated January 26, 2012
13	Exhibit "D" to Bach Affidavit, <i>Smith v. Sino-Forest Corporation</i> , 2012 ONSC 24
14	Exhibit "G" to Bach Affidavit, <i>Labourers' Pension Fund of Central and Eastern Canada v. Sino-Forest Corporation</i> , 2012 ONSC 1924
15	Exhibit "I" to Bach Affidavit, Final IC Report dated January 31, 2012
16	Exhibit "J" to Bach Affidavit, Article dated February 13, 2012
17	Exhibit "M" to Bach Affidavit, OSC Temporary Order dated August 26, 2011
18	Exhibit "Z" to Bach Affidavit, Pöyry Settlement Agreement dated March 20, 2012
19	Affidavit of Daniel Bach, sworn April 26, 2012, without exhibits
20	Affidavit of David Weir, sworn April 19, 2012, with exhibit

Court File No.

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ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

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ARRANGEMENT OF SINO-FOREST CORPORATION

AFFIDAVIT OF W. JUDSON MARTIN
(Sworn March 30, 2012)

I, W. Judson Martin, of the City of Hong Kong, Special Administrative Region, People's Republic of China, **MAKE OATH AND SAY:**

1. I am the Vice-Chairman and Chief Executive Officer of Sino-Forest Corporation ("SFC"). I therefore have personal knowledge of the matters set out below, except where otherwise stated. Where I do not possess personal knowledge, I have stated the source of my information and I believe such information to be true.

2. This affidavit is sworn in support of an application by SFC for an initial order (the "Initial Order") pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA"), a sale process order (the "Sale Process Order") and other requested relief. In preparing this affidavit, I have consulted with other members of SFC's senior management team and, where necessary, members of the senior management teams of certain of SFC's subsidiaries.

3. All references to dollar amounts contained in this affidavit are to United States Dollars unless otherwise stated.

I. OVERVIEW

4. SFC is a Canadian corporation and is the direct or indirect parent of approximately 140 subsidiaries, the majority of which are incorporated in the People's Republic of China (the "PRC"). The terms "Sino-Forest Companies" and "Sino-Forest" refer to the global enterprise as a whole (but, for greater certainty, do not include the Greenheart Group, defined below).

5. Sino-Forest is a major integrated forest plantation operator and forest products company. Its principal businesses include the ownership and management of plantation forests, the sale of standing timber and wood logs, and the complementary manufacturing of downstream engineered-wood products. The majority of Sino-Forest's plantations are located in the southern and eastern regions of the PRC, primarily in inland regions suitable for large-scale replanting.

6. Sino-Forest's business operations are mainly in the PRC with corporate offices in Hong Kong and Ontario, Canada.

7. On June 2, 2011, Muddy Waters, LLC ("Muddy Waters"), which held a short position on SFC's shares, published a report (the "MW Report") alleging that Sino-Forest, among other things, was a "near total fraud" and a "Ponzi scheme." SFC's board of directors (the "Board") appointed an independent committee (the "IC") to investigate the Muddy Waters allegations.

8. While the IC has been able to address certain of the allegations made by Muddy Waters, the MW Report has had a ripple effect in causing substantial damage to SFC, its business, and future prospects for viability. As part of the fallout from the MW Report, (i) SFC now finds

itself embroiled in multiple class action proceedings across Canada and in the U.S., (ii) SFC is the subject of Ontario Securities Commission ("OSC"), Hong Kong Securities and Futures Commission ("HKSFC"), and Royal Canadian Mounted Police ("RCMP") investigations, and (iii) SFC's Audit Committee recommended, and the Board agreed, that SFC should defer the release of SFC's third quarter 2011 financial statements (the "Q3 Results") until certain issues could be resolved to the satisfaction of the Board and SFC's external auditor

9. Significantly, SFC's inability to file its Q3 Results resulted in a default under its note indentures, which could have resulted in the acceleration and enforcement of approximately \$1.8 billion in notes issued by SFC and guaranteed by many of its subsidiaries.

10. Following extensive discussions with an ad hoc committee of noteholders (the "Ad Hoc Noteholders"), holders of a majority in principal amount of SFC's senior notes agreed to waive the default arising from SFC's failure to release the Q3 Results on a timely basis, on certain terms and conditions that were set forth in waiver agreements between certain of the noteholders and SFC, which were made publicly available on January 12, 2012 and are attached as Exhibit "A".

11. While the waiver agreements prevented the indenture trustees under the relevant note indentures from accelerating and enforcing the note indebtedness as a result of SFC's failure to file its Q3 Results, those waiver agreements will expire on the earlier of April 30, 2012 and any earlier termination of the waiver agreements in accordance with their terms. In addition, SFC's pending failure to file its audited financial statements for its fiscal year ended December 31, 2011 (the "2011 Results") by March 30, 2012 will again put the indenture trustees in a position

to accelerate and enforce the bond indebtedness, creating additional uncertainty around Sino-Forest's business.

12. SFC has made considerable efforts to address issues identified by SFC's Audit Committee and the IC and by its external auditor, Ernst & Young LLP, as requiring resolution in order for SFC to be in a position to obtain an audit opinion in relation to its 2011 financial statements.

13. However, notwithstanding SFC's best efforts, many of these issues cannot be resolved to the satisfaction of SFC's auditor or cannot be resolved within a timeframe that would protect and preserve the value of the business, and that would allow SFC to comply with its obligations under its note indentures. Therefore, absent a resolution with the noteholders, the indenture trustees would be in a position to enforce their legal rights as early as April 30, 2012.

14. Following extensive arm's length negotiations between SFC and the Ad Hoc Noteholders, the parties agreed on the framework for a consensual resolution of SFC's defaults and the restructuring of its business, and entered into a support agreement (the "Support Agreement") on March 30, 2012, which was executed by holders of SFC's notes holding approximately 40% of the notes. The Support Agreement contemplates, and in fact provides an incentive for, additional noteholders becoming party to the Support Agreement by way of joinder agreements. Accordingly, I fully expect that noteholders holding more than 50% of each series of notes will ultimately sign up to the Support Agreement.

15. The Support Agreement provides that SFC will pursue a plan of arrangement or compromise (the "Plan") on the terms set out in the Support Agreement in order to implement the agreed-upon restructuring transaction as part of this CCAA proceeding which would, among other things, (i) see SFC's business operations conveyed to, and revitalized under, a new entity to

be owned primarily by the noteholders ("SF Newco"), (ii) provide stakeholders of SFC with claims ranking behind the noteholders (the "Junior Constituents") with certain participation rights in SF Newco, and (iii) create (and provide funding for) a framework for the prosecution of certain litigation claims for the benefit of certain of SFC's stakeholders. The agreement also provides that each noteholder that is a signatory thereto (the "Consenting Noteholders") will vote its notes in favour of the Plan at any meeting of creditors.

16. The Support Agreement further provides that SFC will undertake a sale process (the "Sale Process") in accordance with the sale process procedures (the "Sale Process Procedures") which have been developed in consultation with the proposed monitor, and have been accepted by the parties to the Support Agreement.

17. The Sale Process is intended to provide a "market test" by which third parties may propose to acquire Sino-Forest's business operations through a CCAA Plan (in a manner that would under certain scenarios potentially allow Junior Constituents to share in the proceeds of a sale even though the noteholders may not be paid in full) as an alternative to the SF Newco restructuring transaction between SFC and its noteholders, described above.

18. A redacted copy of the Support Agreement (redacted to preserve confidentiality of the parties only) is attached as Exhibit "B" and will be posted on SEDAR and the proposed monitor's website at <http://cfcanda.fticonsulting.com/sfc>.

19. As described in greater detail below, SFC's business operations are primarily in the PRC and are held by SFC through intermediate holding companies incorporated (for the most part) in either the British Virgin Islands ("BVI") or Hong Kong. Most of these intermediate holding companies are guarantors of SFC's note indebtedness.

20. As further described below, as a result of the uncertainty created by the MW Report, Sino-Forest's business has been severely curtailed, and Sino-Forest's ability to grow its business has been severely reduced. Therefore, SFC now needs to be restructured in order to continue the development of the business and unlock the value of its asset base for the benefit of its stakeholders. Further, although the PRC government has been generally cooperative and encouraging of Sino-Forest to date, it has expressed increasing concern as to the future of Sino-Forest in the PRC. As discussed below, the ongoing support and relationship with the PRC government (on all levels) is crucial to Sino-Forest's operations.

21. Among other things, the Sino-Forest Companies are (i) having a difficult time maintaining existing and obtaining new credit in the PRC to help fund the PRC-based business operation and in Hong Kong for the imported log trading business, (ii) making very few purchases of new timber (and therefore not expanding their asset base), (iii) finding it difficult to collect their accounts receivables, and (iv) receiving increasing demands on their accounts payable. I believe that, if Sino-Forest's business is to be saved in a manner beneficial to SFC's stakeholders, it is imperative that SFC take steps to demonstrate that Sino-Forest's business is being separated from the uncertainty created by the MW Report.

22. Accordingly, and for the reasons set out herein, the commencement of a restructuring and the Sale Process is urgently required and should be pursued to preserve SFC's business as a going concern and thus the inherent value of the enterprise.

23. This application has been authorized by the Board.

II. PERSONAL BACKGROUND

24. I began my career with PricewaterhouseCoopers in 1979. In 1982 I joined Trizec Corporation Ltd. ("Trizec"), a Toronto Stock Exchange ("TSX") listed commercial real estate company then controlled by the Brascan Group. During my 13 years with the group of companies controlled by the Brascan Group, I held several senior positions, including Vice President, Finance and Treasurer of Trizec, Executive Vice President and Chief Financial Officer of Brookfield Development Corporation, and President and CEO of Trilon Securities Corporation.

25. After leaving the Brascan Group, I joined MDC Corporation, where my positions included Senior Executive Vice President, Chief Financial Officer and Chief Operating Officer, and a member of the company's board of directors.

26. In 1999, I was appointed Senior Executive Vice President and Chief Financial Officer of Alliance Atlantis Communications Inc. ("Alliance Atlantis"), then Canada's leading entertainment and broadcasting company that was then listed on the TSX and on the NASDAQ. I ceased to be an executive and employee of Alliance Atlantis in 2005 due to health reasons and thereafter acted as a consultant to Alliance Atlantis until 2007.

27. I have been a director of SFC since 2006. I joined the Board in 2006 as an independent, external director. I was appointed Lead Director in 2007, a position I held until June 2010, when I became an employee of SFC responsible for its acquisition of Greenheart Group Limited (Bermuda) ("Greenheart") and its subsidiaries (collectively, the "Greenheart Group"). At that time I became Executive Vice-Chairman of SFC and, following SFC's acquisition of a majority interest in Greenheart in August 2010, I became the CEO and an Executive Director of

Greenheart and in 2011 was appointed Chairman of Greenheart. On August 26, 2011, I was appointed as CEO of SFC. I have lived and worked out of Hong Kong since becoming an employee of SFC in 2010.

III. SINO-FOREST CORPORATION

A. Overview

28. SFC was formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsage Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. The articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to SFC's class A subordinate-voting shares and SFC's class B multiple-voting shares.

29. On June 25, 2002, SFC filed articles of continuance to continue under the *Canada Business Corporations Act* (the "CBCA"). On June 22, 2004, SFC filed articles of amendment whereby its class A subordinate-voting shares were reclassified as common shares and its class B multiple-voting shares were eliminated. A copy of the articles of continuance referred to above is attached as Exhibit "C".

30. Subject to paragraph 31 below, copies of all SFC financial statements prepared during the year preceding the application for the Initial Order are attached as Exhibit "D". In considering these financial statements, the Court should be aware that SFC cautioned in a January 10, 2012 press release, a copy of which is attached as Exhibit "E", that its historic financial statements (upon which portions of this affidavit are based) and related audit reports should not be relied upon. The circumstances giving rise to the press release are discussed below.

31. Attached as Exhibit "F" is a copy of the management-prepared unaudited financial statements for the third quarter of 2011. These statements have not been approved by SFC's Audit Committee or the Board and are subject to the limitations described in the January 10, 2012 press release. Moreover, they have not been subject to the same level of internal and external review and analysis as SFC's prior annual audited and quarterly financial statements. These financial unaudited statements have not previously been publicly disclosed.

32. Sino-Forest is a publicly listed major integrated forest plantation operator and forest products company, with assets predominantly in the PRC. Its principal businesses include the sale of standing timber and wood logs, the ownership and management of forest plantation trees, and the complementary manufacturing of downstream engineered-wood products. As at December 31, 2010, Sino-Forest reported approximately 788,700 hectares of forest plantations under management, located primarily in the southern and eastern regions of the PRC.

33. In addition, SFC holds an indirect majority interest in Greenheart, a Hong Kong listed investment holding company, which, together with its subsidiaries, as at March 31, 2011, owned certain rights and managed approximately 312,000 hectares of hardwood forest concessions in the Republic of Suriname ("Suriname") and 11,000 hectares of a radiata pine plantation on 13,000 hectares of freehold land in New Zealand.

34. While Greenheart is an indirect subsidiary of SFC, it has its own distinct operations and financing arrangements and is not party to or a guarantor of the notes issued by SFC. Greenheart Group and SFC operate out of separate office buildings in Hong Kong.

35. Greenheart Group was not implicated in the allegations made against Sino-Forest by Muddy Waters on June 2, 2011, discussed below. As such, the Greenheart Group and matters

relating thereto are not intended to be affected by or included in this proceeding. Greenheart Group has nevertheless been impacted by the allegations made against Sino-Forest. Among other things, Greenheart Group has previously relied on funding from SFC and could be negatively impacted if SFC's business ceases to operate as a going concern. This in turn could negatively impact the value of SFC's investment in Greenheart.

36. Since 1995, SFC has been a publicly listed company on the TSX with its shares traded under the symbol "TRE". SFC's registered office is in Mississauga, Ontario and its principal executive office is in Hong Kong. Two of SFC's senior financial officers reside in Ontario, as do three of its external directors.

37. SFC has issued four series of notes which have a combined principal amount outstanding of approximately \$1.8 billion. Two of the series of notes are supported by guarantees from 64 of SFC's subsidiaries (none of which are incorporated in the PRC), and the other two series of notes are supported by guarantees from 60 of those same subsidiaries and share pledges from 10 of those same subsidiaries.

38. Certain other Sino-Forest Companies have their own distinct banking facilities which are not intended to be affected by or included in this proceeding. In particular, none of the subsidiaries incorporated in the PRC are party to or guarantors of SFC's notes and are not intended to be affected by or included in this proceeding.

B. Corporate Structure

39. SFC is the sole shareholder of Sino-Panel Holdings Limited (incorporated in the BVI), Sino-Global Holdings Inc. (incorporated in the BVI), Sino-Panel Corporation (incorporated in Canada), Sino-Wood Partners Limited (incorporated in Hong Kong), Sino-Capital Global Inc.

(incorporated in the BVI), and Sino-Forest International (Barbados) Corporation (incorporated in Barbados). SFC also holds all of the preference shares of Sino-Forest Resources Inc. (incorporated in the BVI). Some of these subsidiaries have further direct and indirect subsidiaries. A copy of the Sino-Forest corporate organization chart is attached as Exhibit "G" (which includes certain major subsidiaries of Greenheart).

40. A total of 137 entities make up the Sino-Forest Companies: 67 PRC incorporated entities (with 12 branch companies), 58 BVI incorporated entities, 7 Hong Kong incorporated entities, 2 Canadian entities and 3 entities incorporated in other jurisdictions. A list of all subsidiaries with addresses is attached as Exhibit "H" (which does not include subsidiaries of Greenheart, but does contain Sino-Forest branch companies).

C. Capital Structure

1. Equity

41. The authorized share capital of SFC consists of an unlimited number of common shares and an unlimited number of preference shares issuable in series. Each holder of common shares is entitled to one vote at meetings of shareholders other than meetings of the holders of another class of shares.

42. Each holder of common shares is also entitled to receive dividends if, as and when declared by the Board. Holders of common shares are also entitled to participate in any distribution of net assets upon liquidation, dissolution or winding-up on an equal basis per share. There are no pre-emptive, redemption, retraction, purchase or conversion rights attaching to the common shares.

43. As at June 30, 2011, a total of 246,095,926 common shares were issued and outstanding. No preference shares have been issued.

2. Debt

44. SFC has issued four series of notes which remain outstanding. The four series of notes mature at various times between 2013 and 2017. The note indenture for each series of notes provides that it is governed by New York law. Each note indenture contains a "no suits by holders" clause. Other than the debt outstanding under the notes, SFC does not have any significant levels of normal course payables.

(a) 2017 Senior Notes

45. On October 21, 2010, SFC issued guaranteed senior notes in the principal amount of \$600 million. These notes mature on October 21, 2017, and interest is payable semi-annually, on April 21 and October 21, at a rate of 6.25% per annum. These notes are listed on the Singapore Stock Exchange and are supported by guarantees from 60 subsidiaries of SFC and share pledges from 10 of those same subsidiaries. A copy of the relevant indenture is attached as Exhibit "I".

(b) 2016 Convertible Notes

46. On December 17, 2009, SFC issued convertible guaranteed notes in the principal amount of \$460 million. These notes mature on December 15, 2016, and interest is payable semi-annually, on June 15 and December 15, at a rate of 4.25% per annum. These notes are supported by guarantees from 64 subsidiaries of SFC. A copy of the relevant indenture is attached as Exhibit "J".

(c) 2014 Senior Notes

47. On July 27, 2009, SFC issued guaranteed senior notes in the principal amount of \$399,187,000. These notes mature on July 28, 2014, and interest is payable semi-annually, on January 26 and July 26, at a rate of 10.25% per annum. These notes are listed on the Singapore Stock Exchange and are supported by guarantees from 60 subsidiaries of SFC and share pledges from 10 of those same subsidiaries. A copy of the relevant indenture is attached as Exhibit "K".

(d) 2013 Convertible Notes

48. On July 23, 2008, SFC issued convertible guaranteed notes in the principal amount of \$345 million. These notes mature on August 1, 2013, and interest is payable semi-annually, on February 1 and August 1, at a rate of 5% per annum. These notes are supported by guarantees from 64 subsidiaries of SFC. A copy of the relevant indenture is attached as Exhibit "L".

49. In addition to the four series of notes issued by SFC, many of SFC's subsidiaries (including the Greenheart Group and many of those incorporated in the PRC) have their own distinct banking facilities, including lending facilities, which are not intended to be affected by this proceeding.

D. The Business Model

1. Plantation / Timber Rights in the PRC

50. There are four types of rights associated with plantations in the PRC, namely (i) plantation land ownership, (ii) plantation land use rights, (iii) timber ownership, and (iv) timber use rights. All of these are separate rights and can be separately owned by different parties.

51. Generally, private enterprises cannot own plantation land in the PRC but may hold plantation land use rights for a specified duration (up to 70 years but typically 30 to 50 years), timber ownership and timber use rights. However, foreign enterprises cannot acquire land use rights and can instead only acquire timber ownership or timber use rights.

52. The various rights associated with plantations in the PRC and the limitations on which entities can hold which rights were the driving forces behind Sino-Forest's complex business models discussed below.

53. For its timber business in the PRC, Sino-Forest utilizes two models, one involving BVI entities ("BVIs"), and the other involving subsidiaries incorporated in the PRC as wholly foreign owned enterprises ("WFOEs").

2. The BVI Model

54. Until 2004, due to restrictions on foreign companies carrying on business in the PRC, and foreign ownership restrictions on land ownership and use rights, the BVI structure was the model primarily used by Sino-Forest for its forestry business in the PRC. Sino-Forest has established 58 BVI companies, 55 of which are guarantors of at least certain of SFC's notes. Not all of these BVIs are involved in the BVI model or standing timber business. Of the 58, there are 20 involved in the BVI standing timber business while the remaining BVIs are either holding companies or used in Sino-Forest's log trading business.

55. The Sino-Forest BVI entities involved in the standing timber business acquire standing timber from suppliers. The suppliers are usually aggregators who acquire the standing timber and, typically, land use rights from other suppliers or from original timber owners, such as villagers or collectives, or from smaller aggregators. As non-PRC companies, the BVIs could

not and did not acquire land use rights in the PRC, and instead only acquired the rights to timber in the PRC pursuant to the relevant standing timber purchase contracts.

56. Due to restrictions under PRC laws, foreign companies are not permitted to conduct business in the PRC without business licenses granted by competent governmental authorities. Therefore, the Sino-Forest BVI entities do not sell standing timber directly to customers. Instead, for historical and commercial reasons, they conduct the sale of standing timber through "authorized intermediaries" ("AIs", which are also called "entrusted sales agents" in the BVI model) pursuant to "entrusted sales agreements". The AIs serve as Sino-Forest's customers under the BVI model of its standing timber business.

57. Pursuant to the entrusted sales agreements entered into with the AIs, the AIs are obliged to deduct and remit all of the applicable taxes on behalf of Sino-Forest. Sino-Forest is not, however, in a position to know whether or not the AIs have in fact remitted applicable taxes on behalf of Sino-Forest.

58. As at June 30, 2011, Sino-Forest therefore accumulated and recognized a provision, based on a probability-weighted average of the amounts that the PRC tax authorities might seek to recover under various scenarios, of \$204,722,000 in its reported financial results to account for this potential tax liability. The method used to calculate this provision is explained at note 18 of SFC's 2011 second quarter financial statements, which were previously attached. A similar provision was included in SFC's 2010 Audited Financial Statements and was audited by SFC's external auditors.

59. BVIs are not allowed to have bank accounts in the PRC and money flowing in and out of the PRC is strictly controlled through foreign exchange controls. As a result, the Sino-Forest

BVI entities do not directly pay the suppliers or receive payments from the AIs. Instead, they are instructed to make set-off payments under which, pursuant to the instructions of Sino-Forest, AIs directly or indirectly make payments directly or indirectly to Sino-Forest's suppliers for amounts owed by Sino-Forest BVI entities to those suppliers. As a result, no cash actually flows directly through the BVIs. SFC then receives confirmations from the suppliers confirming that payments have been made.

60. The BVI structure is the central driver of asset value, revenue and income for Sino-Forest. As at December 31, 2010, it accounted for \$2.476 billion of book value (466,826 hectares of timber assets, representing approximately 59.2% of Sino-Forest's timber holdings by area and 89.2% of its timber holdings by book value), \$1.326 billion in revenue (representing approximately 70% of Sino-Forest's revenue), and approximately \$622 million of gross profit (representing approximately 92.6% of Sino-Forest's gross profits) for the year then ended.

61. The cashless nature of the BVI model means that Sino-Forest cannot obtain cash from its operations or monetize its assets without engaging in the complicated on-shoring process which is discussed further below. Furthermore, the set-off payment system necessitated by the BVI model impaired the IC's efforts to verify the flow of funds during its investigation.

3. The WFOE Model

62. Commencing in 2004, the PRC's Ministry of Commerce permitted foreign investors to invest in PRC-incorporated trading companies and to participate in most areas of the commodity distribution industry, including the purchase of standing timber and land use rights throughout the PRC. Prior to this time, WFOEs were prohibited from engaging in the commodity distribution industry.

63. Since 2004, almost all of Sino-Forest's new capital invested in timber assets has been employed through the WFOE model (as opposed to the BVI model).

64. Unlike BVIs, WFOEs can acquire land use rights or land leases as well as standing timber rights, and can have bank accounts in the PRC. Because of the WFOEs' direct presence in the PRC, they can also obtain financing from PRC banks to finance their operations. WFOEs can log the timber and sell both logs and standing timber to end customers, which means they do not need (and do not use) AIs. The WFOEs directly pay the suppliers for the standing timber and directly receive payment from end customers instead of utilizing the set-off arrangement used by Sino-Forest's BVI entities in the BVI model.

65. As at December 31, 2010, Sino-Forest's WFOEs held approximately 244,000 hectares of purchased plantations (representing approximately 30.9% of Sino-Forest's timber holdings by area) and 77,700 hectares of planted plantations (representing approximately 9.9% of Sino-Forest's timber holdings by area). Purchased plantations and planted plantations are discussed in further detail below. The WFOE standing timber assets accounted for approximately 10.8% of Sino-Forest's timber holdings by book value, and represented approximately \$298.6 million of book value, \$74 million in revenue, and \$10 million of income for the 2010 year before the allocation of corporate overhead.

66. None of Sino-Forest's WFOEs are guarantors of SFC's notes, nor have their shares been pledged by their BVI parents.

4. On-shoring Plan

67. Given the inherent problems with the BVI structure and the relative advantages of the WFOE structure, Sino-Forest has explored various methods of migrating or "on-shoring" its BVI

timber assets into WFOE structures. The successful transition of assets from a BVI structure to a WFOE structure has many merits including, significantly, providing a foreign parent an ability to have direct access to the cash generated from the sale of BVI timber assets.

68. The on-shoring process is expected to be a multi-year process due to (i) the volume of assets that need to be moved into the WFOE model, (ii) the large number of different locations in which Sino-Forest has timber assets in the PRC, (iii) the likely multiple rounds of negotiations required with the various stakeholders in each location, and (iv) SFC's limited resources.

E. Operations

69. Sino-Forest's operations are comprised of three core business segments. Wood fibre operations and log trading are the primary revenue contributors, while manufacturing and other operations enhance the value of the fibre operations by producing downstream products.

1. Wood Fibre Operations

70. Sino-Forest's wood fibre operations consists of acquiring, cultivating and selling standing timber or logs from purchased and planted plantations in nine provinces across the PRC.

71. Sino-Forest's upstream wood fibre operations generate the majority of its revenue, accounting for 96.4% of total revenue in the year ended December 31, 2010. Most of the standing timber and logs sold by Sino-Forest come from Sino-Forest's tree plantations, located primarily in the southern and eastern regions of the PRC.

72. Sino-Forest operates plantations for the wood fibre operations using two principal business models: purchased and planted, each of which is explained in greater detail below. The purchased plantation model operates through two legal structures: the BVI/AI legal structure

and, to a lesser but growing extent, the WFOE legal structure. The planted plantations model is operated exclusively through the WFOE legal structure, although the WFOEs themselves are typically held indirectly through a BVI holding structure. Many foreign investors, including well known multi-national companies, hold their investments in the PRC in special purpose vehicles established overseas in jurisdictions with a familiar and internationally accepted system of corporate governance. For example, over 75% of blue chip companies listed on the Hong Kong Stock Exchange (Hang Seng Index constituent stocks excluding the Finance Sub-Index) utilize BVI holding structures, including for their investments in the PRC.

(a) Purchased Plantation Model

73. The purchased plantation model under the BVI/AI legal structure involves the purchase of standing timber and sale of standing timber pursuant to standardized timber purchase agreements and "entrusted sale agreements". The standing timber purchased is generally on land owned by collectives or villages, not PRC state-owned land. When conducted through the BVI/AI legal structure, of which 20 BVIs hold all of the BVI timber assets, the timber purchases are arranged through suppliers.

74. The BVI structure does not involve the BVIs concurrently purchasing land use rights or leases with the purchase of standing timber, as the BVIs cannot legally acquire land use rights. However, the BVIs' supply contracts typically contain a right of first refusal for the BVIs to acquire, or nominate an affiliate to acquire, the plantation land use rights after the timber has been harvested. Despite such common contractual provisions, such right has rarely, if ever, been exercised.

75. The BVIs do not sell standing timber directly to customers. They sell under contract to the AI (customer) who usually resells the standing timber to its own customers. The BVIs' timber sales accounts receivables are settled by the AI making payments to suppliers (directly or indirectly to other parties on their behalf) on behalf of Sino-Forest. The AI does not pay the same supplier for the same trees it is selling to its customers. It pays a supplier for trees newly purchased by Sino-Forest from that supplier. These payments made by way of set-off enable the BVIs to acquire further standing timber from suppliers, which is matured and later sold. All BVI purchases are funded through the set-off mechanism using accounts receivable owed to Sino-Forest. This is a recognized legal structure in the PRC.

76. WFOEs are also engaged in the purchase and sale of standing timber. When conducted through a WFOE, purchases of standing timber are sometimes accompanied by concurrently obtaining plantation land use rights or leases (which are purchased plantations). WFOE standing timber transactions do not involve payments by way of set-off. They are conducted on a direct fund transfer basis.

77. In both the BVI and WFOE structure, the purchase price of the trees takes into account a variety of factors such as the trees' species, yield, age, size, quality and location. Other considerations include soil and weather conditions for replanting, log prices, and regional market location and demand. Sino-Forest does not typically need to conduct extensive plantation management work with respect to the trees growing on the purchased plantations, but does take measures to ensure that the trees are protected from pests, disease and theft.

78. SFC's approach is to purchase plantations in remote parts of the PRC that the PRC government has identified in its five year plans as being areas for future development. As a result, physical access to the plantations is often very challenging.

79. As at December 31, 2010, the purchased plantations under Sino-Forest management in the PRC consisted of approximately 711,000 hectares. These plantations consisted of a diverse mix of tree species, predominantly pine, Chinese fir and eucalyptus. Purchasing trees allows Sino-Forest to quickly expand its plantation portfolio geographically, as well as its inventory of harvestable fibre and leasable land.

(b) Planted Plantation Model

80. The planted plantation model is conducted by WFOEs, and involves obtaining plantation land use rights, sometimes with standing timber and sometimes as bare land suitable for planting. Sales from these planted plantations do not utilize the AI model but rather generally involve direct fund transfers to and from the WFOEs' suppliers and customers. As of December 31, 2010, SFC's planted plantations in the PRC operated through WFOEs comprised approximately 77,700 hectares.

81. Sino-Forest leases suitable land on a long-term basis, typically 30 to 50 years, and applies scientifically advanced seedling technology and silviculture techniques to improve tree growth. The mature trees are sold as standing timber or as harvested logs, and then Sino-Forest replants the land with seedlings.

82. Sino-Forest's operating model allows for the sale of fibre either as standing timber or harvested logs, depending on its customers' preferences and market demand.

83. Sino-Forest's planted plantations consist primarily of eucalyptus trees, a fast-growing high yielding species. According to the seventh five-year National Forest Inventory released by the State Forestry Administration (2004 to 2008), it is estimated that the PRC has 195 million hectares of forest resources, with approximately 120 million hectares of natural forest and 62 million hectares of plantation forest. The density of its total forest area was only 70 cubic metres per hectare in the PRC.

84. The PRC government encourages the development of the plantation industry in the PRC. In June 2003, the PRC State Council promulgated "The Notice on the Decision to Speed Up the Development of Plantation Industry". Subsequently, in August 2007, "The Key Elements of the Policies in Forestry Industry" was jointly promulgated by seven ministries including the State Forestry Administration, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, State Administration of Taxation, China Banking Regulatory Commission and China Securities Regulatory Commission to develop the non-state owned plantation industry, and to encourage the participation of foreign investors in the plantation industry, either solely or jointly with others.

85. The planted plantation model is generally viewed more favourably by the PRC government because it demonstrates a long-term commitment to the forestry business. That long-term commitment is very important from the perspective of the PRC government in light of the fact that demand for wood fibre in the PRC is approximately double that of available supply.

2. Log Trading Operations

86. Sino-Forest's operations in the trading of wood logs includes the sourcing of wood logs and wood-based products from the PRC and globally, and selling them in the domestic PRC market.

87. These wood-based products consist primarily of large diameter logs, sawn timber, veneers and other wood-based products sourced from the PRC, Thailand, Suriname, Papua New Guinea, Brazil, Vietnam, Russia and New Zealand. In these transactions, Sino-Forest purchases wood-based products that correspond to the requirements of wood dealers, and sells directly to these dealers. Sino-Forest's customers in these transactions are primarily wood dealers in the PRC.

3. Manufacturing and Other Operations

88. Sino-Forest currently has manufacturing operations in six provinces in the PRC that produce various wood-based products. In addition, Sino-Forest has greenery and nursery operations based in Jiangsu Province, which were established to source, supply and manage landscaping products for property developers and other organizations.

89. In order to maximize and increase the value of Sino-Forest's forestry products, Sino-Forest has been investing in research and development ("R&D"). On January 12, 2010, Sino-Forest announced its acquisition of HOMIX LIMITED ("HOMIX") in order to enhance its R&D portfolio. HOMIX has an R&D laboratory and two engineered-wood production operations based in Guangdong and Jiangsu provinces, covering eastern and southern PRC wood product markets. HOMIX develops a number of new technologies suitable for domestic plantation logs including poplar and eucalyptus species. HOMIX specializes in curing, drying and dyeing methods for engineered-wood and has the know-how to produce recomposed wood products and laminated veneer lumber. Recomposed wood technology is considered to be environmentally friendly and versatile, as it uses fibre from forest plantations, recycled wood and/or wood residue.

90. The goal of Sino-Forest's R&D efforts has been to improve tree plantation yields and the quality of the trees grown on Sino-Forest's plantations. While performing R&D activities, Sino-Forest from time to time collaborates with, and receives assistance from, research and academic institutions in the PRC. Sino-Forest's R&D efforts are viewed very positively in the PRC as they also demonstrate a long-term commitment to the forestry business in the PRC and can help address the significant shortage of wood fibre in the PRC.

F. Sales

91. Substantially all of Sino-Forest's sales are generated in the PRC. In the year ended December 31, 2010, sales to customers in the PRC were \$1.8723 billion and sales to customers located in other countries were \$51.3 million. In the year ended December 31, 2010, sales to customers in the PRC of standing timber, logs and other wood-based products accounted for substantially all of Sino-Forest's revenue.

G. Suppliers

92. Logs and wood-based products supplied through Sino-Forest's trading activities are sourced primarily from suppliers outside the PRC. These products are also sourced for Sino-Forest trading activities from overseas, primarily from Thailand, Suriname, Papua New Guinea, Brazil, Vietnam, Russia and New Zealand. The credit terms granted by suppliers of these products generally range from one to three months on open account and by letters of credit. Standing timber is sourced primarily from local suppliers in the PRC.

93. As discussed above, the PRC based suppliers are usually aggregators who acquire standing timber and/or land use rights from other suppliers or from original timber owners such as villagers or collectives who have certified title to the land.

H. Employees

94. SFC currently has 3 employees. Collectively, the Sino-Forest Companies employ a total of approximately 3553 employees, with approximately 3460 located in the PRC and approximately 90 located in Hong Kong. The Greenheart Group employs an additional approximately 273 employees.

I. Assets & Liabilities

95. The unconsolidated book values of SFC's assets and liabilities as at June 30, 2011 are listed below.¹ However, given that, as described below, SFC is in default under the notes and the indenture trustees would be in a position to accelerate and enforce on the notes but for the waiver agreements (subject to sending the appropriate notices and the cure period expiring), I have categorized the full amount of the notes (including the non-current portion and the derivative financial instrument, as opposed to just the current portion) as a current liability below.

<u>Current Assets</u>		<u>Current Liabilities</u>	
Cash and cash equivalents ²	\$5,676,040	Notes (current portion)	\$87,670,000
Prepayments ³	\$1,173,553	Notes ⁴ (non-current)	\$1,541,744,429
Other Receivables ⁵	\$188,575	Notes Derivative Financial Instrument	\$31,858,210
Due from Intercompany ⁶	<u>\$109,813,620</u>	Trade Payable	\$2,202
		Others Payable	\$231,723
		Accrued Liabilities	\$39,687,268
		Due to Intercompany	<u>\$1,818,313</u>
Total Current Assets	\$116,851,788	Total Current Liabilities	\$1,703,012,145

¹ The chart only reflects the assets and liabilities of SFC, and therefore does not accord with the consolidated quarterly financial results for the second quarter ended June 30, 2011.

² Mainly represents cash on hand, cash at bank and short-term deposits with a maturity of three months or less.

³ Mainly represents prepaid legal and professional fees and insurance.

⁴ The Notes (current portion), Notes (non-current) and Notes Derivative Financial Instrument do not equate on this balance sheet to approximately \$1.8 billion (the face value of the notes) due to the accounting treatment of financing costs and the carrying value of the convertible notes.

⁵ Mainly represents HST receivables, staff advances and deposits.

⁶ Non-interest bearing with no fixed date of repayment.

<u>Non-Current Assets</u>		<u>Non-Current Liabilities</u>	
Property, Plant & Equipment ⁷	\$1,166		
Investment in Subsidiaries ⁸	\$1,589,153,984	Intercompany Loans	<u>\$235,000,000</u>
Intercompany Loans ⁹	<u>\$1,582,781,672</u>		
Total Non-Current Assets	\$3,171,936,822	Total Non-Current Liabilities	\$235,000,000
Total Assets	\$3,288,518,610	Total Liabilities	\$1,938,012,145

96. With respect to the assets, while they reflect an accurate implementation of the relevant accounting policies, I do not believe that the book values of the assets reflect the realizable value of those assets for a number of reasons, including the complexities associated with the business, the significant amount of intercompany loans owing to SFC, and the costs and potential PRC tax liabilities that may be payable if the assets were realized on. SFC is not able to simply monetize its assets in the short term in order to satisfy its obligations under the notes as a result of, among other things, the hard to quantify potential PRC tax liability previously discussed at paragraph 58 above and the stringent currency exchange controls in the PRC.

97. As discussed above, Sino-Forest is not in a position to know whether or not the AIs have in fact remitted applicable taxes on behalf of Sino-Forest. Although Sino-Forest recognized a provision as at June 30, 2011 of \$204,722,000 in its reported financial results to account for this potential tax liability, I am advised by SFC's counsel in the PRC, Ching Wo Ng at King & Wood Mallesons, that the amount of the tax liabilities under PRC law arising from the operation of the BVIs could be significantly higher if responsible tax authorities take different views than that of management in respect of a number of tax issues, including, without limitation, whether by their

⁷ Mainly represents office equipment.

⁸ Historical cost for interests in subsidiaries.

⁹ Interest bearing with defined terms of repayment date.

operation the BVIs have formed an establishment in the PRC, whether value added tax is payable, the likelihood and severity of a tax penalty, the applicable default interests on late payments, the numbers of years to "look back", whether certain tax preferential treatments apply to foreign companies such as BVI entities, and other relevant matters. The views on these issues may also differ from locality to locality.

98. In addition, as a result of the currency exchange controls in the PRC, all cash to be repatriated from the PRC is subject to approval from the State Administration of Foreign Exchange (the "SAFE"). I am advised by SFC's counsel in the PRC, Ching Wo Ng at King & Wood Mallesons, that for normal and regular foreign exchange transactions in the PRC which require the approval of SAFE, the applications for such approvals can normally be processed within the time limits prescribed by law. However, the transactions undertaken by the BVIs in respect of their forestry assets in the PRC are very dissimilar to those contemplated by the relevant rules and regulations of the PRC. Therefore, there is no assurance that any application to SAFE for repatriation of funds by the BVIs can be processed within the time limits prescribed by law, or within a reasonable time thereafter.

99. As a result of Sino-Forest, among other things, operating in a critical natural resource sector with insufficient supply in the PRC, investing in research and development initiatives in the PRC, and employing a significant number of people in the PRC, it has generally enjoyed positive working relationships with all levels of government in the PRC. However, I believe that if Sino-Forest were to cease operating under a business strategy that is consistent with and supportive of PRC government policy, including its policy on sustainable forestry, for example, investing in research and development or employing a significant number of people in the PRC, Sino-Forest would enjoy much less favourable treatment from PRC government officials, and

would likely have greater difficulties resolving the issues discussed above relating to tax liabilities and repatriation of cash. This is particularly true in respect of the BVI structure where, among other things, the ability to access cash is further impaired and Sino-Forest is not in a position to know whether or not the AIs have remitted applicable taxes on behalf of Sino-Forest.

J. Importance of Relationships to Doing Business in the PRC

100. From my time with SFC I have come to understand the importance of relationships to doing business in the PRC. This is particularly true in relation to those doing business in the forestry sector.

101. The PRC has extensive resource needs, including in the forestry sector. Historically, forestry resources in the PRC have been collectively owned at a local level. Forestry resources have largely been managed without the resources necessary to increase yields and allow for harvesting at a commercial level from a western forestry perspective.

102. Part of Sino-Forest's success has been attributable to its ability to acquire forestry resources from local sources of supply, at a good price, and to resell them at a good profit. In relation to Sino-Forest's planted plantation model, Sino-Forest also has benefited from the application of advanced silviculture techniques to those resources. Based on my interactions with PRC government officials, I understand that the PRC government recognizes that for the industry to mature, become efficient, and improve yields to reduce the fiber deficit, forest asset management has to be consolidated.

103. A good relationship with the various levels of PRC government is important to doing business successfully in the PRC. Historically, Sino-Forest's relationships with these governments have been important to Sino-Forest's success in the PRC. Loss of their support

could, correspondingly, have significant negative consequences for Sino-Forest, for its ability to continue to do business in the PRC, and its ability to continue to control its PRC-based assets for the benefit of its stakeholders.

104. Sino-Forest's most important relationships have been and continue to be through Allen Chan ("Chan"). From my observations and experience, Chan has established significant relationships in the PRC, and my understanding is that this is a direct result of his long-standing personal contribution to the development of the forestry sector both through Sino-Forest and in a personal capacity as an informal advisor to various relevant industry bodies.

105. Following the MW Report, Chan was requested to meet with officials in the PRC State Forestry Administration ("SFA") and other senior officials on multiple occasions in Beijing. I have been introduced to some officials and attended some of these meetings.

106. My observation from my personal involvement in these discussions and meetings is that Chan continues to be consulted and respected within the PRC government as an expert in the forestry industry. I therefore believe his continued participation will be extremely helpful in allowing SFC to unlock value in the PRC for the benefit of its stakeholders.

107. Notwithstanding the allegations in the MW Report (which have received widespread coverage in the PRC and in Hong Kong), Chan has continued to be honoured within the PRC. In November 2011, at the 2nd China Forestry Expo, Chan was presented an "Outstanding Achievement" award from the China National Forestry Industry Federation (the "CNFIF"). In recognition of his contribution to the forestry industry in the PRC, Chan was the first keynote speaker following the Minister of the SFA at the China Forestry Expo.

108. Chan was also appointed Vice President of the CNFIF in 2010. The CNFIF is an affiliate of the SFA and is chaired by the Minister of the SFA or the Director of the SFA. The SFA is the PRC government ministry responsible for its forests and forest management.

109. In 2007, Chan was appointed an Honourable Director of Renmin University (also known as the People's University of China), one of the most prestigious universities in the PRC with a distinct focus on humanities and social sciences, and highly regarded by top leaders in the PRC. In addition, Chan is a member of the Jiangxi Committee of the Chinese People's Political Consultative Conference.

110. In February 2012, Chan was presented with the "2011 China Forestry Persons of the Year" award by the CNFIF.

111. Many of the PRC's commercially attractive forestry resources are in areas of sensitivity within the PRC, including areas that are sensitive from a military perspective. Private air travel is prohibited or strictly controlled in many of the areas in which Sino-Forest does business.

112. The strategic significance attaching to Sino-Forest's forestry assets in the PRC increases the importance to SFC of maintaining positive relationships with authorities in the PRC. If Sino-Forest is to monetize its PRC based assets for the benefit of stakeholders, I strongly believe that the outcome of this process must be acceptable to relevant authorities in the PRC.

113. In the course of its 18 years of operations, Sino-Forest has been viewed by the Minister of the SFA positively and as a model for privately owned enterprises carrying on business in the PRC and promoting PRC policies. For that reason, Sino-Forest has enjoyed a positive relationship with the PRC. Even since June of last year, the Minister of the SFA has remained

cooperative and encouraging of a solution for Sino-Forest. However, recently, the government has expressed increasing concern and interest as to what the solution is for Sino-Forest. As a result, not only do I believe that any solution needs to be acceptable to the authorities in the PRC, such solution needs to be presented in the very near future.

IV. THE MUDDY WATERS ALLEGATIONS: CHRONOLOGY AND RESPONSES

114. On June 2, 2011, Muddy Waters, which admitted to holding a short position on SFC's shares, published the MW Report alleging, among other things, that Sino-Forest is a "near total fraud" and a "Ponzi scheme."

115. While the allegations contained in the MW Report are diverse and far-reaching, the IC set out to address the issues raised in three core areas: (i) the verification of timber assets reported by Sino-Forest, (ii) the value of the timber assets held by Sino-Forest, and (iii) revenue recognition.

116. Among other things, the MW Report alleged that Sino-Forest does not hold the full amount of timber assets that it reports, that the timber assets actually held by Sino-Forest have been overstated, and that Sino-Forest overstated its revenue. In addition, the MW Report alleged that Sino-Forest has engaged in unreported related-party transactions. A copy of the MW Report is attached as Exhibit "M". Two subsequent reports by Muddy Waters relating to Sino-Forest are attached as Exhibit "N". These reports are attached to provide context to the Court and definitely not because I agree with their contents.

A. The IC, OSC, RCMP and HKSFC Investigations

117. On June 2, 2011, the same day that the MW Report was released, the Board appointed the IC, a Board committee consisting exclusively of independent directors, which in turn retained

independent legal and financial advisors in Canada, Hong Kong and the PRC, to investigate the allegations set out in the MW Report.

118. On June 8, 2011, the OSC publicly announced that it was investigating matters related to SFC. That investigation has been active and is ongoing.

119. Later in June 2011, the HKSFC commenced an investigation into Greenheart Group. As a company listed on the Hong Kong Stock Exchange and headquartered in Hong Kong, the HKSFC is Greenheart's primary securities regulator. I believe that the HKSFC's investigation was largely reactive to the allegations against Sino-Forest, SFC's control position in relation to Greenheart Group, and to the fact that the principal offices of Sino-Forest and Greenheart Group are located in Hong Kong. As indicated above, SFC had acquired a majority interest in Greenheart Group less than a year earlier, and had separate management and premises.

120. In addition to its investigation of Greenheart Group, the HKSFC has been assisting the OSC with its investigation. I am advised by Gary Solway of Bennett Jones LLP, counsel to SFC, that the HKSFC has a mutual-assistance treaty with the OSC. The OSC has conducted witness interviews in Hong Kong with the assistance of and out of the premises of the HKSFC.

121. Sino-Forest believes that it has attempted to cooperate with the OSC, HKSFC and RCMP investigations. Sino-Forest has made extensive production of documents, in particular to the OSC, including documents sourced from jurisdictions outside of the OSC's power to compel production.

122. Sino-Forest also has facilitated interviews by the OSC with Sino-Forest personnel. In circumstances where OSC staff sought to examine Sino-Forest personnel resident in the PRC

(where neither the OSC nor the HKSFC had the ability to compel their attendance at interviews), Sino-Forest arranged to bring individuals to Hong Kong to be examined.

123. Sino-Forest has responded to extensive inquiries, the most far-reaching coming from the OSC, and has provided periodic oral briefings to OSC staff. The IC reports were provided to OSC staff on an unredacted basis, as discussed below.

124. The scope of the IC's review was significant, reflecting the wide range of allegations contained in the MW Report. The IC and its advisors worked to compile and analyze the vast amount of data required for their comprehensive review of Sino-Forest's operations and business, the relationships between Sino-Forest and other entities, and Sino-Forest's ownership of assets.

125. At the beginning of the IC's investigation, the IC informed the Board that the review would likely take at least two to three months to complete. On August 10, 2011, the IC delivered its first interim report to the Board (the "First Interim Report"). A redacted copy of the First Interim Report is attached as Exhibit "O".

126. SFC has publicly disclosed on SEDAR and on its website redacted versions of the First Interim Report and the two subsequent reports of the IC. The three reports have been redacted to protect information that the Board believes is commercially sensitive, the disclosure of which could be harmful to Sino-Forest's business and operations, especially in the PRC. These redactions have not been made to conceal information from regulatory scrutiny. Each of the three reports has been produced without redactions to OSC staff pursuant to a compelled process designed to allow OSC staff to receive information relevant to its investigation, while at the same time protecting SFC's sensitive information.

127. The First Interim Report was the result of the IC and its advisors assembling and organizing significant data from Sino-Forest's records, and reviewing Sino-Forest's cash holdings, revenue and relationships. In the First Interim Report, while the IC did not determine that there was any validity to the allegations in the MW Report, its findings were limited as the investigation was still ongoing.

128. Also in its First Interim Report, the IC's accounting advisors confirmed Sino-Forest's cash balances in specific accounts as at June 13, 2011, for accounts located inside and outside of the PRC. A total of 293 accounts controlled by Sino-Forest in Hong Kong were confirmed, representing 100% of the expected cash position in Hong Kong. However, Sino-Forest had 267 accounts in the PRC, so the logistics and requirements of in-person/in-branch verification in the PRC led the IC advisors to confirm 28 accounts, representing approximately 81% of the expected cash position in the PRC. The IC was satisfied based on this verification that Sino-Forest's expected cash position in the PRC existed as at the date of confirmation.

129. The First Interim Report was delivered to the Board shortly before the Board was asked to authorize the release of SFC's 2011 quarterly financial results for the second quarter ended June 30, 2011 (the "Q2 Results"). The Q2 Results were released on August 15, 2011.

130. Almost immediately after the Q2 Results were released, the IC's advisors identified and brought to the attention of the IC just under 60 documents, some of which raised potential conduct issues and others of which raised questions as to whether Sino-Forest's relationships with some of its AIs and suppliers were conducted at arm's length.

131. The IC concluded that interviews concerning the documents should be conducted with relevant Sino-Forest personnel. The interviews were conducted from August 24 to 26, 2011 in Hong Kong.

132. As part of its efforts to cooperate with OSC staff, on August 24, 2011, before the documents were shown to relevant Sino-Forest personnel and those personnel were provided with an opportunity to comment, the IC's advisors provided copies of the documents to OSC staff. The IC's advisors and SFC's external counsel also provided oral briefings about the interviews to OSC staff from August 24 to 26, 2011, as the interviews were being conducted.

133. Seen in their proper context, and with the benefit of fuller explanations, I believe that the documents identified by the IC's advisors and provided to OSC staff at that time fall well short of the misconduct alleged in the MW Report.

134. However, as a result of the documents and interviews, Sino-Forest placed three employees on administrative leave, and a fourth senior employee was requested to act solely on my instructions. It was my decision in each case to take this action.

135. SFC's Board met on the morning of Friday August 26, 2011, Toronto time (which was Friday evening Hong Kong time) to hear reports about the interviews and about communications between SFC and OSC staff. The Board was told that Chan had agreed to resign as Chairman, CEO and as a director of SFC pending the completion of the review by the IC of the allegations in the MW Report. He was appointed Founding Chairman Emeritus and I was appointed as CEO.

136. On August 26, 2011, the OSC issued a cease trade order with respect to the securities of SFC and with respect to certain senior management personnel. A copy of the cease trade order dated August 26, 2011 (as corrected by the OSC later that day) is attached as Exhibit "P". The Board first learned of the cease trade order during the Board meeting that day, after Chan tendered his resignation.

137. With the consent of SFC, the cease trade order was extended by subsequent orders of the OSC, copies of which are attached as Exhibit "Q". The cease trade order continues in force to this date.

138. Based on my review of the IC's second interim report to the Board (the "Second Interim Report", which is discussed below) and discussions I have had with William Ardell, Board Chair and Chair of the IC, I understand that in late August 2011, counsel for the IC received an inquiry from the RCMP requesting cooperation from the IC in connection with an investigation into the allegations in the MW Report. Representatives of the IC met with and provided information to the RCMP from time to time. The RCMP also has made information requests from time to time. It has been SFC's intention to cooperate with the RCMP in connection with its investigation.

139. On November 13, 2011, the IC delivered its Second Interim Report to the Board, a redacted copy of which is attached as Exhibit "R".

140. Subject to the limitations described therein, the Second Interim Report confirmed registered title or contractual or other rights to Sino-Forest's stated timber assets, reconciled the book value of the BVI timber assets and Sino-Forest WFOE standing timber assets as set out in the 2010 financial statements to the purchase prices for such assets as set out in the BVI and

WFOE standing timber purchase contracts reviewed by the IC advisors, reconciled reported total revenue to sales contracts, and addressed certain allegations regarding related-party transactions.

141. Subject to the scope limitations described in the Second Interim Report, the IC confirmed 99.3% of Sino-Forest's timber area to its satisfaction and that Sino-Forest had registered title to 100% of its disclosed planted timber holdings by area, and contractual or other rights to approximately 81.3% of its disclosed purchased timber holdings by area. The IC reported that it or its advisors had reviewed originals or copies of purchase contracts for the acquisition by Sino-Forest of virtually all of its disclosed timber holdings as at December 31, 2010.

142. The IC indicated in its Second Interim Report that it viewed its work to be substantially complete and that it expected to deliver its final report prior to the end of 2011.

B. Failure to Release Q3 Results and Default Under the Notes

143. Subsequent to August 26, 2011, the IC's advisors identified additional documents that raised issues meriting comment and explanation from SFC's management. Also, SFC's external counsel, in responding to requests from the OSC, also identified documents of a similar nature. Further documents meriting comment and explanation were identified by SFC's external auditors and in interviews conducted by OSC staff.

144. As SFC reached the November 15, 2011 deadline to release its 2011 third quarter financial statements (the "Q3 Results"), the Audit Committee recommended and the Board agreed that SFC should defer the release of the Q3 Results until certain issues could be resolved to the satisfaction of the Board and SFC's auditor. The issues included (i) determining the nature and scope of the relationships between Sino-Forest and certain of its AIs and suppliers, as discussed in the Second Interim Report, and (ii) the satisfactory explanation and resolution of issues raised

by certain documents identified by the IC's advisors, SFC's counsel, SFC's external auditors, and/or by OSC staff.

145. On November 15, 2011, the date upon which SFC's Q3 Results were due, SFC issued a press release announcing that the IC had delivered its Second Interim Report to the Board. A copy of the November 15, 2011 press release is attached as Exhibit "S". The executive summary to the Second Interim Report is attached as a schedule to the press release.

146. The November 15, 2011 press release also stated that the Board had concluded that, as a result of ongoing work arising from the allegations raised in the MW Report, it was not in a position to authorize the release of the Q3 Results at that time. The release stated that SFC would try to release the Q3 Results within 30 days.

147. SFC's failure to file the Q3 Results and provide a copy of the Q3 Results to the trustee and to its noteholders under its senior and convertible note indentures on or before November 15, 2011 constituted a default under those note indentures. Pursuant to the indentures, an event of default would have occurred if SFC failed to cure that breach within 30 days in the case of the senior notes, and 60 days in the case of the convertible notes, after having received written notice of such default from the relevant indenture trustee or the holders of 25% or more in aggregate principal amount of a given series of notes.

148. While SFC worked diligently to try to resolve the outstanding issues, it became clear that SFC was not going to be able to release the Q3 Results within that timeframe. On December 12, 2011, SFC issued a press release announcing that it would not be able to release the Q3 Results within the 30-day period originally indicated.

149. Moreover, in the press release, SFC announced that, in the circumstances, there was no assurance that it would be able to release the Q3 Results, or, if able, as to when such release would occur. In the December 12, 2011 press release, SFC also announced that the Board had determined not to make the \$9.775 million interest payment on SFC's 2016 convertible notes that was due on December 15, 2011. A copy of the December 12, 2011 press release is attached as Exhibit "T".

150. As disclosed in the December 12, 2011 press release, the circumstances that caused SFC to be unable to release the Q3 Results also could impact SFC's historic financial statements and SFC's ability to obtain an audit for its 2011 fiscal year.

151. SFC's failure to make the \$9.775 million interest payment on the 2016 convertible notes when due on December 15, 2011 constituted a default under that indenture. Under the terms of that indenture, SFC had 30 days to cure its default and make the required interest payment in order to prevent an event of default from occurring, which could have resulted in the acceleration and enforcement of the approximately \$1.8 billion in notes which have been issued by SFC and guaranteed by many of its subsidiaries outside of the PRC.

152. On December 18, 2011, SFC announced that it had received written notices of default dated December 16, 2011, in respect of its senior notes due 2014 and its senior notes due 2017. The notices, which were sent by the trustees under the senior note indentures, referenced SFC's previously-disclosed failure to release the Q3 Results on a timely basis. SFC reiterated in the December 18, 2011 press release that it did not expect to be able to file the Q3 Results and cure the default within the 30 day cure period. A copy of the December 18, 2011 press release is attached as Exhibit "U".

153. In response to the receipt of the notices of default, among other considerations, on December 16, 2011, the Board established a Special Restructuring Committee of the Board (the "Restructuring Committee") comprised exclusively of directors independent of management of SFC, for the purpose of supervising, analyzing and managing strategic options available to SFC. The members of the Restructuring Committee are William Ardell, Chair of the Board, who is also Chair of the Restructuring Committee and Garry West. James Hyde, Chair of the Audit Committee and an independent director, while not a member of the Restructuring Committee, has attended meetings of the Restructuring Committee and participated fully in its deliberations.

154. Following discussions with its external auditors, on January 10, 2012, SFC issued a press release cautioning that its historic financial statements and related audit reports should not be relied upon. The January 10, 2012 press release is previously attached.

C. The Waiver Agreements

155. On January 12, 2012, SFC announced that following extensive discussions with the Ad Hoc Noteholders, holders of a majority in principal amount of SFC's senior notes due 2014 and its senior notes due 2017 agreed to waive the default arising from SFC's failure to release the Q3 Results on a timely basis. A copy of the January 12, 2012 press release, together with the waiver agreements, is attached as Exhibit "V".

156. Pursuant to the waiver agreements, SFC agreed to, among other things, make the \$9.775 million interest payment on its 2016 convertible notes that was due on December 15, 2011, curing that default. That payment was made in accordance with the waiver agreements.

157. While the waiver agreements prevented the indenture trustees under the relevant note indentures from accelerating and enforcing the note indebtedness as a result of SFC's failure to

file its Q3 Results, those waiver agreements expire on the earlier of April 30, 2012 and any earlier termination of the waiver agreements in accordance with their terms. In addition, should SFC fail to file its 2011 Results by March 30, 2012 (and upon the necessary notices being sent and cure periods expiring), the indenture trustees would again be in a position to accelerate and enforce.

D. The IC's Final Report and Verification of SFC's Assets

158. On January 31, 2012, SFC publicly released a redacted version of the final report of the IC (the "Final Report"). A copy of the redacted Final Report is attached as Exhibit "W".

159. Following the delivery of the Final Report, and in accordance with the waiver agreements, the Board adopted a resolution instructing the IC to cease its investigative, review and oversight activities. Any issues within the authority of the IC that remained outstanding were referred to SFC's Audit Committee or Restructuring Committee.

160. In its January 31, 2012 press release, attached as Exhibit "X", announcing the release of the Final Report, SFC also disclosed the results of a "proof of concept" exercise undertaken to determine if the standing timber referenced in particular purchase contracts could be located and quantified by an independent forestry expert engaged to undertake the exercise. The exercise was undertaken to address the issue raised in the Second Interim Report regarding the absence of maps in the possession of SFC's BVI subsidiaries to show the precise location of the timber subject to plantation purchase contracts.

161. As disclosed in the January 31, 2012 press release, the proof of concept exercise was confined to two compartments. The selection criteria limited the sample to purchased timber assets located in Yunnan province. The candidate assets were acquired prior to the allegations in

the MW Report. They were listed as being held by BVIs and not by WFOEs. At the IC's request, the consultants selected a shortlist of ten possible compartments covering multiple forestry bureaus and meeting the criteria above, avoiding any prospect that the sampling involved personnel from Sino-Forest. Multiple county forestry bureaus were represented in the shortlist, and the IC made the final selection of compartments to ensure more than one county forestry bureau was represented.

162. As described in the Final Report and the accompanying press release, maps for the two compartments were obtained from the relevant forestry bureaus in the PRC by the contracted survey companies and made available to the consultants. Using the techniques described in the Final Report, compartment boundaries were superimposed on recent high resolution satellite imagery which allowed for the measurement of each compartment's forest cover. The consultants compared the net stocked area of forest cover that they assessed for each compartment with that stated in the Sino-Forest purchase contracts and forest survey reports. The consultants found that the net stocked area of forest cover in each compartment was up to six percent greater than that stated in the relevant purchase contracts and forest survey reports, with the current assessed area for each compartment exceeding the purchase contract area.

163. While the consultant report and press release cautioned against extrapolation of these findings over Sino-Forest's broader forestry assets, I took considerable comfort from these findings. In relation to two randomly-selected contracts held through the BVI structure, the property descriptions and expected forest cover in the contracts matched the boundaries and forest cover on the ground.

164. Subsequent to January 31, 2012, Sino-Forest has taken steps to see the proof of concept process applied over a statistically relevant sampling of Sino-Forest's forest assets. That work is ongoing.

E. Gating Issues to an Audit

165. SFC has worked diligently to address issues identified by SFC's Audit Committee, the IC and by its external auditor, Ernst & Young LLP, as requiring resolution in order for SFC to be in a position to obtain an audit opinion in relation to the 2011 Results. Many of the same issues also impact SFC's ability to release the Q3 Results.

166. As SFC has publicly disclosed in its press releases, the gating issues to the release of the Q3 Results and to obtaining an audit of the 2011 Results include (i) determining the nature and scope of the relationships between Sino-Forest and certain of its AIs and suppliers, and (ii) the satisfactory explanation and resolution of issues raised by certain documents identified by the IC's advisors, SFC's counsel, SFC's auditors, and/or by OSC staff.

167. The "relationship issues" described above are discussed extensively in the Second Interim Report and in the Final Report of the IC. Relationship issues were prominent in the approximately 60 documents provided to OSC staff on August 24, 2011, and relationships continue to be an issue that SFC has been unable to resolve.

168. As part of the IC's investigative process a significant amount of electronic data was extracted and reviewed by the IC and its advisors. The same data also has been reviewed by counsel for SFC and SFC's advisors. Over one million electronic records have been reviewed.

169. The search of electronic records and other inquiries have not produced evidence to support the allegations made in the MW Report that Sino-Forest is a near total fraud or Ponzi scheme. The searches and inquiries have produced some evidence of possible lesser improper conduct that SFC has been making efforts to investigate, address and quantify.

170. There is no single theme among the documents and issues that SFC has been taking steps to address. In some cases, the documents speak to efforts to deal with foreign currency exchange restrictions applicable to the PRC. The documents suggest that in some cases SFC personnel may have received personal benefits at Sino-Forest's expense and may have appropriated some of Sino-Forest's assets. They also show that, in a few cases, whistleblower complaints in some subsidiaries alleging misconduct by certain personnel in those subsidiaries appear not to have been adequately investigated and addressed.

171. The record-keeping of SFC's subsidiaries in the PRC appeared to be adequate prior to the recent heightened scrutiny being focused on companies with significant operations in the PRC. The nature of SFC's books and records, combined with the inability to compel disclosure and participation by third party PRC companies, primarily SFC's customers (AIs) and suppliers, and the unwillingness of these companies to become involved in an investigation, makes it difficult to definitively assess some of the explanations offered by Sino-Forest personnel.

172. In light of this heightened scrutiny, SFC's subsidiaries in the PRC do not have the scope of books and records that might be used to definitively address some issues raised by potentially problematic email communications. The nature of SFC's BVI structure, and the absence of contractual rights to examine the books and records of customers and suppliers, deprives SFC of

access to information that may be necessary to allow SFC to determine whether some of the documents and issues identified are material from a financial reporting perspective.

173. Notwithstanding SFC's best efforts, many of these issues may not be capable of resolution, and certainly not within a timeframe that would allow SFC to comply with its obligations under its note indentures and securities laws. Consequently, absent a resolution with the noteholders, the indenture trustees would be in a position to enforce their legal rights as early as April 30, 2012.

174. However extensive and challenging the work done to respond to the MW Report has been, the simple fact is that the uncertainty it has created has caused Sino-Forest's business to deteriorate. Repairing the damage to the business simply cannot wait any longer. Without decisive action in the immediate term, I fear that the ability to save the business for the benefit of SFC and its stakeholders will be irreparably lost.

175. As described in greater detail herein, even though the allegations set out in the MW Report and the OSC cease trade orders are unproven, the allegations have had a catastrophic negative impact on Sino-Forest's business activities and have created substantial uncertainty regarding the future of Sino-Forest's business in the minds of the Sino-Forest Companies' stakeholders in the PRC, including its lenders, customers, suppliers, employees, and governmental officials. The allegations made against SFC have resulted in a substantial erosion of Sino-Forest's business. The business in the PRC continues to deteriorate with every passing day and it has become clear to SFC that the Sino-Forest business needs to be separated from the cloud that continues to hang over SFC if there is any future for that business (and thus value for SFC's stakeholders) to be preserved.

V. IMPACT OF MUDDY WATERS ALLEGATIONS ON SINO-FOREST

A. Class Action Lawsuits

176. SFC and certain of its officers, directors and employees, along with SFC's current and former auditors, technical consultants and various underwriters involved in prior equity and debt offerings, have been named as defendants in eight class action lawsuits.

177. Five of these class action lawsuits, commenced by three separate groups of counsel, were filed in the Ontario Superior Court of Justice on June 8, 2011, June 20, 2011, July 20, 2011, September 26, 2011 and November 14, 2011. A carriage motion in relation to these actions was heard on December 20 and 21, 2011, and by Order dated January 6, 2012, Justice Perell appointed Koskie Minsky LLP and Siskinds LLP as class counsel. As a result, Koskie Minsky LLP and Siskinds LLP discontinued their earliest action, and their other two actions have been consolidated and will move forward as one proceeding. The other two Ontario actions, commenced by other counsel, have been stayed. Pursuant to Justice Perell's January 6, 2012 Order, Koskie Minsky LLP and Siskinds LLP have filed a fresh as amended Statement of Claim in the consolidated proceeding. A copy of this Statement of Claim is attached as Exhibit "Y".

178. The action purports to be brought on behalf of noteholders. The plaintiffs and plaintiff law firms have not complied with the prerequisites to bringing suit in the relevant note indentures, which each contain a "no suits by holders" clause.

179. Parallel class actions have been filed in Quebec and Saskatchewan. Copies of the originating documents in those actions are attached as Exhibit "Z".

180. Additionally, on January 27, 2012, a class action was commenced against SFC and other defendants in the Supreme Court of the State of New York, U.S.A. The complaint alleges that

the action is brought on behalf of persons who purchased SFC shares on the over-the-counter market and on behalf of non-Canadian purchasers of SFC debt securities. The quantum of damages sought is not specified in the complaint. A copy of the complaint in this action is attached as Exhibit "AA".

181. Additional law firms in both the United States and Canada have announced that they are investigating SFC and certain directors and officers thereof with respect to potential additional class action lawsuits.

B. Effects of MW Report and Related Events

182. The allegations set forth in the MW Report, despite being denied by SFC, have had catastrophic negative effects on the reputation and business of Sino-Forest. As a result, Sino-Forest's ability to conduct its operations in the normal course of business has been materially affected. For example: creditors are increasing legal demands with respect to accounts payable; at the same time, collections of accounts receivables is increasingly difficult due to a widespread belief that Sino-Forest will not survive; sales in the WFOE model have also slowed substantially in response to views on accounts receivable payments; cash flow issues have resulted in a cessation of any expansion or modernization; the inability to fund purchases of raw materials has caused a slowdown in production or, in many cases, a shutdown; certain timber assets have been frozen as Sino-Forest has been unable to keep current with payments; deposits put down on standing timber purchases by WFOEs, of approximately \$27 million, may be unrealizable due to an inability to generate cash to pay off outstanding payables under those contracts; offshore banking facilities have been repaid and frozen or cancelled, leading to substantial damage in Sino-Forest's trading business; relationships with local governments and plantation land owners have become strained; Sino-Forest is unable to complete various projects, contracts and

acquisitions; and the PRC government is expressing increased concern over SFC and is becoming less inclined to be supportive of Sino-Forest, making the ability to obtain legal documents for Sino-Forest's operations increasingly difficult.

1. Diversion of Operational Resources & Effects on Operations

183. The investigations being conducted by the OSC, the HKSFC and the RCMP, the examination by the IC (and now the Audit Committee and Restructuring Committee), and the class action lawsuits have required, and will continue to require, significant resources to be expended by the directors, officers and employees of Sino-Forest. As a result, the diversion of such resources has affected Sino-Forest's ability to conduct its operations in the normal course of business. Sino-Forest's timber and trading businesses have effectively been frozen and have ground to a halt.

184. Since the MW Report was released, in order to conserve cash, Sino-Forest has only completed cash purchases which were previously committed to and has not made any new commitments (i.e. in the WFOE structure), despite having been presented with some attractive buying opportunities. Sino-Forest has therefore not grown its asset base as it would have but for the MW Report.

185. Also, the Sino-Forest Companies have had an extremely difficult time collecting outstanding receivables as a result of the perceived uncertainty surrounding them in the PRC. The total amount of outstanding receivables in the WFOE structure was approximately \$130.5 million as at February 29, 2012, with more than 83.5% of those receivables being over 90 days. Sino-Forest's counsel in the PRC, KaiTong Law Firm, has sent legal demand letters to 12 BVI trading companies for accounts receivable totaling approximately \$126 million and five WFOE

companies totaling approximately RMB 224.5 million. Additional legal demand letters for smaller accounts are also in process, and other accounts receivable are being negotiated.

186. At the same time that the Sino-Forest Companies are having a difficult time collecting outstanding receivables, they are receiving increased demands on their payables. Certain of Sino-Forest's creditors in the PRC have taken aggressive collection tactics in the PRC, including filing court claims in an effort to be paid amounts owed to them by Sino-Forest. If the uncertainty related to SFC is allowed to continue to affect Sino-Forest's business operations, Sino-Forest expects increasing legal actions from other creditors.

187. Sino-Forest has not been able to secure or renew certain existing onshore banking facilities and has been unable to obtain offshore letters of credit to facilitate Sino-Forest's trading business. All offshore banking facilities have been repaid and frozen, or cancelled. Since June 2, 2011, all Hong Kong banks have asked for voluntary repayment of outstanding loans. Banking facilities with a total credit amount of \$67.9 million were terminated by four banks between June 10, 2011 and August 29, 2011. Facilities of \$152.3 million were frozen upon full repayment. In the PRC, facilities totaling RMB 159.6 million were asking for voluntary repayments. For the PRC banks providing facilities, Sino-Forest was requested to increase its cash deposits so as to demonstrate financial strength. This has led to substantial damage in Sino-Forest's operations, and affects Sino-Forest's ability to complete obligations under existing contracts, resulting in losses potentially in excess of \$100 million.

188. Various projects and contracts, such as nursery projects in certain provinces with a contract value of approximately RMB 1 billion, have been stopped or are unable to be fulfilled.

189. Due to the allegations in the MW Report, the PRC government is expressing increased concern over SFC and is becoming less inclined to be supportive of Sino-Forest, making the ability to obtain legal documents more difficult. For example, the PRC government has withheld cutting licenses resulting in lower harvesting volumes. Relationships with local government and local plantation suppliers have also become strained, resulting in many difficulties and obstacles in Sino-Forest's operations including an inability to complete certain acquisitions of plantations. For example, in the Anqing, Anhui area in the PRC, the local government no longer showed support to Sino-Forest and the plantation land owner refused to honour the plantation purchase contracts.

2. Fees and Expenses

190. SFC has and will continue to incur a substantial amount of fees and expenses in connection with the examination by the IC (and now the Audit Committee and Restructuring Committee), the investigations by the OSC and the RCMP, and the class action lawsuits. Further, pursuant to indemnification agreements between SFC and its directors and certain officers as well as with auditors, underwriters and other parties, SFC may be obligated to indemnify such individuals for additional legal and other expenses pursuant to such proceedings. The aggregate of such fees and expenses is substantial and has had an extremely negative effect on Sino-Forest's operating results.

3. Value of Common Shares and Credit Rating

191. Prior to the release of the MW Report on June 2, 2011, SFC's common shares had a 20-day volume weighted average price of CDN \$19.58 for a total market capitalization of approximately CDN \$4.8 billion. In the weeks that followed the release of the MW Report, the value of SFC's common shares plunged to a low of CDN \$1.29 for a total market capitalization of

approximately CDN \$300 million. As at August 25, 2011, the day prior to the OSC cease trading SFC's common shares, its shares were trading at CDN \$4.81 for a total market capitalization of approximately CDN \$1.2 billion.

192. The allegations set forth in the MW Report have resulted in a material decline in the market value of SFC's common shares and notes. On June 30, 2011, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on SFC to 'B+' from 'BB', lowered the issue ratings on SFC's outstanding senior notes and convertible notes to 'B+', and lowered the Greater China scale credit ratings on SFC and its notes to 'cnBB' from 'cnBBB-'. On August 29, 2011, Standard & Poor downgraded to 'CCC-', then withdrew its ratings. Fitch Ratings withdrew its Foreign Currency Issuer Default Rating and senior debt rating of 'BB-' on July 14, 2011, after placing SFC on Negative Watch on June 20, 2011. On July 19, 2011, Moody's Investors Service downgraded the corporate family and senior unsecured debt ratings of SFC to 'B1' from 'Ba2'. On August 29, 2011, Moody's downgraded to 'Caa1' from 'B1', and on December 14, 2011, Moody's downgraded to 'Ca1' and withdrew its rating.

193. Sino-Forest's primary sources of funding have been short-term and long-term borrowings, equity offerings and cash generated by operating activities. However, as a result of the reputational damage that the MW Report inflicted on SFC, I believe that SFC has no ability to access the capital markets at the present time, including to refinance its notes.

VI. CLAIM AGAINST MUDDY WATERS

194. On March 29, 2012, SFC commenced a claim in the Ontario Superior Court of Justice against Muddy Waters, its principal, and persons who traded with prior knowledge of the MW Report. A copy of SFC's claim against Muddy Waters *et al* is attached as Exhibit "BB".

195. In this action, SFC seeks total damages in the sum of CDN \$4 billion in relation to harm caused to SFC as a result of the allegations made by Muddy Waters. If SFC is successfully restructured as contemplated, it is anticipated that the action will be funded by the litigation trust provided for in the Support Agreement described below, and the benefits of the action will be shared as contemplated by the Support Agreement.

VII. PROPOSED RESTRUCTURING TRANSACTIONS

196. Following extensive arm's length negotiations between SFC and the Ad Hoc Noteholders, the parties entered into the Support Agreement. The Support Agreement contains, among other things, the summary terms and conditions of a going concern restructuring of SFC (the "Restructuring Transaction"). A copy of the Support Agreement is previously attached.

197. The Support Agreement provides that SFC will file the Plan in order to implement the Restructuring Transaction as part of this CCAA proceeding, and that the Consenting Noteholders will vote their notes in favour of the Plan at any meeting of creditors, each subject to certain conditions.

198. From a commercial perspective, the Restructuring Transaction contemplated by the Support Agreement is intended to accomplish the following objectives:

- (a) the separation of Sino-Forest's business operations from the problems facing SFC outside of the PRC by transferring the intermediate holding companies which own "the business" and SFC's intercompany claims against its subsidiaries (which include the entire substantive operations of the Sino-Forest Companies) to the noteholders in compromise of their claims against SFC (if the Sale Process does not generate a superior transaction, as described below);

- (b) the Sale Process being undertaken to determine if any person or group of persons will purchase Sino-Forest's business operations pursuant to the Plan for an amount of consideration acceptable to SFC and the noteholders, with the potential for excess above such amount being directed to Junior Constituents. The Sale Process is intended to ensure that SFC is pursuing all avenues to maximize value for its stakeholders;
- (c) a structure (including funding) that will enable litigation claims to be pursued for the benefit of SFC's stakeholders in accordance with the Support Agreement against a number of potential defendants (including Muddy Waters, its principal, and any persons who benefited from the allegations made by Muddy Waters in a coordinated way); and
- (d) if the Sale Process does not result in a sale, the Junior Constituents recovering some "upside" in the form of a profit participation if Sino-Forest's business operations acquired by the noteholders are monetized within seven years from the date of the implementation of the Plan at a profit, as further described in the Support Agreement.

199. The decision to enter into the Support Agreement was given careful consideration by SFC and the Board and was not taken lightly. However, the inability to obtain an audit creates a default under the note indentures which simply cannot be cured within a reasonable timeframe, if at all.

200. More significantly, it has become clear that the problems facing SFC outside of the PRC are causing Sino-Forest's business operations in the PRC to deteriorate and that, unless decisive

steps are taken to restructure Sino-Forest, the PRC business operations will continue to deteriorate to the point that they will cease to be capable of being turned around, which will further diminish the value that can be realized for SFC and its stakeholders. While there remains substantial work ahead in the PRC to turn the business around and convince stakeholders in the PRC (including customers, suppliers, employees and PRC governmental officials of all levels) that the Sino-Forest business built up over the past 18 years is here to stay, I firmly believe that the transactions which SFC proposes to initiate pursuant to the CCAA will show a path out of the uncertainty which it has faced since last June.

201. The Support Agreement provides that SFC will make an application under the CCAA in order to implement the Plan. The Consenting Noteholders executed the Support Agreement on the basis that a restructuring of SFC as proposed would be undertaken pursuant to the CCAA.

202. But for the negotiation and execution of the Support Agreement, SFC would be unable to prevent the acceleration and enforcement of the rights of the noteholders as soon as April 30, 2012, in which case SFC would be unable to continue as a going concern, and is thus insolvent. Accordingly, and for the reasons set out herein, a restructuring is urgently required and should be pursued to preserve its enterprise value.

203. SFC has reached an agreement on a consensual restructuring transaction with the Ad Hoc Noteholders. SFC is seeking a stay of proceedings under the CCAA in order to allow it time to proceed to develop the Plan which, if approved by the creditors and this Honourable Court, would, among other things, allow for a going concern emergence of Sino-Forest's business.

VIII. THE SALE PROCESS

204. Under the Sale Process, SFC, through its financial advisor, Houlihan Lokey ("Houlihan"), and with the oversight of the monitor, will seek qualified purchasers (including existing shareholders and noteholders) of SFC's assets on a global basis and attempt to engage them in the Sale Process. The Sale Process Procedures, which were agreed to by the parties to the Support Agreement in consultation with the proposed monitor, provide that SFC will have up to 90 days to solicit letters of intent, and if qualified letters of intent are received, a further 90 days to solicit qualified bids. A copy of the Sale Process Procedures is attached as Schedule D to the Support Agreement.

205. I believe it is critically important that the Sale Process Order be granted at this time for a variety of reasons. First and most importantly, it is very important that SFC conclude a restructuring by the end of the third fiscal quarter. The business of the Sino-Forest Companies is seasonal, and the vast majority of transactions (both purchases and sales) typically occur in the third and fourth quarters. All stakeholders will therefore be prejudiced if SFC cannot complete a restructuring by the end of the third quarter, or soon thereafter, as the business will continue to be frozen through the critical fourth quarter.

206. With that target end date in mind, the process must begin immediately. I understand that in other insolvency filings in Canada, sale processes have been done on much shorter timetables than what SFC is proposing; however, I believe the proposed timetable is necessary and appropriate in light of the specific circumstances. In fact, given the critical timing of this process, I am aware that Houlihan has already been in contact with parties who may be interested parties in this Sale Process.

207. The assets being sold, especially given the allegations in the MW Report, are extremely complex and are being offered for sale without current audited financial statements. Potential buyers therefore need to be afforded sufficient time to do due diligence.

208. In addition, there are limited potential buyers for these assets. I believe that potential buyers will need to have, in addition to the significant capital to complete a transaction of this size, an in-depth and intimate knowledge of the PRC market. I do not expect that the ultimate buyer for these assets, if any, will be a typical buyer of distressed assets in an insolvency proceeding.

209. Accordingly, given that a transaction must be implemented as soon as possible, and given the complexity of the assets and the fact that there is a limited universe of potential buyers, I believe it is necessary that the Sale Process Order be granted at this time, and that the Sale Process provides the best potential for recovery for SFC's stakeholders.

210. I have no reason to believe that any creditors have a *bona fide* reason to object to the Sale Process.

IX. SFC MEETS CCAA STATUTORY REQUIREMENTS

211. I am advised by Gary Solway of Bennett Jones LLP, counsel to SFC, that the CCAA applies in respect of a "debtor company" if the claims against the debtor company or affiliated debtor companies total more than CDN \$5 million. I am further advised by Gary Solway that a "debtor company" is a company incorporated under an Act of Parliament or the legislature of a province which has, among other things, become bankrupt or insolvent.

A. SFC is a "Company" Under the CCAA

212. SFC is a "company" to which the CCAA applies as it is a company continued under the CBCA. A copy of SFC's articles of continuance was previously attached.

B. SFC has Claims Against it in Excess of \$5 Million

213. As discussed above, SFC has debts against it far in excess of the CDN \$5 million statutory requirement.

C. SFC is Insolvent

214. I am advised by Gary Solway of Bennett Jones LLP, counsel to SFC, that under section 2 of the *Bankruptcy and Insolvency Act* (and a similar definition exists under sections 192(2) and 208 of the CBCA), an insolvent person is one whose liabilities to creditors exceeds CDN \$1,000 and (i) is for any reason unable to meet his obligations as they generally become due, (ii) has ceased paying his current obligations in the ordinary course of business as they generally become due, or (iii) the aggregate of whose property is not, at a fair valuation, sufficient, or, if disposed of at a fairly conducted sale under legal process, would not be sufficient to enable payment of all his obligations, due and accruing due.

215. As discussed herein, the holders of SFC's senior notes entered into waiver agreements wherein they agreed not to have the indenture trustees demand immediate payment of the principal amount of the senior notes. Such waiver agreements expire on the earlier of April 30, 2012 and any earlier termination of the waiver agreements in accordance with their terms. Moreover, in addition to the default dealt with pursuant to the waiver agreements in respect of the Q3 Results, SFC will be in further default on April 30, 2012 as a result of the fact that it will

fail to file its audited 2011 Results. As discussed in greater detail herein, SFC will be unable to cure such default in the immediate to near term (if ever).

216. But for the execution of the Support Agreement and the standstill provided for therein, the indenture trustees under the notes could be entitled to accelerate and enforce the rights of the noteholders as soon as April 30, 2012. Without the liquidity provided by the waiver agreements, SFC would be unable to meet its obligations as they come due or continue as a going concern and is thus insolvent.

X. RELIEF SOUGHT

A. Stay of Proceedings

217. SFC needs a stay of proceedings to pursue and implement the Restructuring Transaction in an attempt to complete a going concern restructuring of its businesses. In the interim, the class actions lawsuits, as well as any other potential actions, need to be stayed so that the Restructuring Committee can focus on formulating the Plan.

B. Appointment of Monitor

218. FTI Consulting Canada Inc. ("FTI") has consented to act as the monitor of SFC (the "Monitor") in the CCAA proceedings, and I believe that FTI is qualified and competent to so act.

219. FTI will be filing a pre-filing report with the Court as prospective monitor in conjunction with SFC's request for relief under the CCAA.

C. Payments During CCAA Proceeding

220. During the course of this CCAA proceeding, SFC intends to make payments for goods and services supplied post-filing as set out in the cash flow projections described below and as permitted by the draft Initial Order.

D. Administration Charge

221. It is contemplated that the Monitor, counsel to the Monitor, counsel to SFC, counsel to the Board, Houlihan, FTI Consulting (Hong Kong) Limited, counsel to the Ad Hoc Noteholders and the financial advisor to the Ad Hoc Noteholders would be granted a first priority Court-ordered charge on the assets, property and undertakings of SFC, other than SFC's assets which are subject to *Personal Property Security Act* registrations (the "SFC Property") in priority to all other charges (the "Administration Charge") up to the maximum amount of CDN \$15 million in respect of their respective fees and disbursements, incurred at standard rates and charges. SFC believes the Administration Charge is fair and reasonable in the circumstances.

222. The nature of the Sino-Forest Companies' business requires the expertise, knowledge and continuing participation of the proposed beneficiaries of the Administration Charge in order to complete a successful restructuring. I believe this Administration Charge is necessary to ensure their continued participation.

223. I do not believe that there is any unwarranted duplication of roles between the proposed beneficiaries of the Administration Charge.

E. Directors' Charge

224. A successful restructuring of SFC will only be possible with the continued participation of the Board. These personnel are essential to the viability of the continuing business of Sino-Forest. SFC's Board members have specialized expertise and relationships with Sino-Forest's suppliers, employees and other stakeholders, as well as knowledge gained throughout the IC process that cannot be replicated or replaced.

225. The directors of SFC have indicated that due to the potential for significant personal liability, they cannot continue their service in this restructuring unless the Initial Order grants a charge on the SFC Property in priority to all other charges except the Administration Charge, as security for SFC's indemnification obligations for the potential obligations and liabilities they may incur after the commencement of these proceedings. It is proposed that the directors of SFC be granted a directors' charge in the amount of CDN \$3.2 million (the "Directors' Charge") over the SFC Property. SFC believes the Directors' Charge is fair and reasonable in the circumstances.

226. SFC, for itself and its subsidiaries, currently has primary insurance coverage of \$10 million and five separate excess insurance policies collectively providing CDN \$45 million (the "2012 Insurance Policies"), for a total of CDN \$55 million of coverage in place to attempt to protect SFC and its directors and officers. The 2012 Insurance Policies were put in place and became effective after prior policies of insurance were not renewed following their expiry on December 31, 2011, by the insurers who had issued the policies (the "2011 Insurance Policies"). Although coverage is being provided to SFC and certain of its directors and officers under the 2011 Insurance Policies for claims that were advanced or threatened prior to the expiry of the 2011 Insurance Policies on December 31, 2011, those policies provide no coverage or protection to SFC or its officers and directors for new claims that are made after December 31, 2011 which are based on new events or allegations unrelated to the subject matter of the claims that have already been advanced or threatened.

227. As was the case with the 2011 Insurance Policies, the 2012 Insurance Policies provide for three types of coverage: (i) director and officer liability, (ii) corporate liability for indemnifiable loss, and (iii) corporate liability arising from securities claims. The 2012 Insurance Policies expire on December 31, 2012 and exclude coverage for directors' liabilities for wages. There are

also other exclusions and limitations of coverage which may leave SFC's directors and officers without coverage under the 2012 Insurance Policies. Depending on the circumstances of any particular claim, the insurers which have issued the 2012 Insurance Policies may deny coverage on the basis that the 2012 Insurance Policies exclude such other claims, that coverage limits have been exhausted by claims made against the 2012 Insurance Policies, or that the matters reported fall within the coverage provided by the 2011 Insurance Policies (which are already responding to a number of significant claims that have the potential to exhaust or exceed the applicable limits). Finally, there is no guarantee that SFC will be able to renew the 2012 Insurance Policies when they expire at the end of the year.

228. Contractual indemnities have been provided by SFC to its directors. SFC does not have sufficient funds to satisfy those indemnities should the directors of SFC incur obligations and liabilities in that regard after the commencement of these proceedings.

229. The Directors' Charge is necessary so that SFC may benefit from its directors' experience, knowledge and ability to guide SFC's restructuring efforts. It is critical to the restructuring efforts that SFC's directors remain with SFC in order to assist SFC in achieving the Restructuring Transaction to benefit SFC's stakeholders.

230. As such, it is proposed that the priorities of the Administration Charge and the Directors' Charge be as follows:

- (a) First – Administration Charge; and
- (b) Second – Directors' Charge.

231. Based on the books and records of SFC, and to the best of my knowledge, there are no secured creditors who are likely to be affected by the Administration Charge or the Directors' Charge.

F. Postponement of Annual Shareholders' Meeting

232. As previously mentioned, SFC is a public company under the CBCA. I am advised by Gary Solway of Bennett Jones LLP, counsel to SFC, that, as such, SFC is required, pursuant to paragraph 133(1)(b) of the CBCA, to call an annual meeting of its shareholders by no later than June 30, 2012, being six months after the end of its preceding financial year which ended on December 31, 2011. Accordingly, SFC is required to call its annual general meeting no later than June 30, 2012. SFC's annual general meeting has typically been held in the month of May.

233. However, the management of SFC and other Sino-Forest Companies are presently devoting their efforts to stabilizing the business with a view to implementing the Restructuring Transaction in accordance with the terms of the Support Agreement.

234. Preparing the proxy materials required for an annual meeting of shareholders (which must be prepared well in advance of any meeting so that they can be mailed to shareholders in advance of the meeting) and holding the annual meeting of shareholders would divert the attention of senior management of the Sino-Forest Companies away from implementing the Restructuring Transaction, would require significant financial resources, and could impede SFC's ability to achieve a restructuring under the CCAA.

235. In addition, pursuant to section 155 of the CBCA, SFC is required to place before the annual meeting financial statements of SFC for a period ended not more than six months prior to

the date of the annual meeting. SFC has been unable to complete its financial statements for the reasons already discussed.

236. I am advised by Gary Solway of Bennett Jones LLP, counsel to SFC, that, under subsection 106(6) of the CBCA, if directors are not elected at an annual meeting, the incumbent directors will continue to hold office until their successors are elected.

237. Certain financial and other information is and will continue to be available to the public through SFC's court filing which will be easily accessible on the proposed Monitor's website (<http://cfcanada.fticonsulting.com/sfc>). Consequently, the failure to hold an annual general meeting within the time prescribed by the CBCA will not deprive shareholders of access to the financial information of SFC that is publicly available from SFC.

238. Under the circumstances, I believe it is impractical for SFC to call and hold an annual meeting of shareholders during this CCAA proceeding.

G. Foreign Proceedings

239. SFC is seeking in the Initial Order to have the Monitor authorized, as the foreign representative of SFC, to apply for recognition of these proceedings, as necessary, in any jurisdiction outside of Canada, including as "Foreign Main Proceedings" in the United States pursuant to Chapter 15 of the *U.S. Bankruptcy Code* (the "Chapter 15 Proceedings"). The initial effect of the Chapter 15 Proceedings would be to give effect to the Initial Order in the United States.

H. Financial Advisor Agreement

240. It became clear to SFC at the beginning of September 2011, that it would greatly benefit from the expertise of a financial advisor. Accordingly, SFC invited four reputable global financial advisory firms to make presentations for the role on or about September 14, 2011. Houlihan was selected as SFC's first choice as a result of, among others, its significant experience in debt restructurings, its strong presence and reputation in both the North American and Asian markets, and its strong standing with the global noteholders community, especially those event driven funds which customarily play a leadership role in these situations.

241. On or about September 26, 2011, Bennett Jones LLP, as counsel to SFC, entered into an agreement with Houlihan relating to Houlihan's provision of financial advisory and investment banking services to SFC. That agreement was amended and replaced by an agreement dated as of December 22, 2011 (the "Financial Advisor Agreement"). A copy of the Financial Advisor Agreement is attached as Exhibit "CC".

242. The Financial Advisor Agreement provides, among other things, that if SFC commences any proceedings under the CCAA or similar legislation or statute, SFC will promptly seek to have the Court approve (i) the Financial Advisor Agreement, and (ii) Houlihan's retention by SFC under the terms of the Financial Advisor Agreement, including the payment to be made to Houlihan thereunder. As such, the draft Initial Order provides for such approvals.

243. It is my belief that Houlihan's significant restructuring experience and expertise in the area of debt restructuring has greatly benefited SFC. The proposed Restructuring Transaction would not have been achievable without the advice and assistance of Houlihan. Houlihan was also instrumental in assisting SFC in obtaining the waiver agreements described herein.

244. Houlihan has spent approximately seven months working closely with senior management of SFC and its other advisors. Houlihan has greatly assisted SFC in its restructuring efforts to date and has gained a thorough and intimate understanding of the Sino-Forest business. If SFC was deprived of the benefit of Houlihan's continued advice and assistance and was required to retain a new financial advisor, it would likely take a significant period of time for such a financial advisor to acquire a similar working knowledge of the business and would make it extremely difficult, if not impossible, to implement the Restructuring Transaction in the currently contemplated time frame. Thus, I believe that the continued involvement of Houlihan is essential to the completion of the Restructuring Transaction.

245. It is also my belief that the quantum and nature of the remuneration provided for in the Financial Advisor Agreement is fair and reasonable. Specifically, the restructuring fees payable to Houlihan are only payable if a restructuring transaction is completed and the quantum of those fees is dependent on various factors intended to measure the success of the restructuring.

XI. 13 WEEK CASH FLOW FORECAST

246. As set out in the cash flow forecast attached as Exhibit "DD", SFC's principal uses of cash during the next 13 weeks will consist of the payment of ongoing day-to-day operational expenses, the costs associated with the ongoing investigation into the MW Report, the costs associated with responding to demands from the OSC, HKSFC and RCMP for information, and professional fees and disbursements in connection with these CCAA proceedings.


247. As at March 29, 2012, SFC had approximately \$67.8 million available cash on hand. SFC's cash flow forecast projects that, subject to obtaining the relief outlined herein, it will have sufficient cash to fund its projected operating costs for the next 13 weeks.

XII. CONCLUSION


248. I am confident that granting the Initial Order and Sale Process Order sought by SFC is in the best interests of SFC and its stakeholders. SFC requires the stay of proceedings to pursue and implement the Restructuring Transaction in an attempt to complete a going concern restructuring of its businesses. The Ad Hoc Noteholders support this application and SFC's pursuit of the Plan in this CCAA proceeding.

249. Without the stay of proceedings and the opportunity to effect the Restructuring Transaction (including the Sale Process), Sino-Forest faces a possible cessation of going concern operations, the liquidation of its assets, and the loss of employment for a significant number of employees worldwide. The granting of the requested stay of proceedings will assist an orderly restructuring of SFC.

SWORN BEFORE ME at the City of Hong Kong, Special Administrative Region, People's Republic of China, this 30th day of March, 2012)
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)
)
)
_____)



W. Judson Martin


LEE HONG KU KILDARIA

Solicitor, Hong Kong SAR

IN THE MATTER OF THE COMPANIES CREDITORS' ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED AND IN THE
MATTER OF A PLAN OR COMPROMISE OR ARRANGEMENT OF SINO-FOREST CORPORATION
Court File No.

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceedings commenced in Toronto

**AFFIDAVIT OF W. JUDSON MARTIN
(Sworn March 30, 2012)**

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Lawyers for the Applicant

THIS IS EXHIBIT "B" TO
THE AFFIDAVIT OF W. JUDSON MARTIN
SWORN MARCH 30, 2012

A Commissioner, etc.

Huldani Lee
LEE HONG KIU KILDARIA
Solicitor, Hong Kong SAR

RESTRUCTURING SUPPORT AGREEMENT

This Restructuring Support Agreement dated as of March 30, 2012 (the “**Agreement Date**”) among: (a) Sino-Forest Corporation (the “**Company**”), (b) each of the subsidiaries of the Company as listed in **Schedule A** (the “**Direct Subsidiaries**”), and (c) each of the other signatories hereto, to support agreements in the form hereof or to Joinder Agreements attached hereto as **Schedule C** (each a “**Consenting Noteholder**” and collectively the “**Consenting Noteholders**”), with each Consenting Noteholder being a holder of, and/or investment advisor or manager with investment discretion with respect to holdings in, one or more series of Notes, addresses the principal aspects of the restructuring transaction agreed to by the Company and the Consenting Noteholders as described in Section 1 hereof. The Transaction is to be effected pursuant to a plan of compromise or arrangement under the *Companies’ Creditors Arrangement Act* (Canada), R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), and, if determined necessary or advisable by the Company in conjunction with the CCAA Plan, and with the consent of the Advisors, the *Canada Business Corporations Act*, R.S.C., 1985, c. C-44 (the “**CBCA**”), in full and final settlement of, among other Claims, all Noteholder Claims (whether directly or pursuant to any guarantee of the Notes provided by any subsidiary of the Company, and any security provided in respect thereof). Capitalized terms used but not otherwise defined in this Agreement have the meanings ascribed thereto in **Schedule B**. The Consenting Noteholders, the Company and the Direct Subsidiaries are collectively referred to as the “**Parties**” and each (including each Consenting Noteholder, individually) is a “**Party**”. This agreement and all schedules to this agreement are collectively referred to herein as the “**Agreement**”.

1. Transaction

The principal Transaction Terms (which are subject to the other terms and conditions of this Agreement) are as follows:

Restructuring Transaction:

- (a) Pursuant to the Plan, and subject to Section 1(i) hereof, the Company will implement the Restructuring Transaction, pursuant to which:
 - (i) A new company (“**Newco**”), authorized to issue an unlimited number of common shares and having no restrictions on the number of its shareholders, will be incorporated as a private company in the BVI or the Cayman Islands (or any other jurisdiction acceptable to the Initial Consenting Noteholders, and satisfactory to the Company, acting reasonably) and otherwise organized in a manner acceptable to the Initial Consenting Noteholders, and satisfactory to the Company, acting reasonably;
 - (ii) Except as otherwise provided for herein, pursuant to the Plan, the Company shall convey, assign and transfer all of its right, title and interest in and to all of the Company’s properties, assets and rights of every kind and description (including, without limitation, all restricted and unrestricted cash, contracts, real property, receivables or other debt owed

to the Company, Intellectual Property, the Company name and all related marks, all of its shares in its subsidiaries (including, without limitation, all of the shares of the Direct Subsidiaries) and all intercompany debt owed to the Company by any of its Subsidiaries), other than the Excluded Assets, to Newco, free and clear of all Claims, options and interests;

- (iii) Pursuant to the Plan, each Noteholder shall receive the following on the Implementation Date of the Restructuring Transaction in full and complete satisfaction of its Noteholder Claims:
 - (A) its Pro Rata share of 92.5% of the Newco Shares (subject to any dilution in respect of the New Management Plan); plus
 - (B) its Pro Rata share of the Secured Newco Note; plus
 - (C) its right to receive the consideration set forth in Section 1(h)(ii)(B) hereof (if any); plus
 - (D) if applicable to such Noteholder, the Early Consent Consideration set forth in Section 1(b) hereof; and
- (iv) On the Implementation Date, the following consideration shall be placed into trust with the Monitor, for the benefit of the Junior Constituents, to be paid to such Junior Constituents in accordance with their respective legal priorities, subject to payment in full of any prior ranking Junior Constituents:
 - (A) the Contingent Value Rights; plus
 - (B) the consideration set forth in Section 1(h)(ii) hereof (if any).

Early Consent Consideration:

- (b) Each Noteholder (including the Initial Consenting Noteholders) that on or prior to the Consent Date executes (i) this Agreement, (ii) a support agreement in the form hereof or (iii) a Joinder Agreement in the form attached hereto as **Schedule C** (each a "**Consent Date Noteholder**") and provides evidence satisfactory to the Monitor in accordance with Section 2(a) hereof of the Notes held by such Consent Date Noteholder as at the Consent Date shall receive on the Implementation Date, as additional consideration for its Notes, its Pro Rata share of 7.5% of the Newco Shares (the "**Early Consent Consideration**").

Other Plan Matters:

- (c) Pursuant to the Plan and the Final Order in respect of the Plan, all Noteholder Claims and Claims of Other Affected Creditors (including Claims of Junior Constituents) with respect to the Company (including, thereby, all class action type claims (whether debt or equity) and related indemnification claims) shall be

forever extinguished as against the Company and its Subsidiaries, without any consideration other than as provided for herein.

- (d) Pursuant to the Plan and the Final Order in respect of the Plan, each current or former director or officer of the Company shall be released from any and all claims against them in their capacities as current or former directors or officers of the Company, except that such release shall not apply to or affect any claims that cannot be compromised under section 5.1(2) of the CCAA.
- (e) Pursuant to the Plan, the Other Affected Creditors shall receive: (A) in respect of a Restructuring Transaction, the treatment afforded to the Noteholders pursuant to Sections 1(a)(iii)(A)-1(a)(iii)(C) hereof, or such other treatment as is acceptable to the Initial Consenting Noteholders and any Other Affected Creditor, provided that the aggregate amount of the Claims of the Other Affected Creditors shall not exceed \$250,000, without the consent of the Company and the Initial Consenting Noteholders, acting reasonably, and (B) in respect of a Sale Transaction, the treatment set forth in Section 1(k) hereof.
- (f) The Plan may provide that Noteholders and Other Affected Creditors holding claims less than an amount to be agreed between the Company and the Initial Consenting Noteholders, each acting reasonably, or who agree to reduce their claims for distribution purposes to such amount, will be entitled to receive a cash distribution in respect of such amount pursuant to the Plan in lieu of the other consideration such Persons are entitled to receive pursuant to the Plan.
- (g) The Unaffected Claims shall not be impacted by the Plan, provided that the aggregate amount of the Unaffected Claims shall not exceed an amount to be agreed upon between the Company and the Initial Consenting Noteholders, each acting reasonably.
- (h) Pursuant to the Plan, the Litigation Trust will be established on the Implementation Date for the benefit of the Noteholders and the Junior Constituents, as follows:
 - (i) The Litigation Trust shall be funded with \$20 million in cash (“the **Funding Amount**”), which amount shall be funded by the Company into the Litigation Trust on the Implementation Date;
 - (ii) To the extent that any proceeds are realized by the Litigation Trust as a result of:
 - (A) claims by the Litigation Trust against, or settlements with, Muddy Waters, LLC or any of its affiliates or subsidiaries (collectively, “**Muddy Waters**”) or any Person acting jointly or in concert with Muddy Waters, then 100% of any and all of such proceeds shall be paid to the Monitor pursuant to Section 1(a)(iv) for the benefit of the Junior Constituents only; or

- (B) claims by the Litigation Trust against, or settlements with, any Person other than Muddy Waters or any Person acting jointly or in concert with Muddy Waters, then:
- (I) for the first \$25,000,000 of any such proceeds, 100% of such proceeds shall be paid to the Monitor pursuant to Section 1(a)(iv) for the benefit of the Junior Constituents only; and
 - (II) for any such proceeds beyond the initial \$25,000,000:
 - i. in the event that the enterprise value of Newco (as determined in accordance with generally accepted principles applied by Chartered Business Valuators or other manner agreed upon between the Company and the Advisors, acting reasonably) ("Newco EV") is, at the time that any proceeds are so available for distribution from the Litigation Trust, less than the Aggregate Principal Payment Amount plus Accrued Interest up to and including the CCAA Filing Date for all series of Notes, then 30% of any such proceeds shall in each such case be allocated Pro Rata among the Noteholders (up to a maximum of the difference between: (A) the Aggregate Principal Payment Amount plus Accrued Interest and (B) the Newco EV), and 70% of any such proceeds shall be paid to the Monitor pursuant to Section 1(a)(iv) for the benefit of the Junior Constituents; and
 - ii. in the event that Newco EV is, at the time that any proceeds are so available for distribution from the Litigation Trust, greater than the Aggregate Principal Payment Amount plus Accrued Interest up to and including the CCAA Filing Date for all series of Notes, then 100% of any such proceeds shall be paid to the Monitor pursuant to Section 1(a)(iv) for the benefit of the Junior Constituents only, and the Noteholders shall not be entitled to receive any distributions from the Litigation Trust.

Alternative Sale Transaction:

- (i) Pursuant to the Sale Process Procedures, the Company shall simultaneously pursue a sale process for all or substantially all of the assets of the Company

(other than the Excluded Assets), and shall consummate a sale of all or substantially all of its assets pursuant to such process, and in lieu of the Restructuring Transaction, provided that any such sale is on terms acceptable to the Company and (i) shall be implemented pursuant to a Plan under the CCAA, and if determined necessary or advisable by the Company, the CBCA, (ii) complies with the terms, conditions and deadlines of the Sale Process Procedures, the Sale Process Order, this Agreement and the Plan, (iii) provides for a cash payment equal to the Aggregate Principal Payment Amount (being, as defined, 85% of the aggregate principal amount of the Notes outstanding as of the CCAA Filing Date, (iv) provides for a cash payment of all Accrued Interest on the Notes up to and including the CCAA Filing Date, and (v) provides for payment of the Expense Reimbursement; or (vi) is otherwise acceptable to the Company and the Initial Consenting Noteholders (any such sale on such terms, being a "Sale Transaction").

- (j) In the event of a Sale Transaction, each Noteholder shall receive the following on the Implementation Date in full and complete satisfaction of its Noteholder Claims:
 - (i) a cash payment equal to all Accrued Interest due in respect of its Notes up to and including the CCAA Filing Date; plus
 - (ii) cash payment equal to its Pro Rata share of 82% of the principal amount of its Notes; plus
 - (iii) if applicable to such Noteholder, its Pro Rata share of the Early Consent Consideration (which in the case of a Sale Transaction shall be paid in the form of a cash payment to each Consent Date Noteholder in an amount equal to its Pro Rata share of 3% of the principal amount of its Notes). For greater certainty, the total amount payable under Sections 1(j)(ii) and 1(j)(iii) shall in no case exceed the Aggregate Principal Payment Amount.
- (k) In the event of a Sale Transaction, on the Implementation Date, in full and complete satisfaction of its Claims, each Other Affected Creditor shall receive the following:
 - (i) a cash payment equal to its Pro Rata share of any and all net sale proceeds realized after payment of the amounts set forth in Section 1(j) hereof ("Excess Net Proceeds"), up to an amount not exceeding its proven Claim.
- (l) In the event of a Sale Transaction, on the Implementation Date, the following consideration shall be placed into trust with the Monitor, for the benefit of the Junior Constituents:
 - (i) any remaining Excess Net Proceeds after payment of the amounts set forth in Section 1(k); plus

- (ii) the consideration set forth in Section 1(h)(ii) hereof (if any),
and/or such other consideration permitted by the Sale Process Procedures.

2. The Consenting Noteholder's Representations and Warranties

Each Consenting Noteholder hereby represents and warrants, severally and not jointly, to the Company and the Direct Subsidiaries (and acknowledges that each of the Company and the Direct Subsidiaries are relying upon such representations and warranties) that:

- (a) As of Agreement Date: it (i) either is the sole legal and beneficial owner of the principal amount of Notes disclosed to the Advisors as of such date or has the investment and voting discretion with respect to the principal amount of Notes disclosed to the Advisors as of such date (the amount of Notes disclosed to the Advisors by such Consenting Noteholder as of such date being the "**Relevant Notes**"; the accrued and unpaid interest and any other amount that such Consenting Noteholder is entitled to claim pursuant to the Relevant Notes is its "**Debt**"; (ii) has the power and authority to bind the beneficial owner(s) of such Notes to the terms of this Agreement; (iii) has authorized and instructed the Advisors to advise the Company, in writing, of the aggregate amount of each series of Notes held by the Consenting Noteholders collectively as of the date hereof, and shall cause the Advisors to promptly (and in any event, within five (5) Business Days) notify the Company or its advisors of any change (upon actual knowledge of such change) to the aggregate holdings of Notes held by the Consenting Noteholders, as well as update any writing delivered to the Company in respect thereof; and (iv) has authorized and instructed the Advisors to advise the Monitor, in writing, of the individual principal amount of each series of Notes held by it as of the date hereof, and shall cause the Advisors to promptly (and in any event, within five (5) Business Days) notify the Monitor or its advisors of any change (upon actual knowledge of such change) to the principal amount of Notes held by it, as well as update any writing delivered to the Monitor in respect thereof.
- (b) To the best of its knowledge after due inquiry, there is no proceeding, claim or investigation pending before any court, regulatory body, tribunal, agency, government or legislative body, or threatened against it or any of its properties that, individually or in the aggregate, would reasonably be expected to impair the Consenting Noteholder's ability to execute and deliver this Agreement and to comply with its terms.
- (c) The Debt held by the Consenting Noteholder is not subject to any liens, charges, encumbrances, obligations or other restrictions that would reasonably be expected to adversely affect its ability to perform its obligations under this Agreement.
- (d) Except as contemplated by this Agreement, the Consenting Noteholder has not deposited any of its Relevant Notes into a voting trust, or granted (or permitted

to be granted) any proxies or powers of attorney or attorney in fact, or entered into a voting agreement, understanding or arrangement, with respect to the voting of its Relevant Notes where such trust, grant, agreement, understanding or arrangement would in any manner restrict the ability of the Consenting Noteholder to comply with its obligations under this Agreement.

- (e) It (i) is a sophisticated party with sufficient knowledge and experience to properly evaluate the terms and conditions of this Agreement; (ii) has conducted its own analysis and made its own decision, in the exercise of its independent judgment, to enter into this Agreement; (iii) has obtained such independent advice in this regard as it deemed appropriate; and (iv) has not relied on the analysis or the decision of any Person other than its own members, employees, representatives or independent advisors (it being recognized that the Advisors are not the advisor to any individual holder of the Notes, including any Initial Consenting Noteholder or Consenting Noteholder, on an individual basis).
- (f) The execution, delivery and performance by the Consenting Noteholder of its obligations under this Agreement:
 - (i) are within its corporate, partnership, limited partnership or similar power, as applicable;
 - (ii) have been duly authorized, by all necessary corporate, partnership, limited partnership or similar action, as applicable, including all necessary consents of the holders of its equity or other participating interests where required; and
 - (iii) do not (A) contravene its certificate of incorporation, articles, by-laws, membership agreement, limited partnership agreement or other constating documents, as applicable, (B) violate any judgment, order, notice, decree, statute, law, ordinance, rule or regulation applicable to it or any of its assets, or (C) conflict with or result in the breach of, or constitute a default under, or require a consent under, any contract material to the Consenting Noteholder.
- (g) This Agreement constitutes a valid and binding obligation of the Consenting Noteholder enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally or by general principles of equity, whether asserted in a proceeding in equity or law.
- (h) It is an accredited investor within the meaning of the rules of the United States Securities and Exchange Commission under the *Securities Act of 1933*, as amended, and the regulations promulgated thereunder, as modified by The Dodd-Frank Wall Street Reform and Consumer Protection Act.
- (i) It is an "accredited investor", as such term is defined in National Instrument 45-106 – *Prospectus and Registration Exemptions* of the Canadian Securities

Administrators ("NI 45-106") and it was not created or used solely to purchase or hold securities as an accredited investor as described in paragraph (m) of the definition of "accredited investor" in NI 45-106.

- (j) It is resident in the jurisdiction indicated on its signature page to this Agreement.

3. The Company's and the Direct Subsidiaries' Representations and Warranties

The Company and each of the Direct Subsidiaries hereby represent and warrant, severally and not jointly, to each Consenting Noteholder (and the Company and each of the Direct Subsidiaries acknowledge that each Consenting Noteholder is relying upon such representations and warranties) that:

- (a) To the best of its knowledge after due inquiry, except as disclosed in the Data Room, there is no proceeding, claim or investigation pending before any court, regulatory body, tribunal, agency, government or legislative body, or threatened against it or any of the Subsidiaries or properties that, individually or in the aggregate, would reasonably be expected to impair the ability of the Company or any of the Direct Subsidiaries to execute and deliver this Agreement and to comply with its terms, or which, if the Transaction was consummated, would result in a Material Adverse Effect.
- (b) The execution, delivery and performance by the Company and each of the Direct Subsidiaries of this Agreement:
 - (i) are within its corporate, partnership, limited partnership or similar power, as applicable;
 - (ii) have been duly authorized by all necessary corporate, partnership, limited partnership or similar action, as applicable, including all necessary consents of the holders of its equity or other participating interests, where required; and
 - (iii) do not (A) contravene its or any of the Subsidiaries' certificate of incorporation, articles of amalgamation, by-laws or limited partnership agreement or other constating documents, as applicable, (B) violate any judgment, order, notice, decree, statute, law, ordinance, rule or regulation applicable to it or any of the Subsidiaries, properties or assets, or (C) result in the creation or imposition of any lien or encumbrance upon any of the property of the Company or any of its Subsidiaries.
- (c) This Agreement constitutes a valid and binding obligation of the Company and each of the Direct Subsidiaries enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally or by general principles of equity, whether asserted in a proceeding in equity or law.

- (d) To the knowledge of the Company, neither the Company nor any of its Subsidiaries has any material liability for borrowed money other than pursuant to those banking and other lending agreements that are disclosed in the Data Room.
- (e) Except as disclosed in the Information, the Company has filed with the applicable securities regulators all documents required to be filed by it under Applicable Securities Laws except to the extent that such a failure to file would not be Material.
- (f) Except as disclosed in the Information, no order halting or suspending trading in securities of the Company or prohibiting the sale of such securities has been issued to and is outstanding against the Company, and to the knowledge of the Company, and except as may be related to matters disclosed in the Information, no other investigations or proceedings for such purpose are pending or threatened.
- (g) the Company has delivered or otherwise made available to the Advisors complete copies of all employment agreements for the Executive Officers, all of which are in full force and effect, and there have been no extension, supplements or amendments thereto other than as disclosed in the Data Room.
- (h) The board of directors of the Company has: (i) reviewed the Transaction Terms; (ii) determined, in its business judgment, that the transactions contemplated by the Transaction Terms are in the best interests of the Company; (iii) resolved to recommend approval of this Agreement and the transactions and agreements contemplated hereby to the Noteholders and Other Affected Creditors; and (iv) approved this Agreement and the implementation of the Transaction Terms.
- (i) Other than pursuant to this Agreement and any Joinder thereto, there are no agreements between the Company and any Noteholder with respect to any restructuring or recapitalization matters.

4. **Consenting Noteholders' Covenants and Consents**

Each Consenting Noteholder covenants and agrees as follows:

- (a) Each Consenting Noteholder consents and agrees to the terms and conditions of, and the transactions contemplated by, this Agreement.
- (b) Each Consenting Noteholder agrees to:
 - (i) vote (or cause to be voted) all of its Debt in all votes and in each vote in favour of the approval, consent, ratification and adoption of the Plan and the Restructuring Transaction or Sale Transaction contemplated thereby, as the case may be (and any actions required in furtherance of the foregoing);

- (ii) support the approval of the Plan as promptly as practicable by the Court; and
 - (iii) instruct the Advisors to support the making of Initial Order and the Sale Process Order and any other matters relating thereto, and all other motions filed by the Company in furtherance of the transactions contemplated by this Agreement; provided in each case, that such orders and motions are in form and substance satisfactory to the Advisors and/or the Initial Consenting Noteholders.
- (c) Each Consenting Noteholder agrees not to sell, assign, pledge or hypothecate (except with respect to security generally applying to its investments which does not adversely affect such Consenting Noteholder's ability to perform its obligations under this Agreement) or otherwise transfer (a "Transfer"), between the Agreement Date and the Termination Date, any Relevant Notes (or any rights or interests in respect thereof, including, but not limited to, the right to vote) held by such Consenting Noteholder, except to a transferee, who (i) is already a Consenting Noteholder if the representations and warranties of such transferee Consenting Noteholder in Section 2 remain true and correct after such Transfer; or (ii) contemporaneously with any such Transfer, agrees to be fully bound as a signatory Consenting Noteholder hereunder in respect of the Notes that are the subject of the Transfer, by executing and delivering to the Company, with a copy to the Advisors, a Joinder Agreement, the form of which is attached hereto as **Schedule C**. For greater certainty, where the transferee is not already a Consenting Noteholder, such transferee shall be bound by the terms of this Agreement only in respect of the Relevant Notes that are the subject of the Transfer, and not in respect of any other Notes of the transferee. Each Consenting Noteholder hereby agrees to provide the Company and the Advisors with written notice and, in the case of a Transfer pursuant to subparagraph (ii) of this Section 4(c), a fully executed copy of the Joinder Agreement, within three (3) Business Days following any Transfer to a transferee described in (i) or (ii) of this Section 4(c). Any transfer that does not comply with this Section 4(c) shall be void *ab initio*. For greater certainty, where a Consenting Noteholder assigns all of its Relevant Notes pursuant to this Section 4(c), this Agreement shall continue to be binding upon such Consenting Noteholder with respect to any Notes it subsequently acquires.
- (d) Each Consenting Noteholder agrees, to the extent it effects a Transfer of any of its Relevant Notes in accordance with Section 4(c) hereof after 5:00 p.m. (Toronto time) on the Record Date and is entitled to vote on the adoption and approval of the Transaction and the Plan, to vote all of the Relevant Notes that are the subject of the Transfer on behalf of the transferee in all votes and in each vote in favour of the approval, consent, ratification and adoption of the Transaction and the Plan (and any actions required in furtherance thereof).
- (e) Except as contemplated by this Agreement, each Consenting Noteholder agrees not to deposit any of its Relevant Notes into a voting trust, or grant (or permit to

be granted) any proxies or powers of attorney or attorney in fact, or enter into a voting agreement, understanding or arrangement, with respect to the voting of any of its Relevant Notes if such trust, grant, agreement, understanding or arrangement would in any manner restrict the ability of the Consenting Noteholder to comply with its obligations under this Agreement.

- (f) Each Consenting Noteholder agrees that it shall:
- (i) not accelerate or enforce or take any action or initiate any proceeding to accelerate or enforce the payment or repayment of any of its Debt (including for greater certainty any due and unpaid interest on its Relevant Notes), whether against the Company or any Subsidiary or any property of any of them;
 - (ii) execute any and all documents and perform any and all commercially reasonable acts required by this Agreement to satisfy its obligations hereunder including any consent, approval or waiver requested by the Company, acting reasonably;
 - (iii) forbear from exercising, or directing the Trustee to exercise, any default-related rights, remedies, powers or privileges, or from instituting any enforcement actions or collection actions with respect to any obligations under the Note Indentures, whether against the Company or any Subsidiary or any property of any of them and
 - (iv) (A) not object to, delay, impede or take any other action to interfere with the acceptance or implementation of the Transaction; (B) not propose, file, support or vote (or cause to vote) any of its Debt in favour of any alternative offer, restructuring, liquidation, workout or plan of compromise or arrangement or reorganization of or for the Company or any of its Subsidiaries that is inconsistent with the Plan or this Agreement; (C) vote (or cause to vote) any of its Debt against and oppose any proceeding under the CCAA or any other legislation in Canada or elsewhere, or any alternative offer, restructuring, liquidation, workout or plan of compromise or arrangement or reorganization of or for the Company or any of its Subsidiaries, in each case that is inconsistent with the Plan or this Agreement; or (D) not take, or omit to take, any action, directly or indirectly, that is materially inconsistent with, or is intended or is likely to interfere with the consummation of, the Transaction, except as and only to the extent required by applicable Law or by any stock exchange rules, by any other regulatory authority having jurisdiction over the Consenting Noteholder or by any court of competent jurisdiction.

The Consenting Noteholders acknowledge and agree that the Subsidiaries are direct beneficiaries of this Section 4(f) and may raise any defense (including, without limitation, any estoppel) or pursue any claim or remedy for any breach of this Section 4(f) or any action taken by any

Noteholder or Trustee in contravention of this Section 4(f).

5. **Company's and the Direct Subsidiaries' Covenants and Consents**

The Company and each of the Direct Subsidiaries covenants and agrees as follows:

- (a) The Company and each Direct Subsidiary consents and agrees to the terms and conditions of, and the transactions contemplated by, this Agreement.
- (b) Immediately upon this Agreement being executed by the Company and the Direct Subsidiaries and the Initial Consenting Noteholders, the Company will (i) cause to be issued a press release or other public disclosure in form and in substance reasonably acceptable to the Advisors that discloses the material provisions of the Transaction Terms and all such other information as the Company is required to disclose under the terms of the Noteholder Confidentiality Agreements, subject to the terms of Section 9 hereof, and (ii) file a copy of this Agreement on SEDAR, which shall be redacted to remove any information disclosing the identity or holdings of any Noteholders.
- (c) The Company and the Direct Subsidiaries shall pursue the completion of the Transaction in good faith by way of the Plan, in accordance with the Transaction Terms, and in respect of a Restructuring Transaction or a Sale Transaction as the case may be, and shall use commercially reasonable efforts (including recommending to Noteholders and any other Person entitled to vote on the Plan that they vote to approve the Plan and taking all reasonable actions necessary to obtain any regulatory approvals for the Transaction) to achieve the following timeline (which may be amended by the Company with the consent of the Initial Consenting Noteholders or the Advisors, each acting reasonably):
 - (i) the initiation of proceedings pursuant to the CCAA (the "**CCAA Proceedings**"), as evidenced by filing the application seeking the Initial Order and the Sale Process Order with the Court, by no later than March 30, 2012;
 - (ii) approval of the Initial Order by the Court by no later than March 30, 2012;
 - (iii) approval of the Sale Process Order by the Court by no later than April 5, 2012; and
 - (iv) If no Approved Bidders are selected pursuant to the Sale Process Procedure in accordance with the terms thereof:
 - (A) filing of the Meeting Order and Plan by no later July 16, 2012;
 - (B) meeting of the Noteholders by no later than August 27, 2012;
 - (C) sanction of the Plan by the Court by no later than August 31, 2012; and

- (D) implementation of the Plan by no later than the Outside Date.
- (d) The Company shall provide draft copies of all motions or applications and other documents that the Company intends to file with the Court in connection with the Initial Order, the Sale Process Order, the Meeting Order, the Final Order, the Restructuring Transaction, any Sale Transaction, the Plan, and the transactions contemplated by any of the foregoing, to the Advisors at least two (2) Business Days prior to the date when the Company intends to file such documents (except in exigent circumstances where the Company shall provide the documents within such time prior to the filing as is practicable), and such filings shall in each case, when filed, be in form and substance acceptable to the Advisors, acting reasonably.
- (e) Subject to any order of the Court, the Company and the Direct Subsidiaries shall (and shall cause each of the Subsidiaries, as required, to) (i) pursue, support and use commercially reasonable efforts to complete the Transaction in good faith, (ii) do all things that are reasonably necessary and appropriate in furtherance of, and to consummate and make effective, the Transaction, including, without limitation, using commercially reasonable efforts to satisfy the conditions precedent set forth in this Agreement, (iii) as soon as practicable following the date hereof, in cooperation with the Initial Consenting Noteholders and the Advisors, make all such filings and seek all such consents, approvals, permits and authorizations with any Governmental Entities or third parties whose consent is required in connection with the Transaction and use commercially reasonable efforts to obtain any and all required regulatory and/or third party approvals for or in connection with the Transaction and (iv) not take any action, directly or indirectly, that is materially inconsistent with, or is intended or is likely to interfere with the consummation of, the Transaction, except as required by applicable Law or by any stock exchange rules, or by any other Governmental Entity having jurisdiction over the Company or any of its Subsidiaries.
- (f) Except as provided for in the Transaction Terms or as otherwise agreed to in writing by the Initial Consenting Noteholders, the Company shall not make any payment or pay any consideration of any nature or kind whatsoever on account of any amounts owing under the Notes.
- (g) Except as contemplated by this Agreement, including pursuant to the Plan, the Company shall not (and shall cause each of the Subsidiaries not to) amend or modify any terms or conditions of the Note Indentures.
- (h) Following a reasonable advance written request (which can be made by way of e-mail and, in terms of reasonable notice, shall in no event require more than five (5) Business Days notice and no less than two (2) Business Days notice) by any of the Advisors or any Initial Consenting Noteholder to any officer, director or employee of the Company or the Subsidiaries, and Allen Chan, with a copy in each case to any of Houlihan Lokey, Bennett Jones or the Chief Executive

Officer, the Company and the Direct Subsidiaries shall (subject, with respect to any confidential information to be provided to an Initial Consenting Noteholder or any of its representatives and affiliates, to the Initial Consenting Noteholder having executed, and its representatives and affiliates being bound by, a confidentiality agreement acceptable to the Company and the Advisors, acting reasonably):

- (i) provide the Initial Consenting Noteholder (or its representatives and affiliates, as the case may be) or the Advisor, as the case may be, with access at reasonable times to the Company's and its Subsidiaries' premises, assets, accounts, books and records for use in connection with the Transaction; and
 - (ii) make Houlihan Lokey and any other advisor to the Company or the Subsidiaries, the officers, directors and employees of the Company and the Subsidiaries, and Allen Chan, available at reasonable times and places for any discussions with the Initial Consenting Noteholder (or its representatives and affiliates, as the case may be) or the Advisor, as the case may be.
- (i) The Company shall assist the Initial Consenting Noteholders in their search for and selection of directors for the board of directors of Newco to be formed in connection with the Restructuring Transaction, and for any new senior management of Newco, to be put in place on the Implementation Date, including by establishing a search committee appointed by the Initial Consenting Noteholders, hiring a search firm chosen by the Initial Consenting Noteholders and paying all costs and expenses in respect of the search and selection process, including all reasonable costs associated with the search firm and all reasonable and documented out-of-pocket fees and expenses incurred by any Initial Consenting Noteholder in connection with such search and selection process.
 - (j) The Company shall, within thirty (30) days following the date of this Agreement, provide the Advisors with a detailed budget (including any financial retainers provided to its advisors) reflecting the Company's current best estimate of (i) the costs of completing the Transaction, including any material fees anticipated to be payable in connection with the Transaction (to professionals, employees, officers, directors, third parties or otherwise on the Implementation Date or otherwise) and (ii) the anticipated fees of the professional advisors to the Company (including, but not limited to, their legal advisors, auditors, and the Board of Directors' counsel and financial advisors) for all matters being addressed by such professionals, which shall include general descriptions of the work being or to be performed by each of these professionals (the "**Restructuring Budget**"). The Company shall update the Restructuring Budget on a monthly basis to reflect any changes in the Company's current best estimate of the costs of completing the Transaction, and to report on the actual amount of each such professional's fees for the preceding month.

- (k) The Company shall pay the reasonable and documented fees of the Advisors and Conyers, Dill & Pearman LLP pursuant to their respective engagement letters with the Company within ten (10) Business Days following the receipt of any invoice from any such party.
- (l) The Company shall keep the Advisors reasonably informed regarding any material discussions with any Person (other than the legal and financial advisors to the Company, the Initial Consenting Noteholders and their legal and financial advisors) with respect to the Transaction and shall provide the Advisors with an opportunity for a representative of the Advisors or the Initial Consenting Noteholders (subject to confidentiality restrictions) to participate in such material discussions. Notwithstanding the foregoing, with respect to a Sale Transaction, the Company may provide such information and opportunities as and to the extent set out in the Sale Process Procedures.
- (m) Except to the extent they are to be continued pursuant to and in compliance with the Sale Process Procedures, the Company and the Direct Subsidiaries shall, and shall cause its Representatives and the Subsidiaries to, immediately terminate any existing solicitations, discussions or negotiations with any Person (other than the Initial Consenting Noteholders and their legal and financial advisors) that has made, indicated any interest in or may reasonably be expected to propose, any other transaction. The Company and the Direct Subsidiaries agree not to (and shall cause each of the Subsidiaries not to) release any party from any standstill covenant to which it is a party, or amend, waive or modify in any way any such standstill covenant.
- (n) Other than through and in accordance with the Sale Process Procedures, the Company and the Direct Subsidiaries shall not (and shall cause each of the Subsidiaries not to), directly or indirectly through any Representative or any of the Subsidiaries: (i) solicit, initiate, knowingly facilitate or knowingly encourage (including by way of furnishing information or entering into any agreement) any inquiries or proposals regarding any transaction that is an alternative to the Transaction (an **"Other Transaction"**); (ii) participate in any substantive discussions or negotiations with any person (other than the Initial Consenting Noteholders and the Advisors) regarding any Other Transaction; (iii) accept, approve, endorse or recommend or propose publicly to accept, approve, endorse or recommend any Other Transaction; or (iv) enter into, or publicly propose to enter into, any agreement in respect of any Other Transaction; provided, however, that notwithstanding anything to the contrary in this Section 5(n), the Company may, after consulting with the Advisors, consider an Other Transaction if:
 - (i) the Company and each of the Direct Subsidiaries is in compliance, in all material respects, with all terms and conditions of this Agreement; and
 - (ii) (A) such Other Transaction is based on a proposal received from an arm's length third party that none of the Company or any Subsidiary has,

directly or indirectly through any Representative, solicited, initiated, knowingly facilitated or knowingly encouraged; and

(B) such Other Transaction provides for either:

(I) the repayment in full in cash of the principal amount of the Notes, all Accrued Interest and the Expense Reimbursement on closing of the Other Transaction; or

(II) is determined by the Company and its advisors to be financially superior for the Noteholders and can be implemented through a plan of arrangement with the support of the Initial Consenting Noteholders

provided for greater certainty that nothing in this Section 5(n) shall prohibit or restrict in any way the Company's rights under the Sale Procedure Process to solicit, discuss and negotiate a potential Sale Transaction with any other Person, all in each case in accordance with the terms of the Sale Process Procedures.

- (o) Except in respect of an Other Transaction that is obtained through and in accordance with the Sale Process Procedures, (i) the Company shall promptly (and in any event within 24 hours following receipt by any of the Companies) notify the Advisors, at first orally and thereafter in writing, of any proposal in respect of any Other Transaction, in each case received after the Agreement Date, of which it or any of its Representatives are or become aware, or any amendments to such proposal in respect of any Other Transaction, any request for discussions or negotiations, or any request for non-public information relating to the Company or any of its Subsidiaries in connection with such Other Transaction or for access to the books or records of any the Company or any of its Subsidiaries by any Person that informs the Company or any of its Subsidiaries that it is considering making, or has made, a proposal with respect to any Other Transaction and any amendment thereto; and the Company shall promptly provide to the Advisors a description of the material terms and conditions of any such proposed Other Transaction or request; (ii) the Company the Direct Subsidiaries shall not, and shall cause its Representatives and the Subsidiaries not to, participate in any discussions with any Person that has delivered a proposal in respect of any Other Transaction, without providing reasonable notice to the Advisors and an opportunity for the Advisors or the Initial Consenting Noteholders to participate in any such discussions; and (iii) the Company shall keep the Advisors informed of any material change to the material terms of any such proposed Other Transaction.
- (p) The Company and the Direct Subsidiaries shall not and shall cause the Subsidiaries not to materially increase compensation or severance entitlements or other benefits payable to directors, officers or employees, or pay any bonuses whatsoever, other than as required by law, or pursuant to the terms of existing

incentive plans or employment contracts, true and complete copies of which have been delivered or otherwise made available to the Advisors prior to the date hereof. Other than those outlined in the Data Room, there shall be no change of control payments paid by the Company or any of its Subsidiaries under any employment agreement, incentive plan or any other Material agreements as a result of the Transaction.

- (q) The Company and the Direct Subsidiaries shall not and shall cause each of the Subsidiaries not to amalgamate, merge or consolidate with, or sell all or substantially all of its assets to, one or more other Persons, or enter into any other transaction of similar effect under the laws of any jurisdiction, or change the nature of its business or the corporate or capital structure, except as contemplated by this Agreement or with the consent of the Advisors.
- (r) The Company and the Direct Subsidiaries shall not and shall cause each of the Subsidiaries not to (i) prepay, redeem prior to maturity, defease, repurchase or make other prepayments in respect of any indebtedness other than payments permitted or as required hereby, (ii) directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to any indebtedness of any kind whatsoever (except for indebtedness that is incurred in the Ordinary Course which is in compliance with the covenants set out in the Note Indentures), (iii) create, incur, assume or otherwise cause or suffer to exist or become effective any lien, charge, mortgage, hypothec or security interest of any kind whatsoever on, over or against any of its assets or property (except for any lien, charge, mortgage, hypothec or security interest that is incurred in the Ordinary Course and that is not Material); (iv) issue, grant, sell, pledge or otherwise encumber or agree to issue, grant, sell, pledge or otherwise encumber any securities of the Company, the Direct Subsidiaries or any of the other Subsidiaries, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, securities of the Company, the Direct Subsidiaries or any of the other Subsidiaries, except in the Ordinary Course which is in compliance with the covenants set out in the Note Indentures; or (v) enter into any new secured or unsecured lending or credit facilities of any kind, without the consent of the Advisors except to replace existing lending or credit facilities and provided that the aggregate amount of such facilities does not exceed the aggregate amount of the Company's lending and credit facilities as at the date hereof; provided, however, that nothing in this Section 5(r) shall preclude any Subsidiary organized under the laws of the PRC from obtaining additional lending or credit facilities if doing so is determined to be in the Ordinary Course of such Subsidiary and, provided further, that the Advisors are informed of, and consent to, any such lending or credit facilities.
- (s) Other than as contemplated and permitted by this Agreement, the Company and the Direct Subsidiaries shall not and shall cause each of the Subsidiaries not to, outside of the Ordinary Course, sell, transfer, lease, license or otherwise dispose of all or any part of its property, assets or undertaking (including, without limitation, by way of any loan transaction) with a value of over US\$10,000,000

at any one time or in any series of transactions aggregating over US\$30,000,000 (whether voluntarily or involuntarily) during the term of this Agreement, except on terms acceptable to the Initial Consenting Noteholders or the Advisors, acting reasonably.

- (t) The Company and the Direct Subsidiaries shall and shall cause each of the Subsidiaries to (i) operate its business in the Ordinary Course and in a manner that is intended to preserve or enhance the value of such Person, to the extent possible having regard to such Person's financial condition, and (ii) shall not enter into any Material agreement outside the Ordinary Course, except as contemplated by this Agreement and the Sale Process Procedures and except with respect to any other transactions or potential transactions disclosed to the Advisors prior to the execution of this Agreement or with the prior written consent of the Initial Consenting Noteholders or the Advisors, which consent shall not be unreasonably withheld.
- (u) The Company and the Direct Subsidiaries shall use reasonable commercial efforts, and shall cause the Subsidiaries to use reasonable commercial efforts, to maintain appropriate insurance coverage in amounts and on terms that are customary in the industry of the Company and its Subsidiaries, provided that such insurance is available on reasonable commercial terms.
- (v) Except as may be provided for as part of the Transaction Terms, the Company and the Direct Subsidiaries shall not, and shall cause the Subsidiaries not to, directly or indirectly, declare, make or pay any dividend, charge, fee or other distribution, whether by way of cash or other consideration, to or with respect to any of its issued and outstanding shares (or any rights issued in respect thereof), provided that (x) the foregoing shall not limit the ability of any Restricted Subsidiary to pay dividends or make other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary to the extent that such limitation would violate provisions of the Note Indentures, and (y) the Company and its Subsidiaries shall be entitled to engage in intercompany transactions that are in the Ordinary Course or that are necessary and appropriate to preserve the value of the business or to carry out the repatriation of onshore cash referenced in subsection 5(x) below.
- (w) The Company shall, from and after the date hereof, cause its subsidiaries to maintain a minimum aggregate cash balance (outside of Canada) of the aggregate of: (i) US\$125,000,000 (ii) the amount by which cash received (net of associated expenses) from the sale of Thai redwood timber exceeds US\$46,000,000 less (iii) the amount by which cash received (net of associated expenses) from the sale of Thai redwood timber is less than US\$46,000,000.
- (x) Subject to the other terms and conditions of this Agreement, the Company and its management shall identify, implement and monitor both short-term and long-term liquidity generating initiatives and all reasonable steps to monetize assets for the repayment of the indebtedness of the Company and its Subsidiaries. In

this regard, and subject to the need of the Company and its Subsidiaries to prioritize efforts relating to the orderly management of its PRC tax affairs and the reorganization of the ownership structure of its BVI purchased plantations, and the other terms and conditions of this Agreement, the Company and its management shall take all reasonable steps (including but not limited to seeking all necessary SAFE and other regulatory approvals) to repatriate to the Company or its offshore Subsidiaries in a timely manner all onshore cash in excess of the projected onshore operating requirements of the Company and its Subsidiaries.

- (y) The Company shall produce a rolling 90-day cash flow forecast and shall discuss the receipts and disbursements for same with the Advisors, and shall consult with the Advisors regarding the matters referenced in subsections (w), (x) and (z) on no less than a bi-weekly basis.
- (z) The Company shall keep the Advisors reasonably informed regarding any material discussions with any Person (other than legal and financial advisors to the Company) with respect to any material transactions concerning the Company and its Subsidiaries and shall provide the Advisors with an opportunity for a representative of the Advisors or of the Initial Consenting Noteholders (subject to any confidentiality restrictions) to participate in such material discussions.
- (aa) The Company shall keep the Advisors reasonably informed regarding any material discussions with the Ontario Securities Commission or the Royal Canadian Mounted Police concerning the Company or the Subsidiaries, or any director or officer thereof.
- (bb) The Company shall forthwith expand its engagement of FTI Consulting (Hong Kong) Ltd. ("FTI HK") and shall instruct FTI HK to: (i) attend at the premises of its Subsidiaries in Hong Kong and the PRC (including its Sino-Wood and Sino-Panel divisions) to monitor and report on operations, cash management functions (including the collection and disbursement of cash in such operations); and (ii) provide such information and reports as may be requested by the Company, the Monitor or any of the Advisors, acting reasonably (provided that all such information shall be subject to the confidentiality agreements and undertakings executed by the parties and any such information provided by FTI HK to the Advisors or the Monitor shall be made available to the Company).
- (cc) In the event that, after having received information and/or reports from FTI HK pursuant to Section 5(bb), the Initial Consenting Noteholders are not satisfied with the operations and management of the Company's Subsidiaries, the Initial Consenting Noteholders shall have the right to notify the Company that, in their view, additional operational, management or other expertise is required in respect of the Subsidiaries (or any of them), and to require the appointment within thirty (30) days of one or more Persons having such expertise, the identity of which shall be acceptable to the Company and the Initial Consenting Noteholders.

- (dd) Any new additions to the board of directors of the Company shall be acceptable to the Initial Consenting Noteholders.
- (ee) The Company shall cause its BVI Subsidiaries to carry out commercially reasonable and prudent procedures with respect to the screening and evaluating of new timber contracts (including, without limitation, with respect to the identity and creditworthiness of the contractual counterparties, and also verification of legal chain of title, plantation rights certificates, and valuation, as the case may be) through its BVI /AI structure (the “**BVI Structure**”) (as distinct from its Wholly Foreign-Owned Entity Structure), which procedures shall be periodically reviewed and discussed with the Advisors (the “**BVI Timber Diligence Procedures**”).
- (ff) The Company shall cause its BVI Subsidiaries not to invest funds held by its AIs in the BVI Structure in new timber contracts for the BVI entities except in accordance with the BVI Timber Diligence Procedures, or in a manner otherwise acceptable to the Advisors.
- (gg) The Company and its Subsidiaries shall not directly or indirectly enter into any contract for the sale or purchase of timber (including with any AI or supplier) through the BVI Structure with a value of more than US\$5,000,000 at any one time or for any series of transactions aggregating over US\$10,000,000 without the consent of the advisors.
- (hh) The Company and its Subsidiaries shall make commercially reasonable efforts to collect all accounts receivable (including all accounts receivable payable by any AI) in the BVI Structure; and shall keep the Advisors informed of their efforts and status regarding same.

6. **Conditions Precedent to Noteholder’s Support Obligations**

- (a) Subject to Section 6(b), the obligation of the Consenting Noteholder to vote in favour of the Plan pursuant to Section 4(b)(i) shall be subject to the reasonable satisfaction of the following conditions prior to the Voting Deadline, each of which, if not satisfied prior to the Voting Deadline, can only be waived by the Initial Consenting Noteholders:
 - (i) the Initial Order, the Sale Process Order, the Meeting Order, the Plan and the proposed Final Order in respect of the Plan, and all other material filings by or on behalf of the Companies, or Orders entered by the Court, in the CCAA Proceedings to date, shall have been filed, and the Orders shall have been entered, in form and substance acceptable to the Advisors, acting reasonably;
 - (ii) the terms and conditions of the Plan shall be consistent with this Agreement or otherwise acceptable to the Initial Consenting Noteholders, acting reasonably (including, without limitation, all terms and conditions of the Litigation Trust and the Contingent Value Rights);

- (iii) the Initial Consenting Noteholders shall be satisfied with the results of due diligence concerning the Company, its Subsidiaries and their businesses;
- (iv) the Company and each of the Direct Subsidiaries shall have complied in all material respects with each covenant in this Agreement that is to be performed on or before the date that is three (3) Business Days prior to the Voting Deadline, including without limitation, by having complied with the timeline set forth in Section 5(c) hereof (as the same may have been amended with the consent of the Initial Consenting Noteholders or the Advisors, acting reasonably), and the Company shall have provided the Advisors with a certificate signed by an officer of the Company certifying compliance with this Section 6(iv) as of the date that is three (3) Business Days prior to the Voting Deadline;
- (v) the Restructuring Budget shall be in form and substance acceptable to the Initial Consenting Noteholders, acting reasonably;
- (vi) there shall have been no appointment of any new senior executive officers of the Company or any of its Subsidiaries or members of the board of directors of the Company, or any chief restructuring officer of the Company, unless such appointment, including its terms, was on terms satisfactory to the Initial Consenting Noteholders, acting reasonably;
- (vii) the composition of the board of directors of Newco and the senior management and officers of Newco to be appointed on the Implementation Date shall be acceptable to the Initial Consenting Noteholders;
- (viii) the terms of any New Management Plan shall be acceptable to the Initial Consenting Noteholders;
- (ix) the representations and warranties of the Company and the Direct Subsidiaries set forth in this Agreement shall be true and correct in all respects without regard to any materiality or Material Adverse Effect qualifications contained in them as of the date that is three (3) Business Days prior to the Voting Deadline with the same force and effect as if made at and as of such date (except to the extent such representations and warranties are by their terms given as of a specified date, in which case such representations and warranties shall be true and correct in all respects as of such date), in each case except (A) as such representations and warranties may be affected by the occurrence of events or transactions contemplated by this Agreement, and (B) where the failure of such representations and warranties to be so true and correct, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect, and the Company shall have provided the Advisors with a certificate signed by an officer of the Company certifying compliance with this Section 6(a)(ix) as of the date that is three (3) Business Days prior to the Voting Deadline;

- (x) there shall not exist or have occurred any Material Adverse Effect, and the Company shall have provided the Advisors with a certificate signed by an officer of the Company certifying compliance with this Section 6(x) as of the date that is three (3) Business Days prior to the Voting Deadline;
 - (xi) there shall not be in effect any preliminary or final decision, order or decree by a Governmental Entity, and no action shall have been announced, threatened or commenced by any Governmental Entity in consequence of or in connection with the Transaction that restrains or impedes, or prohibits (or if granted could reasonably be expected to restrain, impede or inhibit) the Transaction or any material part thereof or requires or purports to require a material variation of the Transaction, and the Company shall have provided the Advisors with a certificate signed by an officer of the Company certifying compliance with this Section 6(a)(xi) as of the date that is three (3) Business Days prior to the Voting Deadline; and
 - (xii) there shall have been no breach of the Noteholder Confidentiality Agreements by the Company or any of the Sino-Forest Representatives (as defined therein) in respect of that Consenting Noteholder.
- (b) Notwithstanding Section 6(a), if the Company has, in compliance with the Sale Process Procedures, entered into a definitive agreement with respect to a Sale Transaction prior to the Voting Deadline, the obligation of the Consenting Noteholder to vote in favour of the Plan in respect of such Sale Transaction pursuant to Section 4(b)(i) shall be subject to the reasonable satisfaction of only the conditions precedent set forth in Sections 6(a)(i), 6(a)(ii), 6(a)(iv), 6(a)(xi) and 6(a)(xii) prior to the Voting Deadline, which, if not satisfied prior to the Voting Deadline, can only be waived by the Initial Consenting Noteholders.

7. Conditions Precedent to Restructuring

- (a) Subject to Section 7(b), the Transaction shall be subject to the reasonable satisfaction of the following conditions prior to or at the time on which the Transaction is implemented (the “**Effective Time**”), each of which, if not satisfied on or prior to the Effective Date, can only be waived by the Initial Consenting Noteholders; provided, however that (A) the conditions in sub-clauses 7(a)(i) to 7(a)(iii), 7(a)(v) to 7(a)(viii), 7(a)(xi) and 7(a)(xvii) below shall also be for the benefit of the Company and (B) if not satisfied on or prior to the Effective Time, can only be waived by both the Company and the Initial Consenting Noteholders:
 - (i) (v) the Plan shall have been approved by the applicable stakeholders of the Company as and to the extent required by the Court or otherwise, any such requirement being acceptable to the Company and the Initial Consenting Noteholders, each acting reasonably; (w) the Plan shall have been approved by the Court and the Final Order shall be in full force and effect

prior to August 31, 2012 in respect of a Restructuring Transaction, and prior to the Outside Date in respect of a Sale Transaction; (x) the Plan shall have been approved by the applicable stakeholders and the Court in a form consistent with this Agreement or otherwise acceptable to the Company and the Initial Consenting Noteholders, each acting reasonably; (y) the Final Order shall have been entered by the Court in a form consistent with this Agreement or otherwise acceptable to the Company and the Initial Consenting Noteholders, each acting reasonably; and (z) the Implementation Date shall have occurred no later than the Outside Date;

- (ii) all press releases, disclosure documents and definitive agreements in respect of the Transaction shall be in a form and substance satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably;
- (iii) the new memorandum and articles of association, by-laws and other constating documents of Newco (including, without limitation, any shareholders agreement, shareholder rights plan, classes of shares (voting and non-voting)) or any affiliated or related entities to be formed in connection with the Transaction, as applicable, and all definitive legal documentation in connection with all of the foregoing shall be acceptable to the Initial Consenting Noteholders and in form and substance reasonably satisfactory to the Company;
- (iv) the composition of the board of directors of Newco and the senior management and officers of Newco shall have been put in place on the Implementation Date and shall be acceptable to the Initial Consenting Noteholders;
- (v) the terms of the New Management Plan, together with the terms of employment for the senior executive officers of Newco, shall have been put in place on the Implementation Date and shall be acceptable to the Initial Consenting Noteholders, and reasonably satisfactory to the Company;
- (vi) the terms of the Litigation Trust and the Contingent Value Rights shall be satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably;
- (vii) all Material filings under applicable Laws that are required in connection with the Transaction shall have been made and any Material regulatory consents or approvals that are required in connection with the Transaction shall have been obtained (including, without limitation, any required consent(s) of the Ontario Securities Commission) and, in the case of waiting or suspensory periods, such waiting or suspensory periods shall have expired or been terminated;

- (viii) there shall not be in effect any preliminary or final decision, order or decree by a Governmental Entity, and no action shall have been announced, threatened or commenced by any Governmental Entity, in consequence of or in connection with the Transaction that restrains or impedes, or prohibits (or if granted could reasonably be expected to restrain, impede or inhibit) the Transaction or any material part thereof or requires or purports to require a material variation of the Transaction and the Company shall have provided the Consenting Noteholders with a certificate signed by an officer of the Company certifying compliance with this Section 7(a)(viii) as at the Effective Time;
- (ix) the representations and warranties of the Company and the Direct Subsidiaries set forth in this Agreement shall be true and correct in all respects without regard to any materiality or Material Adverse Effect qualifications contained in them as of the Effective Time with the same force and effect as if made at and as of such date (except to the extent such representations and warranties are by their terms given as of a specified date, in which case such representations and warranties shall be true and correct in all respects as of such date), in each case except (A) as such representations and warranties may be affected by the occurrence of events or transactions contemplated by this Agreement, and (B) where the failure of such representations and warranties to be so true and correct, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect, and the Company shall have provided the Consenting Noteholders with a certificate signed by an officer of the Company certifying compliance with this Section 7(a)(ix) as at the Effective Time;
- (x) there shall not exist or have occurred any Material Adverse Effect, and the Company shall have provided the Consenting Noteholders with a certificate signed by an officer of the Company certifying compliance with this Section 7(a)(x) as at the Effective Time;
- (xi) all securities of the Company, Newco and any affiliated or related entities that are formed in connection with the Transaction, when issued and delivered, shall be duly authorized, validly issued and fully paid and non-assessable and the issuance thereof shall be exempt from all prospectus and registration requirements and resale restrictions of applicable Securities Legislation;
- (xii) the Noteholders shall have received the consideration described in the Transaction Terms on the Implementation Date;
- (xiii) in the case of a Restructuring Transaction all Existing Shares, Equity Interests, including all existing options, warrants, deferred share units and restricted share units held by current directors and officers or other third parties, and all Equity Claims shall have been cancelled or extinguished or

otherwise dealt with to the satisfaction of the Initial Consenting Noteholders, acting reasonably to ensure that no rights in respect thereof attach to the assets and property conveyed to Newco pursuant to the Restructuring Transaction;

- (xiv) the Initial Consenting Noteholders, acting reasonably, shall be satisfied with the use of proceeds and payments relating to all aspects of the Transaction, including, without limitation, any change of control payments, consent fees, transaction fees or third party fees, in the aggregate of \$500,000 or more, payable by the Company or any Subsidiary to any Person (other than a Governmental Entity) in respect of or in connection with the Transaction, including without limitation, pursuant to any employment agreement or incentive plan of the Company or any Subsidiary;
 - (xv) the Company shall have paid the Expense Reimbursement in full on the Implementation Date, and Newco shall have no liability for any fees or expenses due to the Company's legal, financial or advisors either as at or following the Implementation Date;
 - (xvi) the Company and the Direct Subsidiaries shall have complied in all material respects with each covenant in this Agreement that is to be performed on or before the Effective Time, and the Company shall have provided the Consenting Noteholders with a certificate signed by an officer of the Company certifying compliance with this Section 7(a)(xvi) as at the Effective Time; and
 - (xvii) any Sale Transaction shall be on terms and conditions consistent with this Agreement or otherwise acceptable to the Company and the Initial Consenting Noteholders, each acting reasonably.
- (b) Notwithstanding Section 7(a), if the Company has, in compliance with the Sale Process Procedures, entered into a definitive agreement with respect to a Sale Transaction, such Sale Transaction shall be subject to the reasonable satisfaction of only the conditions in Sections 7(a)(i), 7(a)(ii), 7(a)(vii), 7(a)(viii), 7(a)(xii), 7(a)(xv), 7(a)(xvi) and 7(a)(xvii), prior to or at the Effective Time, each of which, if not satisfied on or prior to the Effective Date, can only be waived by the Initial Consenting Noteholders; provided, however that (A) the condition in Sections 7(a)(i), 7(a)(vii), 7(a)(viii) and 7(a)(xvii) shall also be for the benefit of the Company and (B) if not satisfied on or prior to the Effective Time, can only be waived by both the Company and the Initial Consenting Noteholders.

8. **Conditions Precedent to Company's Obligations**

The obligations of the Company under this Agreement shall be subject to the reasonable satisfaction of the following conditions, each of which, if not satisfied, can only be waived by the Company:

- (a) the Consenting Noteholders shall have complied in all material respects with each of their covenants in this Agreement that is to be performed on or before the Implementation Date; and
- (b) the representations and warranties of the Consenting Noteholders set forth in this Agreement shall be true and correct in all material respects without regard to any materiality qualifications contained in them as of the Implementation Date with the same force and effect as if made at and as of such time, except that representations and warranties that are given as of a specified date shall be true and correct in all material respects as of such date.

9. Press Releases and Public Disclosure Concerning Transaction

- (a) No press release or other public disclosure concerning the transactions contemplated herein shall be made by the Company or any of its Representatives or Subsidiaries without the prior consent of the Advisors (such consent not to be unreasonably withheld) except as, and only to the extent that, the disclosure is required (as determined by the Company) by applicable Law or by any stock exchange rules on which its securities or those of any of its affiliates are traded, by any other regulatory authority having jurisdiction over the Company or any Direct Subsidiary, or by any court of competent jurisdiction; provided, however, that the Company shall provide the Advisors with a copy of such disclosure in advance of any release and an opportunity to consult with the Company as to the contents, and to provide comments thereon, and provided further that any such disclosure shall in all cases also comply with the terms and conditions set forth in Section 16 hereof and in any of the applicable Noteholder Confidentiality Agreements.
- (b) Notwithstanding the foregoing and subject to Section 16 hereof, no information with respect to the principal amount of Notes or the number of Common Shares held or managed by any individual Consenting Noteholder or the identity of any individual Consenting Noteholder shall be disclosed by the Company or any of its Representatives or Subsidiaries in any press release or other public disclosure concerning the transactions contemplated herein.
- (c) No press release or other public disclosure concerning the transactions contemplated herein shall be made by any Consenting Noteholder without the prior consent of the Company (such consent not to be unreasonably withheld) except as, and only to the extent that, the disclosure is required (as determined by the Consenting Noteholder) by applicable Law or by any stock exchange rules on which its securities or those of any of its affiliates are traded, by any other regulatory authority having jurisdiction over the Consenting Noteholder, or by any court of competent jurisdiction; provided, however, that the Consenting Noteholder shall provide the Company with a copy of such disclosure in advance of any release and an opportunity to consult with the Consenting Noteholder as to the contents, and to provide comments thereon, and provided further that any

such disclosure shall also comply with the terms of any applicable Noteholder Confidentiality Agreement.

- (d) To the extent that there is a conflict between the provisions of this Section 9 and a Noteholder Confidentiality Agreement, the provisions of the Noteholder Confidentiality Agreement shall govern.

10. Further Assurances

Each Party shall do all such things in its control, take all such actions as are commercially reasonable, deliver to the other Parties such further information and documents and execute and deliver to the other Parties such further instruments and agreements as another Party shall reasonably request to consummate or confirm the transactions provided for in this Agreement, to accomplish the purpose of this Agreement or to assure to the other Party the benefits of this Agreement.

11. Consenting Noteholders' Termination Events

This Agreement may be terminated by the delivery to the Company and the Advisors of a written notice in accordance with Section 17(q) hereof by Initial Consenting Noteholders holding at least 66 2/3% of the aggregate principal amount of Relevant Notes held by the Initial Consenting Noteholders collectively, in the exercise of their sole discretion, or in the case of Sections 11(j) and (k) by, but only in respect of, any Initial Consenting Noteholder individually, upon the occurrence and, if applicable, continuation uncured (where such event is curable) for three (3) Business Days after receipt of such notice of any of the following events:

- (a) failure by the Company to comply with any of the deadlines set forth in Section 5(c) hereof (including if the Implementation Date has not occurred by the Outside Date), as the same may have been amended with the consent of the Initial Consenting Noteholders or the Advisors;
- (b) failure by the Company or any of the Direct Subsidiaries to comply in all material respects with, or default by the Company or any of the Direct Subsidiaries in the performance or observance of, any material term, condition, covenant or agreement set forth in this Agreement, which, if capable of being cured, is not cured within five (5) Business Days after the receipt of written notice of such failure or default;
- (c) failure by the Company or any of the Direct Subsidiaries to comply with or satisfy any condition precedent set forth in Section 6 or 7 of this Agreement;
- (d) if any representation, warranty or other statement of the Company or any of the Direct Subsidiaries made or deemed to be made in this Agreement shall prove untrue in any respect as of the date when made, except where the failure of such representations and warranties or other statements to be so true and correct, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect;

- (e) the issuance of any preliminary or final decision, order or decree by a Governmental Entity, the making of an application to any Governmental Entity, or commencement of an action by any Governmental Entity, in consequence of or in connection with the Transaction, in each case which restrains, impedes or prohibits the Transaction or any material part thereof or requires or purports to require a material variation of the Transaction;
- (f) the CCAA Proceedings are dismissed, terminated, or stayed or the Company whether voluntarily or involuntarily, commences or undergoes a receivership, liquidation, bankruptcy, debt enforcement proceeding or a proceeding under the CCAA, the *Bankruptcy and Insolvency Act* (Canada) or *Winding-Up and Restructuring Act* (Canada), or under any foreign insolvency law, or any of the Subsidiaries become subject to voluntary or involuntary liquidation proceedings, unless any such event occurs with the prior written consent of the Initial Consenting Noteholders;
- (g) the appointment of a receiver, interim receiver, receiver and manager, trustee in bankruptcy, liquidator or administrator in respect of the Company, or any of its Subsidiaries, unless such event occurs with the prior written consent of the Initial Consenting Noteholders;
- (h) the amendment, modification or filing of a pleading by the Company, or any of its Subsidiaries, seeking to amend or modify this Agreement, any of the Transaction Terms, the Initial Order, the Sale Process Order, the Sale Process Procedures, the Plan, or any other document related to any of the foregoing or otherwise filed in the CCAA Proceedings, in a manner not acceptable to the Initial Consenting Noteholders, acting reasonably;
- (i) if there are any new additions to the board of directors of the Company that are not acceptable to the Initial Consenting Noteholders;
- (j) if the Company and the Initial Consenting Noteholders cannot agree on the Person(s) to be appointed by the Company or any of its Subsidiaries pursuant to Section 5(cc) hereof; or
- (k) if the Company fails to comply with its obligations under Section 5(h).

12. Companies' Termination Events

- (a) This Agreement may be terminated by the delivery to the Consenting Noteholders (with a copy to the Advisors) of a written notice in accordance with Section 17(q) by the Company, in the exercise of its sole discretion, upon the occurrence and continuation of any of the following events:
 - (i) the issuance of any preliminary or final decision, order or decree by a Governmental Entity, the making of an application to any Governmental Entity, or commencement of an action by any Governmental Entity, in consequence of or in connection with the Transaction, in each case which

restrains, impedes or prohibits the Transaction or any material part thereof or requires or purports to require a material variation of the Transaction; or

- (ii) if the Implementation Date has not occurred on or before the Outside Date;
- (b) This Agreement may be terminated as to a breaching Consenting Noteholder (the "**Breaching Noteholder**") only, by delivery to such Breaching Noteholder of a written notice in accordance with Section 17(q) by the Company, in the exercise of its sole discretion and provided that the Company is not in default hereunder, upon the occurrence and continuation uncured (where such event is curable) for three Business Days after the receipt of such notice, of any of the following events:
- (i) failure by the Breaching Noteholder to comply in all material respects with, or default by the Breaching Noteholder in the performance or observance of, any material term, condition, covenant or agreement set forth in this Agreement which is not cured within five (5) Business Days after the receipt of written notice of such failure or default; or
 - (ii) if any representation, warranty or other statement of the Breaching Noteholder made or deemed to be made in this Agreement shall prove untrue in any material respect as of the date when made,

and the Breaching Noteholder shall thereupon no longer be a Consenting Noteholder.

13. Mutual Termination

This Agreement, and the obligations of all Parties hereunder, may be terminated by mutual agreement among (a) the Company, (b) the Direct Subsidiaries and (c) Initial Consenting Noteholders holding at least 66 2/3% of the aggregate principal amount of Relevant Notes held by the Initial Consenting Noteholders collectively.

14. Effect of Termination

- (a) Upon termination of this Agreement pursuant to Sections 11(a) to 11(i) Section 12(a) or Section 13 hereof, this Agreement shall be of no further force and effect and each Party hereto shall be automatically and simultaneously released from its commitments, undertakings, and agreements under or related to this Agreement, except for the rights, agreements, commitments and obligations under Sections 9(b), 14, 16 and 17, all of which shall survive the termination, and each Party shall have the rights and remedies that it would have had it not entered into this Agreement and shall, subject to the CCAA Proceedings and the terms of any Court orders made therein, be entitled to take all actions, whether with respect to the Transaction or otherwise, that it would have been entitled to take had it not entered into this Agreement.

- (b) Upon termination of this Agreement by the Company and the Direct Subsidiaries with respect to a Breaching Noteholder under Section 12(b), or by an Objecting Noteholder under Section 17(o), or by an individual Initial Consenting Noteholder under Section 11(j) or 11(k) (an “**Individual Noteholder**”) this Agreement shall be of no further force or effect with respect to such Breaching Noteholder, Objecting Noteholder or Individual Noteholder, as applicable, and all rights, obligations, commitments, undertakings, and agreements under or related to this Agreement of or in respect of such Breaching Noteholder, Objecting Noteholder or Individual Noteholder, as applicable, shall be of no further force or effect, except for the rights and obligations under Sections 9(b), 14, 16 and 17, all of which shall survive such termination, and each of the Company, the Direct Subsidiaries and such Breaching Noteholder, Objecting Noteholder or Individual Noteholder, as applicable, shall have the rights and remedies that it would have had it not entered into this Agreement and shall, subject to the CCAA Proceedings and the terms of any Court orders made therein, be entitled to take all actions, whether with respect to the Transaction or otherwise, that it would have been entitled to take had it not entered into this Agreement.
- (c) Upon the occurrence of any termination of this Agreement, any and all consents, votes or support tendered prior to such termination by (i) the Consenting Noteholders in the case of termination pursuant to Section 11, Section 12(a) or Section 13 hereof, (ii) the Breaching Noteholder(s) in the case of a termination pursuant to Section 12(b), (iii) the Objecting Noteholder(s) in the case of termination pursuant to Section 17(o), or (iv) the Individual Noteholder in the case of termination pursuant to Section 11(j) or 11(k) shall be deemed, for all purposes, to be null and void from the first instance and shall not be considered or otherwise used in any manner by the Parties in connection with the Transaction, this Agreement, the CCAA Proceedings or otherwise.

15. Termination Upon the Implementation Date

This Agreement shall terminate automatically without any further required action or notice on the Implementation Date (immediately following the Effective Time). The Company shall pay the Expense Reimbursement on the Implementation Date (prior to the Effective Time). For greater certainty, the representations, warranties and covenants herein shall not survive and shall be of no further force or effect from and after the Implementation Date, provided that the rights, agreements, commitments and obligations under Sections 9(b), 16 and 17 shall survive the Implementation Date.

16. Confidentiality

The Company and each Direct Subsidiary agree, on its own behalf and on behalf of its Representatives and Subsidiaries, to maintain the confidentiality of the identity and, to the extent known, specific holdings of each Consenting Noteholder; provided, however, that such information may be disclosed: (a) to the Company’s directors, trustees, executives, officers, auditors, and employees and financial and legal advisors or other agents (collectively referred to

herein as the “**Representatives**” and individually as a “**Representative**”) and provided further that each such Representative is informed of, and agrees to abide by, this confidentiality provision; and (b) to Persons in response to, and to the extent required by, (i) any subpoena, or other legal process, including, without limitation, by the Court or applicable rules, regulations or procedures of the Court, (ii) any Governmental Entity, or (iii) applicable Law; provided that, if the Company or its Representatives are required to disclose the identity or the specific holdings of a Consenting Noteholder in the manner set out in the preceding sentence, the Company shall provide such Consenting Noteholder with prompt written notice of any such requirement so that such Consenting Noteholder may (at the Consenting Noteholder’s expense) seek a protective order or other appropriate remedy or waiver of compliance with the provisions of this Agreement; and provided further, however, that each Consenting Noteholder agrees, (c) to the existence and factual details of this Agreement (other than the identity and, to the extent known, specific holdings of, any Consenting Noteholder) being set out in any public disclosure, including, without limitation, press releases and court materials, produced by the Company in connection with the Transaction and in accordance with this Agreement and the terms of any applicable Noteholder Confidentiality Agreement; and (d) to this Agreement being filed and/or available for inspection by the public to the extent required by law, and in any case in accordance with this Agreement and the terms of any Noteholder Confidentiality Agreement.

17. Miscellaneous

- (a) Notwithstanding anything herein to the contrary, this Agreement applies only to each Consenting Noteholder’s Debt and to each Consenting Noteholder solely with respect to its legal and/or beneficial ownership of, or its investment and voting discretion over its Debt (and not, for greater certainty, to any other securities, loans or obligations that may be held, acquired or sold by such Consenting Noteholder or any client of such Consenting Noteholder whose funds or accounts are managed by such Consenting Noteholder) and, without limiting the generality of the foregoing, shall not apply to:
 - (i) any securities, loans or other obligations (including the Notes) that may be held, acquired or sold by, or any activities, services or businesses conducted or provided by, any group or business unit within or affiliate of a Consenting Noteholder (A) that has not been involved in and is not acting at the direction of or with knowledge of the affairs of the Company and/or its Subsidiaries provided by any Person involved in the Transaction discussions or (B) is on the other side of an information firewall with respect to the officers, partners and employees of such Consenting Noteholder who have been working on the Transaction and is not acting at the direction of or with knowledge of the affairs of the Company and/or its Subsidiaries provided by any officers, partners and employees of such Consenting Noteholder who have been working on the Transaction;
 - (ii) any securities, loans or other obligations that may be beneficially owned by clients of a Consenting Noteholder, including accounts or funds managed by the Consenting Noteholder, that are not Notes or Debt; or

- (iii) any securities, loans or other obligations (including Notes) that may be beneficially owned by clients of a Consenting Noteholder that are not managed or administered by the Consenting Noteholder.
- (b) Subject to Section 4 hereof with respect to Consenting Noteholders' Relevant Notes and Debt and to the provisions of any applicable Noteholder Confidentiality Agreement, nothing in this Agreement is intended to preclude any of the Consenting Noteholders from engaging in any securities transactions.
- (c) This Agreement shall in no way be construed to preclude any Consenting Noteholder from acquiring additional Notes ("**Additional Notes**"). If a Consenting Noteholder acquires Additional Notes after the date hereof, the Consenting Noteholder shall be bound by the terms of this Agreement in respect of such Additional Notes, and such Additional Notes shall constitute Relevant Notes for purposes of this Agreement.
- (d) At any time, a Noteholder that is not a Consenting Noteholder may agree with the Company and the Direct Subsidiaries to become a Party to this Agreement by executing and delivering to the Company, with a copy to the Advisors, a Joinder Agreement substantially in the form of Schedule C.
- (e) The headings of the Sections of this Agreement have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.
- (f) Unless the context otherwise requires, words importing the singular shall include the plural and vice versa and words importing any gender shall include all genders.
- (g) Unless otherwise specifically indicated, all sums of money referred to in this Agreement are expressed in lawful money of the United States.
- (h) This Agreement, the Noteholder Confidentiality Agreements and any other agreements contemplated by or entered into pursuant to this Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both oral and written, among the Parties with respect to the subject matter hereof.
- (i) The agreements, representations and obligations of the Company and the Direct Subsidiaries are, in all respects, several and not joint and several. The Company and the Direct Subsidiaries acknowledge and agree that any waiver or consent that the Consenting Noteholders may make on or after the date hereof has been made by the Consenting Noteholders in reliance upon, and in consideration for, the covenants, agreements, representations and warranties of the Company and the Direct Subsidiaries hereunder.
- (j) The agreements, representations and obligations of the Consenting Noteholders under this Agreement are, in all respects, several (in proportion to the percentage

of the aggregate principal amount of Notes represented by a Consenting Noteholder's Relevant Notes) and not joint and several. Each Consenting Noteholder acknowledges and agrees that any waiver or consent that the Company may make on or after the date hereof has been made by the Company in reliance upon, and in consideration for, the covenants, agreements, representations and warranties of the Consenting Noteholders hereunder.

- (k) Any Person signing this Agreement in a representative capacity (i) represents and warrants that he/she is authorized to sign this Agreement on behalf of the Party he/she represents and that his/her signature upon this Agreement will bind the represented Party to the terms hereof, and (ii) acknowledges that the other Parties hereto have relied upon such representation and warranty.
- (l) Except as otherwise expressly provided herein, for the purposes of this Agreement, any matter requiring the agreement, waiver, consent or approval under this Agreement of (i) the Consenting Noteholders shall require the agreement, waiver, consent or approval of Consenting Noteholders representing at least a majority of the aggregate principal amount of Relevant Notes held by the Consenting Noteholders, and for (ii) the Initial Consenting Noteholders shall require the agreement, waiver, consent or approval of Initial Consenting Noteholders representing at least 66 2/3% of the aggregate principal amount of Relevant Notes held by the Initial Consenting Noteholders. The Company shall be entitled to rely on written confirmation from the Advisors that the Consenting Noteholders or the Initial Consenting Noteholders, as applicable, representing at least the foregoing aggregate principal amount of Relevant Notes held by the Consenting Noteholders or the Initial Consenting Noteholders, as applicable, have agreed, waived, consented to or approved a particular matter.
- (m) Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes have agreed, approved or consented to any amendment, waiver or consent to be given under this Agreement or under any documents related thereto, or have directed the taking of any action provided herein or in any of the documents related thereto to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes, Notes directly or indirectly owned by the Company or any of its Subsidiaries shall be deemed not to be outstanding.
- (n) This Agreement may be modified, amended or supplemented as to any matter by an instrument in writing signed by the Company, the Direct Subsidiaries and Initial Consenting Noteholders (as determined in accordance with Section 17(l)).
- (o) Notwithstanding anything to the contrary herein, if this Agreement is amended, modified or supplemented or any matter herein is approved, consented to or waived: (i) in a manner that materially adversely affects the consideration to be provided to the Noteholders as set forth in Section 1 hereof to be provided to Noteholders; (ii) or that limits an Individual Noteholder's ability to exercise the termination rights set forth in Sections 11(i) and 11(k) hereof; or (iii) such that

the Outside Date is extended beyond November 30, 2012, then any Consenting Noteholder that objects to any such amendment, modification, supplement, approval, consent or waiver may terminate its obligations under this Agreement upon five (5) Business Days' written notice to the other Parties hereto (each, an "Objecting Noteholder") and shall thereupon no longer be a Consenting Noteholder. For greater certainty, an Objecting Noteholder shall not be entitled to receive any consideration provided to Consent Date Noteholders hereunder.

- (p) Time is of the essence in the performance of the Parties' respective obligations. Any date, time or period referred to in this Agreement shall be of the essence, except to the extent to which the Parties agree in writing to vary any date, time or period, in which event the varied date, time or period shall be of the essence.
- (q) All notices and other communications which may be or are required to be given pursuant to any provision of this Agreement shall be given or made in writing and shall be deemed to be validly given if served personally or by facsimile transmission, in each case addressed to the particular Party:

- (i) if to the Company or any Direct Subsidiary:

Sino-Forest Corporation
Room 3815-29 38/F, Sun Hung Kai Centre
30 Harbour Road, Wanchai, Hong Kong

Attention: Mr. Judson Martin, Executive Vice-Chairman and Chief
Executive Officer

Fax: +852-2877-0062;

with a copy by email or fax (which shall not be deemed notice) to:

Bennett Jones LLP
One First Canadian Place, Suite 3400
Toronto, ON M5X 1A4

Attention: Kevin J. Zych and Raj S. Sahni
Email: zychk@bennettjones.com and sahnir@bennettjones.com
Fax: 416-863-1716

- (ii) if to the Consenting Noteholders, at the address set forth for each Consenting Noteholder beside its signature hereto;

with a copy by email or fax (which shall not be deemed notice) to:

Goodmans LLP
 Bay Adelaide Centre
 333 Bay Street, Suite 3400
 Toronto, Ontario M5H 2S7

Attention: Robert Chadwick and Brendan O'Neill
 Email: rchadwick@goodmans.ca and boneill@goodmans.ca
 Facsimile: 416-979-1234

and with a copy by email or fax (which shall not be deemed notice) to:

Hogan Lovells LLP
 11th Floor, One Pacific Place, 88 Queensway
 Hong Kong China

Attention: Neil McDonald
 Email: neil.mcdonald@hoganlovells.com
 Facsimile: 852-2219-0222

or at such other address of which any Party may, from time to time, advise the other Parties by notice in writing given in accordance with the foregoing. The date of receipt of any such notice shall be deemed to be the date of delivery or transmission thereof.

- (r) If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in a mutually acceptable manner in order that the terms of this Agreement remain as originally contemplated to the fullest extent possible.
- (s) This Agreement shall be binding upon and enure to the benefit of the Parties hereto and each of their respective successors, assigns, heirs and personal representatives, provided that no Party may assign, delegate or otherwise transfer any of its rights, interests or obligations under this Agreement without the prior written consent of the other Parties hereto, except that each Consenting Noteholder is permitted to assign, delegate or otherwise transfer any of its rights, interests or obligations under this Agreement as set forth in Section 4(c).
- (t) This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein, without regard to principles of conflicts of law. Each Party submits to the jurisdiction of the courts of the Province of Ontario in any action or proceeding arising out of or relating to this Agreement.

- (u) The Parties waive any right to trial by jury in any proceeding arising out of or relating to this Agreement or any of the transactions contemplated by this Agreement, present or future, and whether sounding in contract, tort or otherwise. Any Party may file a copy of this provision with any court as written evidence of the knowing, voluntary and bargained for agreement between the Parties irrevocably to waive trial by jury, and that any proceeding whatsoever between them relating to this Agreement or any of the transactions contemplated by this Agreement shall instead be tried by a judge or judges sitting without a jury.
- (v) No director, officer or employee of the Company or any of its Subsidiaries or any of their legal, financial or other advisors shall have any personal liability to any of the Consenting Noteholders under this Agreement. No director, officer or employee of any of the Consenting Noteholders or any of the Advisors shall have any personal liability to the Company or any of its Subsidiaries under this Agreement.
- (w) It is understood and agreed by the Parties that money damages would be an insufficient remedy for any breach of this Agreement by any Party and each non-breaching Party shall be entitled to specific performance and injunctive or other equitable relief as a remedy of any such breach including, without limitation, an order of the Court or other court of competent jurisdiction requiring any Party to comply promptly with any of its obligations hereunder.
- (x) All rights, powers, and remedies provided under this Agreement or otherwise in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise of any right, power, or remedy thereof by any Party shall not preclude the simultaneous or later exercise of any other such right, power, or remedy by such Party.
- (y) No condition in this Agreement shall be enforceable by a Party if any failure to satisfy such condition results from an action, error or omissions by or within the control of such Party.
- (z) Where any representation or warranty of the Company and the Direct Subsidiaries contained in this Agreement is expressly qualified by reference to the knowledge of the Company, it refers to the actual knowledge, after due inquiry, of the Executive Vice Chairman and Chief Executive Officer and the Chief Financial Officer of the Company, and does not include the knowledge or awareness of any other individual or any constructive, implied or imputed knowledge.
- (aa) Unless expressly stated herein, this Agreement shall be solely for the benefit of the Parties, and no other person or entity shall be a third-party beneficiary hereof.

- (bb) This Agreement may be signed in counterparts, each of which, when taken together, shall be deemed an original. Execution of this Agreement is effective if a signature is delivered by facsimile transmission or electronic (e.g., pdf) transmission.

[Remainder of this page intentionally left blank; next page is signature page]

This Agreement has been agreed and accepted on the date first written above.

SINO-FOREST CORPORATION

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-PANEL HOLDINGS LIMITED

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-GLOBAL HOLDINGS INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-PANEL CORPORATION

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-WOOD PARTNERS, LIMITED

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-CAPITAL GLOBAL INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

**SINO-FOREST INTERNATIONAL
(BARBADOS) CORPORATION**

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-FOREST RESOURCES INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

STRICTLY CONFIDENTIAL

Name of Consenting Noteholder: _____

Per: _____

Name: _____

Title: _____

Jurisdiction of residence for legal
purposes: _____

Email: _____

Address: _____

STRICTLY CONFIDENTIAL

SCHEDULE A**DIRECT SUBSIDIARIES**

Sino-Panel Holdings Limited
Sino-Global Holdings Inc.
Sino-Panel Corporation
Sino-Wood Partners, Limited
Sino-Capital Global Inc.
Sino-Forest International (Barbados) Corporation
Sino-Forest Resources Inc. [Preferred shares held by SFC]

SCHEDULE B**DEFINITIONS**

Definition	Section or Page Number
"Additional Notes"	Section 17(c)
"Agreement"	Page 1 (1 st paragraph)
"Agreement Date"	Page 1 (1 st paragraph)
"Breaching Noteholder"	Section 12(b)
"BVI Timber Diligence Procedures"	Section 5(ee)
"CBCA"	Page 1 (1 st paragraph)
"CCAA"	Page 1 (1 st paragraph)
"CCAA Proceedings"	Section 5(c)(i)
"Company"	Page 1 (1 st paragraph)
"Consent Date Noteholder"	Section 1(b)
"Consenting Noteholder(s)"	Page 1 (1 st paragraph)
"Debt"	Section 2(a)
"Early Consent Consideration"	Section 1(b)
"Effective Time"	Section 7
"Excess Net Proceeds"	Section 1(k)(i)
"FTI HK"	Section 55(bb)
"Funding Amount"	Section 1(h)(i)
"Individual Noteholder"	Section 14(b)
"Muddy Waters"	Section 1(h)(ii)(A)
"Newco"	Section 1(a)(i)
"Newco EV"	Section 1(h)(ii)(B)(II)

Definition	Section or Page Number
"NI 45-106"	Section 2(i)
"Objecting Noteholder"	Section 17(o)
"Party" or "Parties"	Page 1 (1 st paragraph)
"Relevant Notes"	Section 2(a)
"Representative(s)"	Section 16
"Restructuring Budget"	Section 5(j)
"Sale Transaction"	Section 1(i)
"Transfer"	Section 4(c)

In addition, the following terms used in this Agreement shall have the following meanings:

"2013 Note Indenture" means the indenture dated as of July 23, 2008, by and between the Company, the entities listed as subsidiary guarantors thereto, and The Bank of New York Mellon, as trustee, as amended, modified or supplemented prior to the date hereof.

"2014 Note Indenture" means the indenture dated as of July 27, 2009 entered into by and between the Company, the subsidiary guarantors thereto, and Law Debenture Trust Company of New York, as trustee, as amended, modified or supplemented prior to the date hereof.

"2016 Note Indentures" means the indenture dated as of December 17, 2009, by and between the Company, the entities listed as subsidiary guarantors thereto, and The Bank of New York Mellon, as trustee, as amended, modified or supplemented prior to the date hereof.

"2017 Note Indenture" means the indenture dated as of October 21, 2010, by and between the Company, the subsidiary guarantors thereto, and Law Debenture Trust Company of New York, as trustee, as amended, modified or supplemented prior to the date hereof.

"2013 Notes" means the US\$345,000,000 of 5.00% Convertible Senior Notes Due 2013 issued pursuant to the 2013 Note Indenture.

"2014 Notes" means the US\$399,517,000 of 10.25% Guaranteed Senior Notes Due 2014 issued pursuant to the 2014 Note Indenture.

"2016 Notes" means the US\$460,000,000 of 4.25% Convertible Senior Notes Due 2016 issued pursuant to the 2016 Note Indenture.

"2017 Notes" means the US\$600,000,000 of 6.25% Guaranteed Senior Notes Due 2017 issued

pursuant to the 2017 Note Indenture.

"2013 and 2016 Trustee" means The Bank of New York Mellon, in its capacity as trustee for the 2013 Notes and the 2016 Notes.

"2014 and 2017 Trustee" means Law Debenture Trust Company of New York, in its capacity as trustee for the 2014 Notes and the 2017 Notes.

"Accrued Interest" means, in respect of any series of Notes, all accrued and unpaid interest on the Notes, at the regular rates provided therefor pursuant Note Indentures, up to and including the CCAA Filing Date.

"Advisors" means Goodmans and Hogan Lovells, in their capacity as legal advisors to the Initial Consenting Noteholders, and Moelis, in its capacity as financial advisor to the Initial Consenting Noteholders.

"Aggregate Principal Payment Amount" means 85% of the aggregate principal amount of all Notes outstanding as at the CCAA Filing Date.

"AIs" means the authorized intermediaries of the Company and/or any of its Subsidiaries.

"Applicable Securities Laws" means all applicable securities, corporate and other laws, rules, regulations, notices and policies in the Provinces of Canada.

"Business Day" means each day other than a Saturday or Sunday or a statutory or civic holiday that banks are open for business in Toronto, Ontario.

"BVI" means the British Virgin Islands.

"Capital Stock" shall have the meaning given to the term in the Note Indentures, as applicable.

"CCAA Filing Date" means the date on which the Initial Order is granted by the Court in respect of the Company pursuant to the CCAA.

"Claim" means any right or claim of any Person against the Company in any capacity, whether or not asserted, in connection with any indebtedness, liability or obligation of any kind whatsoever of the Company, and any interest accrued thereon or costs payable in respect thereof, whether at law or in equity, including arising by reason of the commission of a tort (intentional or unintentional), any breach of duty (including any legal, statutory, equitable or fiduciary duty), any right of ownership of or title to property or assets or to a trust, constructive trust or deemed trust (statutory, express, implied, resulting, or otherwise) against any property or assets, any taxes and together with any security enforcement costs or legal costs associated with any such claim, whether or not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, perfected, unperfected, present, future, known or unknown, by guarantee, by surety, by warranty, or otherwise, and whether or not such right is executory or anticipatory in nature, including any claim arising from or caused by the termination, disclaimer, rescission, assignment or repudiation by the Company of any contract, lease or other agreement, whether written or oral, any claim made or asserted

against the Company through any affiliate, subsidiary, associated or related person, or any right or ability of any Person to advance a claim for an accounting, reconciliation, contribution, indemnity, restitution or otherwise with respect to any matter, grievance, action (including any class action or proceeding before an administrative tribunal), cause or chose in action, whether existing at present or commenced in the future, and includes, without limitation (i) any other claims of any kind that, if unsecured, would have been claims provable in bankruptcy within the meaning of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 had the Company become bankrupt on the CCAA Filing Date, including any other claims arising from or caused by, directly or indirectly, the implementation of, or any action taken pursuant to, the Initial Order or the CCAA Proceedings, and (ii) Equity Claims.

“**Common Shares**” means the common shares in the capital of the Company.

“**Companies**” means, collectively, the Company and all of the Subsidiaries.

“**Consent Date**” means May 15, 2012.

“**Contingent Value Rights**” means the rights to be issued by Newco to a trustee on behalf of the Junior Constituents pursuant to the Restructuring Transaction and the Plan, pursuant to which the Junior Constituents will receive the right to receive 15% of any amounts realized in excess of \$1.8 billion plus Accrued Interest up to and including the CCAA Filing Date upon a Newco “liquidity event” that occurs, or is deemed to occur, within 7 years of the Implementation Date, which rights shall not be transferable. In lieu of paying any cash amount that may be due to the Junior Constituents in respect of the Contingent Value Rights, Newco shall be entitled to elect to pay in securities of Newco (or the form of consideration being paid to the shareholders of Newco in connection with the Newco “liquidity event”). The definitive terms of the Contingent Value Rights, including the definition of a Newco “liquidity event” shall be determined by the Company and the Initial Consenting Noteholders, acting reasonably.

“**Court**” means the Ontario Superior Court of Justice, Commercial List.

“**Creditor**” means any Person having a Claim and includes, without limitation, the transferee or assignee of a Claim or a trustee, liquidator, receiver, receiver and manager, or other Person acting on behalf of such Person.

“**Data Room**” means the virtual data room maintained by the Company through the facilities of Merrill Corporation, as of March 29, 2012, as the same may be supplemented after the Agreement Date on notice to the Advisors.

“**Equity Claim**” has the meaning set forth in section 2(1) of the CCAA.

“**Equity Interest**” has the meaning set forth in section 2(1) of the CCAA.

“**Excluded Assets**” means cash equal to, and for purposes of, the Funding Amount, the rights of the Company to be transferred to the Litigation Trust and any other assets and rights of the Company that are not transferred to Newco as determined by the Company and the Initial Consenting Noteholders and identified in the Plan.

“Executive Officers” means Judson Martin, Kai Kit Poon, David J. Horsley, Chen Hua, Zhao Wei Mao, Thomas M. Maradin, Xu Ni, Alfred Hung and George Ho.

“Existing Shares” means the Common Shares of the Company issued and outstanding at any applicable time prior to the Effective Time.

“Expense Reimbursement” the reasonable and documented fees and expenses of the Advisors and Conyers, Dill & Pearman LLP, pursuant to their respective engagement letters with the Company, and other advisors as may be agreed to by the Company.

“Final Order” means the order of the Court approving the Plan, which shall be in form and substance satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably, and as the same may be amended by the Court or with the consent of the Company and the Initial Consenting Noteholders, each acting reasonably.

“GAAP” means generally accepted accounting principles as applied in Canada.

“Goodmans” means Goodmans LLP.

“Governmental Entity” means any government, regulatory authority, governmental department, agency, commission, bureau, official, minister, Crown corporation, court, board, tribunal or dispute settlement panel or other law, rule or regulation-making organization or entity: (a) having or purporting to have jurisdiction on behalf of any nation, province, territory or state or any other geographic or political subdivision of any of them; or (b) exercising, or entitled or purporting to exercise any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power.

“Hogan Lovells” means Hogan Lovells LLP.

“Implementation Date” means the date on which the Transaction is implemented.

“Information” means information set forth or incorporated in the Companies’ public disclosure documents filed with the applicable securities regulators under the Securities Legislation, as applicable, since December 31, 2009.

“Initial Consenting Noteholders” means the Consenting Noteholders who executed this Agreement on the date written on the first page of this Agreement.

“Initial Order” means the initial order of the Court to be entered in the CCAA Proceedings, which shall be in form and substance satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably, and as the same may be amended by the Court or with the consent of the Company and the Initial Consenting Noteholders, each acting reasonably.

“Intellectual Property” means: (i) Canadian and non-Canadian patents, and applications for either including divisional and continuation patents; (ii) registered and unregistered trade-marks, logos and other indicia of origin, pending trade-mark registration applications, and proposed use application or similar reservations of marks, and all goodwill associated therewith; (iii) registered and unregistered copyrights, including all copyright in and to computer software

programs, and applications for and registration of such copyright (including all copyright in and to the Companies' websites); (iv) world wide web addresses and internet domain names, applications and reservations for world wide web addresses and internet domain names, uniform resource locators and the corresponding internet sites; (v) industrial designs; and (vi) trade secrets and proprietary information not otherwise listed in (i) through (v) above, including all inventions (whether or not patentable), invention disclosures, moral and economic rights of authors and inventors (however denominated), confidential information, technical data, customer lists, corporate and business names, trade names, trade dress, brand names, know-how, formulae, methods (whether or not patentable), designs, processes, procedures, technology, business methods, source codes, object codes, computer software programs (in either source code or object code form), databases, data collections and other proprietary information or material of any type, and all derivatives, improvements and refinements thereof, howsoever recorded, or unrecorded.

"Junior Constituent" means any Person holding a Claim (including an Equity Claim) or right against the Company which is, either pursuant to any contract or otherwise pursuant to any applicable law (including, without limitation, the CCAA) subordinate in priority to the Noteholder Claims or otherwise not entitled to any distribution pursuant to the Plan until the Noteholder Claims have been paid in full, but only in respect of such Claim or right of such Person.

"Law" or **"Laws"** means any law, statute, order, decree, consent decree, judgment, rule regulation, ordinance or other pronouncement having the effect of law whether in Canada, the United States, Hong Kong, the PRC, or any other country, or any domestic or foreign state, county, province, city or other political subdivision or of any Governmental Entity.

"Litigation Trust" means the litigation trust to be established pursuant to the Plan pursuant to which all claims of the Company and its Subsidiaries against any Person shall be transferred on the Implementation Date, the terms and conditions of which (including without limitation, as to the selection of counsel, the trustee, governance, the allocation of funding among claims to be pursued, and provisions prohibiting claims over or any liability against the Company, its Subsidiaries, Newco or its subsidiaries) shall be satisfactory to the Company and the Initial Consenting Noteholders, acting reasonably.

"Material" means a fact, circumstance, change, effect, matter, action, condition, event, occurrence or development that, individually or in the aggregate, is, or would reasonably be expected to be, material to the business, affairs, results of operations or financial condition of the Companies (taken as a whole).

"Material Adverse Effect" means a fact, event, change, occurrence, circumstance or condition that, individually or together with any other event, change or occurrence, has or would reasonably be expected to have a material adverse impact on the assets, condition (financial or otherwise), business, liabilities, obligations (whether absolute, accrued, conditional or otherwise) or operations of the Companies (taken as a whole); provided, however, that a Material Adverse Effect shall not include and shall be deemed to exclude the impact of any fact, event, change, occurrence, circumstance or condition resulting from or relating to: (A) changes in Laws of general applicability or interpretations thereof by courts or Governmental Entities or regulatory

authorities, which changes do not have a Material disproportionate effect on the Companies (taken as a whole), (B) any change in the forestry industry generally, which does not have a Material disproportionate effect on the Companies (taken as a whole) (relative to other industry participants operating primarily in the PRC), (C) actions and omissions of any of the Companies required pursuant to this Agreement or taken with the prior written consent of the Initial Consenting Noteholders, (D) the effects of compliance with this Agreement, including on the operating performance of the Companies, (E) the negotiation, execution, delivery, performance, consummation, potential consummation or public announcement of this Agreement or the transactions contemplated by this Agreement, (F) any change in U.S. or Canadian interest rates or currency exchange rates unless such change has a Material disproportionate effect on the Companies (taken as a whole), and (G) general political, economic or financial conditions in Canada, the United States, Hong Kong or the PRC, which changes do not have a Material disproportionate effect on the Companies (taken as a whole).

“Meeting Order” means the Order of the Court establishing the procedures for voting on the Plan, which shall be in form and substance satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably, and as the same may be amended by the Court or with the consent of the Company and the Initial Consenting Noteholders, each acting reasonably.

“Moelis” means, collectively, Moelis & Company LLC and Moelis and Company Asia Limited, in their capacity as financial advisor to the Initial Consenting Noteholders.

“Monitor” means the monitor to be appointed by the Court pursuant to the Initial Order.

“New Management Plan” means the new management incentive plan and director compensation plan in respect of Newco, on terms and conditions acceptable to the Initial Consenting Noteholders.

“Newco Shares” means the common shares of Newco that are issued and outstanding as of the Effective Time.

“Note Indentures” means collectively the 2013 Note Indenture, the 2014 Note Indenture, the 2016 Note Indenture, and the 2017 Note Indenture.

“Noteholder Claim” means any Claim of any Person (including, without limitation, any current or former Noteholder or trustee, agent or intermediary) in respect of or in relation to the Notes, including without limitation, all principal, Accrued Interest and any other amounts payable pursuant to the Notes, the Note Indentures and any agreement or instrument pursuant or ancillary thereto (including any security or pledge in respect thereof), and any claims or rights of any Person against any Subsidiary under, pursuant to or in respect of any guarantee, indemnity or similar agreement in respect of the Notes.

“Noteholder Confidentiality Agreements” means, collectively, any and all the confidentiality and non-disclosure agreements that have been entered into and are binding upon a Consenting Noteholder and the Company.

“Noteholders” means, collectively, the holders of the Notes, and **“Noteholder”** means any

individual holder of any of the Notes.

“**Notes**” means, collectively, the 2013 Notes, the 2014 Notes, the 2016 Notes, and the 2017 Notes.

“**Ordinary Course**” means, with respect to an action taken or to be taken by the Company, or any of its Subsidiaries, that such action is consistent with the past practices of the Company, or the particular Subsidiary or Subsidiaries, as applicable, and was taken or is to be taken in the ordinary course of the normal day-to-day operations of the Company, or those particular Subsidiaries or Subsidiary, as applicable.

“**Other Affected Creditors**” means any Creditor (for greater certainty, not including Junior Constituents) other than: (i) a Creditor who has a Noteholder Claim, but only in respect of and to the extent of such Noteholder Claim, or (ii) a Creditor who has an Unaffected Claim, but only in respect of and to the extent of such Unaffected Claim.

“**Outside Date**” means November 30, 2012, as the same may be amended with the consent of the Initial Consenting Noteholders.

“**Person**” means any individual, sole proprietorship, limited or unlimited liability corporation, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, body corporate, joint venture, trust, pension fund, union, Governmental Entity, and a natural person including in such person’s capacity as trustee, heir, beneficiary, executor, administrator or other legal representative.

“**Plan**” means the plan of compromise or arrangement to be filed by the Company under the CCAA and, if determined necessary or advisable by the Company in conjunction with the CCAA Plan, and with the consent of the Advisors, the *Canada Business Corporations Act* for purposes of implementing the Restructuring Transaction or the Sale Transaction, as the case may be and in each case in accordance with the Transaction Terms, and as the same may be amended by the Court or with the consent of the Company and the Initial Consenting Noteholders, each acting reasonably.

“**PRC**” means the People’s Republic of China.

“**Pro Rata**” means, unless otherwise defined in the Agreement, (i) in the case of a Noteholder, the principal amount of Notes held by such Noteholder as of the Record Date in relation to the aggregate principal amount of Notes held by all Noteholders as of the Record Date, and (ii) in the in the case of a Consent Date Noteholder, the principal amount of Notes held by such Consent Date Noteholder as of the Record Date in relation to the aggregate principal amount of Notes held by all Consent Date Noteholders as of the Record Date.

“**Record Date**” means the record date for Noteholder Claims and Claims of Other Affected Creditors to be established in the CCAA Proceedings, which date shall be acceptable to the Company and the Initial Consenting Noteholders, each acting reasonably.

“**Restricted Subsidiary**” shall have the meaning given to the term in the Note Indentures, as applicable.

“Restructuring Transaction” means the restructuring transaction described by Section 1(a) hereof pursuant to which the restructuring of the Company is to be effectuated pursuant to, and in accordance with, the Plan and this Agreement.

“SAFE” means State Administration of Foreign Exchange (China).

“Sale Process Order” means the order of the Court approving the Sale Process Procedures, substantially in the form appended as **Schedule D** hereto, which shall be in form and substance satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably, and as the same may be amended by the Court or with the consent of the Company and the Initial Consenting Noteholders, each acting reasonably.

“Sale Process Procedures” means the sale and investor solicitation procedures for the sale of all or substantially all of the assets of the Company appended to the Sale Process Order as Schedule “A” which shall in form and substance be satisfactory to the Initial Consenting Noteholders, acting reasonably, and as the same may be amended by the Court or with the consent of the Company and the Initial Consenting Noteholders.

“Secured Newco Note” means that certain secured note (or other debt instrument) to be issued by Newco on the Implementation Date under an indenture (or other similar instrument), on terms and conditions acceptable to the Initial Consenting Noteholders, and in form and substance satisfactory to the Company, and as the same may be amended in accordance with its terms.

“Securities Legislation” means all applicable Laws, regulations, rules, policies or instruments of any securities commission, stock exchange or like body in Canada, the United States, Hong Kong or the PRC.

“Subsidiaries” means all direct and indirect subsidiaries of the Company (including the Direct Subsidiaries and the subsidiaries thereof), except for Greenheart Group Limited and its subsidiaries.

“Termination Date” means the date on which this Agreement is terminated in accordance with the provisions hereof.

“Transaction” means the Restructuring Transaction or the Sale Transaction, as the case may be.

“Transaction Terms” means the terms set out in Section 1 of this Agreement.

“Trustee” means each of the 2014 and 2017 Trustee and the 2013 and 2016 Trustee.

“Unaffected Claims” means (i) any Claims of any employee, officer or director of the Company in respect of any wages, vacation pay, bonuses or other remuneration payable to such Person by the Company; (ii) any Claims in respect of which a Charge is granted pursuant to the Initial Order; (iii) any Claim required to be paid in priority to Noteholder Claims, including in accordance with section 6(3), (5) or (6) of the CCAA; and (iv) any Claim, other than a Noteholder Claim, which is secured by a lien or encumbrance on the property of the Company, which lien is valid, perfected and enforceable pursuant to applicable law, to the extent of and limited to the value of such property.

“Voting Deadline” means the date on which votes are due in respect of the Plan, as established by the Meeting Order to be entered in the CCAA proceedings, as the same may be amended by Order of the Court or with the consent of the Company and the Initial Consenting Noteholders, each acting reasonably.

SCHEDULE C**JOINDER AGREEMENT**

This Joinder to the Support Agreement (this "**Joinder Agreement**") is made as of _____, 2012, by and among _____ (the "**Consenting Party**"), the Company (as defined below) and the Direct Subsidiaries (as defined therein) in consideration of the mutual covenants herein contained and benefits to be derived herefrom.

WITNESSETH:

WHEREAS, reference is made to a certain Support Agreement dated as of March 30, 2012 by and among the Initial Consenting Noteholders (as defined therein), the Direct Subsidiaries (as defined therein) and Sino-Forest Corporation (the "**Company**"), as amended, modified, supplemented or restated and in effect from time to time, the "**Support Agreement**"). All capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Support Agreement;

WHEREAS, the Consenting Party desires to become a party to, and to be bound by the terms of, the Support Agreement; and

WHEREAS, pursuant to the terms of the Support Agreement, in order for the Consenting Party to become party to the Support Agreement, the Consenting Party is required to execute this Joinder Agreement;

NOW, THEREFORE, in consideration of the premises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Joinder and Assumption of Obligations

Effective as of the date of this Joinder Agreement, the Consenting Party hereby acknowledges that the Consenting Party has received and reviewed a copy of the Support Agreement, and hereby:

- (a) acknowledges and agrees to:
 - (i) join in the execution of, and become a party to, the Support Agreement as a Consenting Noteholder thereunder, as indicated with its signature below;
 - (ii) subject to subsection (iii) below, be bound by all agreements of the Consenting Noteholders under the Support Agreement with the same force and effect as if such Consenting Party was a signatory to the Support Agreement and was expressly named as a party therein; and
 - (iii) assume all rights and interests and perform all applicable duties and obligations of the Consenting Noteholders under the Support Agreement

other than those expressed therein to be solely the rights, interests, duties and obligations of the Initial Consenting Noteholders; and

- (b) confirms each representation and warranty of the Consenting Noteholders under the Support Agreement with the same force and effect as if such Consenting Party was a signatory to the Support Agreement and was expressly named as a party therein.

2. Binding Effect

Except as specifically amended by this Joinder Agreement, all of the terms and conditions of the Support Agreement shall remain in full force and effect as in effect prior to the date hereof.

3. Miscellaneous

- (a) This Joinder Agreement may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, and all of which together shall constitute one instrument. Delivery of an executed signature page of this Joinder Agreement by email or facsimile transmission will be effective as delivery of a manually executed counterpart hereof.
- (b) This Joinder Agreement expresses the entire understanding of the parties with respect to the transactions contemplated hereby. No prior negotiations or discussions shall limit, modify, or otherwise affect the provisions hereof.
- (c) Any determination that any provision of this Joinder Agreement or any application hereof is invalid, illegal or unenforceable in any respect and in any instance shall not affect the validity, legality, or enforceability of such provision in any other instance, or the validity, legality or enforceability of any other provisions of this Joinder Agreement.
- (d) This Joinder Agreement shall be governed by, construed and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein (excluding any conflict of laws rule or principle which might refer such construction to the laws of another jurisdiction) and all actions or proceedings arising out of or relating to this Joinder Agreement shall be heard and determined exclusively in the courts of the Province of Ontario.

[Signature Pages Follow]

STRICTLY CONFIDENTIAL

Name of Consenting Noteholder:

[Redacted]

Per: [Redacted]

Name: [Redacted]

Title: [Redacted]

Jurisdiction of residence for legal purposes: [Redacted]

Email: [Redacted]

Address: [Redacted]

STRICTLY CONFIDENTIAL

STRICTLY CONFIDENTIAL

Accepted and agreed to as of the date first above written.

SINO-FOREST CORPORATION

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-PANEL HOLDINGS LIMITED

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-GLOBAL HOLDINGS INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-PANEL CORPORATION

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-WOOD PARTNERS, LIMITED

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-CAPITAL GLOBAL INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

**SINO-FOREST INTERNATIONAL
(BARBADOS) CORPORATION**

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-FOREST RESOURCES INC.

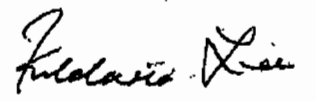
By: _____
Name:
Title:

By: _____
Name:
Title:

SCHEDULE D
FORM OF SALE PROCESS ORDER

THIS IS EXHIBIT "E" TO
THE AFFIDAVIT OF W. JUDSON MARTIN
SWORN MARCH 30, 2012

A Commissioner, etc.


LEE HONG KIN KILDARIA
Solicitor, Hong Kong SAR



Sino-Forest Provides Update Regarding Note Holder Default Notices and Comments on the Status of its Historic Financial Statements

TORONTO, CANADA – January 10, 2012 - Sino-Forest Corporation ("Sino-Forest" or the "Company") (TSX:TRE) today provided an update concerning the status of the Company's efforts to obtain waivers of its default from its note holders in respect of its Senior Notes due 2014 and its Senior Notes due 2017, and commented on the status of its historic financial statements.

As disclosed in the Company's December 18, 2011 press release, Sino-Forest received written notices of default dated December 16, 2011 in respect of its Senior Notes due 2014 and its Senior Notes due 2017. The notices reference the Company's previously disclosed failure to release its 2011 third quarter financial results (the "Q3 Results") on a timely basis. An "Event of Default" under the Senior Note Indentures will have occurred if Sino-Forest fails to cure or otherwise fails to address the breach of indenture giving rise to the notices of default within 30 days following receipt of the notices. The Company will not be able to file the Q3 Results and cure the default within the 30 day cure period.

The Company's breach of the Senior Note Indentures relating to the Q3 Results can be waived for a series of Senior Notes by the holders of at least a majority in principal amount of that series.

The Company has been in discussions with an ad hoc committee of note holders that hold a substantial portion of the Company's four series of senior and convertible notes. The Company and the ad hoc committee have negotiated the terms under which the defaults under the Senior Notes will be waived. While there is no assurance that waivers will be obtained, the Company is optimistic that holders of a majority in principal amount of its Senior Notes due 2014 and its Senior Notes due 2017 will agree to waive the breach within the 30 day cure period.

On November 15, 2011, Sino-Forest announced, among other things, that it was deferring the release of the Q3 Results until certain issues could be resolved to the satisfaction of the Board of Directors. The issues included (a) determining the nature and scope of the relationships between Sino-Forest and certain of its authorized intermediaries and suppliers and among certain authorized intermediaries and suppliers, as discussed in the Second Interim Report of the Independent Committee of the Board of Directors publicly released on November 15, 2011, and (b) the satisfactory explanation and resolution of issues raised by certain documents identified by the advisors to the Independent Committee, by counsel to the Company, by the Company's auditor Ernst & Young and by staff of the Ontario Securities Commission.

The Company has worked diligently since November 15, 2011 and believes it has made progress in resolving outstanding issues. As disclosed in the Company's December 12, 2011 press release, there is no assurance that the Company will be able to release the Q3 Results or, if able, as to when such release will occur. For the same reasons, there is also no assurance that the Company will be able to release audited financial statements for its 2011 fiscal year.

As was indicated in the Company's December 12, 2011 press release, the circumstances that could cause the Company to be unable to release the Q3 Results could impact the Company's historic financial statements. For this reason, the Company cautions that the Company's historic financial statements and related audit reports should not be relied upon. The Company continues its efforts to resolve the outstanding issues described above. The Company believes that if it is successful in releasing its Q3 Results and in obtaining an audit opinion for its 2011 fiscal year, those efforts will resolve any issues associated with the reliability of the Company's historic financial statements.

About Sino-Forest Corporation

Sino-Forest Corporation is a leading commercial forest plantation operator in China. Its principal businesses include the ownership and management of tree plantations, the sale of standing timber and wood logs, and the complementary manufacturing of downstream engineered-wood products. Sino-Forest also holds a majority interest in Greenheart Group Limited (HKSE:00094), a Hong-Kong listed investment holding company with assets in Suriname (South America) and New Zealand and involved in sustainable harvesting, processing and sales of its logs and lumber to China and other markets around the world. Sino-Forest's common shares have been listed on the Toronto Stock Exchange under the symbol TRE since 1995. Learn more at www.sinoforest.com.

Cautionary notes: No stock exchange or regulatory authority has approved or disapproved of information contained herein. Certain information included in this news release is forward-looking and is subject to important risks and uncertainties. When used in this news release, the words "believe", "intend", "estimate", "expect", "plan", "consider", "may", and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. These forward-looking statements are based on current expectations. The results or events predicted in these statements may differ materially from actual results or events and are no guarantees of future performance of Sino-Forest. Factors which could cause results or events to differ from current expectations include, among other things: our ability to cure our default under our notes, actions taken by note holders, other lenders, other creditors, shareholders, regulators, governmental agencies and other stakeholders to enforce their rights, the outcome of examinations currently underway by the Independent Committee, securities regulatory authorities and the Company's auditors, the outcome of class action proceedings initiated against the Company as a result of allegations made in the 'report' issued by Muddy Waters LLC, our reliance on key employees, 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 the relationship with local plantation land owners and/or plantation land use rights holders, authorized intermediaries, key customers, suppliers and third party service providers, our ability to operate our production facilities on a profitable basis, changes in currency exchange rates and interest rates, the evaluation of our provision for income and related taxes, economic, political and social conditions and government policy in China, the Republic

of Suriname and New Zealand, and stock market volatility, and other factors not currently viewed as material that could cause actual results to differ materially from those described in the forwarding-looking statements. For additional information with respect to certain of these and other factors, see the reports filed by Sino-Forest Corporation with applicable Canadian securities administrators. Sino-Forest Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

FOR FURTHER INFORMATION PLEASE CONTACT: BRUNSWICK GROUP LIMITED

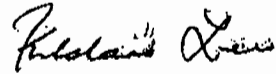
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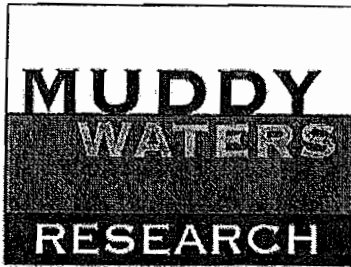
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Company:

Sino-Forest Corporation
 (TRE.TO, OTC: SNOFF)

Industry:

Forestry

Recommendation:

Strong Sell

Estimated Value:

< \$1.00

Report Date:

June 2, 2011

Price:

\$18.21

Market Cap:

4.2 billion

Float:

4 billion

Avg Volume:

1.4 million

- Like Madoff, TRE is one of the rare frauds that is committed by an established institution. In TRE's case, its early start as an RTO fraud, luck, and deft navigation enabled it to grow into an institution whose "quality management" consistently delivered on earnings growth.
- TRE, which was probably conceived as another short-lived Canadian-listed resources pump and dump, was aggressively committing fraud since its RTO in 1995.
- The foundation of TRE's fraud is its convoluted structure whereby it runs most of its revenues through "authorized intermediaries" ("AIs"). AIs supposedly process TRE's tax payments, which ensures that TRE leaves its auditors far less of a paper trail.
- On the other side of its books, TRE massively exaggerates its assets. We present smoking gun evidence that TRE overstated its Yunnan timber investments by approximately \$900 million.
- TRE relies on Jakko Poyry to produce reports that give it legitimacy. TRE provides fraudulent data to Poyry, which produces reports that do nothing to ensure that TRE is legitimate.
- TRE's capital raising is a multi-billion dollar ponzi scheme, and accompanied by substantial theft.

Introduction

As Bernard Madoff reminds us, when an established institution commits fraud, the fraud can become stratospheric in size. Sino-Forest Corp. ("TRE") is such an established institutional fraud, becoming massive due to its early start, luck, and deft navigation. At nearly seven billion dollars in enterprise value, it will now end.

TRE started humbly – as a fraudulent company going public on the Toronto Venture Exchange via reverse takeover ("RTO"). Sixteen years later, Muddy Waters would be exposing its US-listed imitators – companies such as RINO, DGW, ONP, and CCME. It seems impossible that a Chinese RTO coming public in 2010 could ever get to where TRE did. But for many years, TRE sat barely noticed on the Toronto exchange. It was committing fraud from the very beginning; but, there were not enough similar frauds to raise investors' awareness.

Then in 2003, it changed its business model – moving to a level beyond standard capex schemes that most China frauds run. Its new model, purchasing trees, gave it limitless room for growing its fraudulent balance sheet and vacuuming up money from the capital markets. At the same time, China was becoming a major investment theme. TRE became more sophisticated – engaging Jakko Poyry to write valuation reports, all the while giving Poyry manipulated data and restricting its scope of work. Thus more and more investors are drawn into TRE's fraud every year as it falsifies timber investments and manipulates Poyry further. At some point, TRE became an institution – a seasoned stock with "quality management" that consistently grew earnings over more than a decade.

Were Muddy Waters not to have come along, it is likely that this fraud could have continued for a few more years and billions of dollars more. Solving this fraud was not easy. In order to conduct our research, we utilized a team of 10 persons who dedicated most to all of their time over two months to analyzing TRE. The team included professionals who focus on China from the disciplines of accounting, law, finance, and manufacturing. Our team read over 10,000 pages of documents in Chinese pertaining to the company. We deployed professional investigators to five cities. We retained four law firms as outside counsel to assist with our analysis. We are confident that we have brought more expertise, time, and money to bear in analyzing TRE than has any investor or bank – by a substantial margin.

Executive Summary

Sino-Forest Corp (TSE: TRE) is the granddaddy of China RTO frauds. It has always been a fraud – reporting excellent results from one of its early joint ventures – even though, because of TRE's default on its investment obligations, the JV never went into operation. TRE just lied.

The foundation of TRE's fraud is a convoluted structure whereby it claims to run most of its revenues through "authorized intermediaries" ("AI"). AIs are supposedly timber trader customers who purportedly pay much of TRE's value added and income taxes. At the same time, these AIs allow TRE a gross margin of 55% on standing timber merely for TRE having speculated on trees. The sole purpose of this structure is to fabricate sales transactions while having an excuse for not having the VAT invoices that are the mainstay of China audit work. If TRE really were processing over one billion dollars in sales through AIs, TRE and the AIs would be in serious legal trouble. No legitimate public company would take such risks – particularly because this structure has zero upside.

TRE avoids disclosing the identities of all but one of its AIs “for competitive reasons.” The one AI we know it has disclosed (at a credit analyst event in April 2011) is actually a connected party – to both TRE and one of its agents. Despite TRE’s opacity on the revenue side, we have overwhelming evidence that the \$231.1 million in Yunnan province timber TRE claimed to sell is largely fabricated. Such amount exceeds TRE’s real timber holdings in Yunnan province. It exceeds the applicable harvesting quotas by six times. Transporting the harvested logs would have required over 50,000 trucks driving on two-lane roads winding through the mountains from this remote region, which is far beyond belief (and likely road capacity).

On the other side of the books, TRE massively exaggerates its assets. TRE significantly falsifies its investments in plantation fiber (trees). It purports to have purchased \$2.891 billion in standing timber under master agreements since 2006. We have smoking gun evidence from Yunnan province that it overstated its purchases there by over \$800 million. Of the five agents we have been able to identify (TRE does not provide Chinese names), Yunnan appears to have the only legitimate agent. The other agents have histories and connections to TRE that make it obvious they did not purchase billions of dollars in timber for TRE. Further, the other agents appear to be laundering money for TRE – moving large amounts of money to an undisclosed subsidiary of TRE and a trading company that TRE does business with. We also see clear evidence that TRE has falsified its books – Chinese government records make clear that TRE would have had a capital hole of \$377 million to \$922 million if it were making the investments it claims.

TRE then feeds the fraudulent data to Poyry, while allowing Poyry access to only 0.3% of its purported timber holdings. TRE touts the valuation reports as evidence of its credibility. One fresh example occurred at TRE’s annual general meeting on May 30, 2011. At the meeting, CFO David Horsley emphasized to the shareholders in attendance that Poyry teams spend “six personal weeks” in the field for the valuations. On a June 1, 2011 telephone call with analysts to discuss the Poyry report, Poyry clarified that four men spent six days in the field, which the Company calculates is approximately six man-weeks.¹ Fortunately, it appears that in 2011 Poyry is becoming somewhat cautious about TRE using its name to bilk investors out of billions of dollars, and it has accordingly restricted how TRE may use the report.

TRE’s claims to be “transparent” are interesting. Its offshore structure, which utilizes at least 20 British Virgin Island entities, is an unjustifiable black hole.

Auditors are far less effective in detecting fraud than most investors assume they are. The problem is that fraudsters are willing to forge documents. We show a suspicious letter from HSBC that was written on behalf of one of TRE’s main subsidiaries, Sino-Wood Partners. We submitted this document to HSBC’s department of fraud risk.

Another issue with auditors detecting fraud is that when the auditors are based in Canada, and the fraud is in China, the auditors are far less versed in the games fraudsters can play in China. As CCME and LFT show, even China offices of “Big Four” auditors have a number of issues detecting fraud. For most of its time as a public company, TRE’s auditors have been Ernst & Young out of Canada. In TRE’s case, the auditor problem morphs into another significant issue – that of TRE’s poor corporate governance. TRE’s board of directors appears to be the retirement plan for former Ernst & Young partners, and its audit committee members all fail PRC political,

¹ Muddy Waters is proud to say that by this methodology, we spent two man-years researching TRE and preparing this report.

industry, and cultural knowledge tests.² A favorite trick of Chinese RTO frauds is to gain credibility by putting Westerners without Chinese skills or background into management or onto the board. TRE probably pioneered the practice.

No fraud is complete without the payoff. Its constant capital raising is a multi-billion dollar ponzi scheme. We see some evidence of how TRE is stealing the hundreds of millions of dollars that have entered the PRC. Its financial tunnels include an undisclosed subsidiary that seems to act as a magnet for payments from many of TRE's disclosed PRC subsidiaries and the agents that purportedly purchase timber for TRE.

Valuation

Because TRE has \$2.1 billion in debt outstanding, which we believe exceeds the potential recovery, we value its equity at less than \$1.00 per share.

Sino Forest Equity and Debt Estimated Values

Sino-Forest has raised a total \$3.05 billion from the capital markets. The capital structure consists of \$1.892 Billion of bonds outstanding³, Senior Secured Bank Loans of \$207 million (\$154.0 million from the Dec 31, 2010 financials and a new CNY 350 mil term facility. This makes debt outstanding \$2.100 Billion.

In addition, it has raised \$989 million of equity in shares sales going back to May 2004. Due to the SAIC filings, we know that a maximum of \$1.2 Billion of cash has been injected onshore.

The Company also has a 63% stake in its listed subsidiary Greenheart Group, however, because we have concerns about this company, we do not factor it into our valuation.

The equity/credit analysis valuation analysis is very difficult as a result of the inability to rely on the audited financials and our belief that the company has far fewer assets than it reports. In order to value the equity and the credit, one has to assume one of two scenarios, both of which assume an injection amount of \$1.2 Billion into China:

² TRE Management Information Circular, May 11, 2011, pp. 32-33

³

Issuer	Cpn	Maturity	Amt Out(M)	Curr	Mty Type
Sino-Forest Corp	3.125	08/17/11	87,670	USD	BULLET
Sino-Forest Corp	5	08/01/13	345,000	USD	CONVERTIBLE
Sino-Forest Corp	10.25	07/28/14	399,517	USD	BULLET
Sino-Forest Corp	4.25	12/18/16	460,000	USD	CONVERTIBLE
Sino-Forest Corp	6.25	10/21/17	600,000	USD	CALLABLE

Scenario 1: Assets in China are accessible to creditors and shareholders

If the assets in China were accessible, the first thing that creditors would have to do would be sell the small forestry assets that the company has and attempt to recover any cash balances. Given the propensity for theft, we will be liberal and assume that the recovery from asset sales and cash seizures is 50% of the amount injected – roughly \$600 million. \$50 million would be used to pay back the onshore RMB denominated debt. The rest would then need to be repatriated via a capital reduction process with SAFE, the Chinese capital account regulator. At an absolute minimum, the cost of offshoring this money would be around 15%, giving us a total recovery bull case of \$467 million.

The offshore cash is not simply calculated by subtracted cash raised from cash moved into China. Management has been liberal with cash compensation. As well, they have spent \$54 million on their Greenheart stake, \$30 million in a consent payment for a bond exchange, and \$7 million paying off Ms. Chen on the Homix purchase. If the convoluted BVI structure has yet to be used for theft, then the offshore cash balance could be as high as \$1.5 Billion (Non-injected cash minus management compensation minus offshore acquisitions).

This gives us an asset base of \$1.967 Billion in the best case, which we believe to be unlikely. Versus the current outstanding offshore debt of \$1.893 Billion, the “real” best case net asset value is around \$92 million. Divided by the current number of shares outstanding – 245 million - that leaves a share value of approximately C\$0.38 at current exchange rates.

Scenario 2: Onshore Recovery of Zero.

Due to the time involved to actually change the legal representatives and liquidate collateral onshore, all the while chasing the cash balances and coordinating with authorities, historical precedent should show that there is little that can be done with onshore assets.

Using the above bull case of offshore assets, we estimate recovery for bondholders would be approximately 80 cents on the dollar, with a value of zero for the stock. Assuming that distressed investors target a 15% IRR (again, this would be extremely generous for a distressed Chinese credit), the absolute maximum an investor should be willing to pay for the credit is around 69 cents on the dollar. The recovery could be higher if less money was put into China.

Our belief is that the true recovery would be far lower, but without the aid of law enforcement, we will never really know how much money is there or where it went.

I. TRE Was Always a Fraud.⁴

TRE was engaged in aggressive fraud from the time it went public. Between 1994 and 1996, it generated between 65% to 77% of its reported revenues from an equity joint venture⁵ with the Leizhou Forestry Bureau. All of these numbers were fabricated. In reality, TRE breached its commitment to contribute equity capital to the EJV. TRE’s conduct so incensed the Leizhou

⁴ Appendix A5 – Chinese and English translations available.

⁵ China has two classifications of Sino-Foreign joint ventures: equity joint ventures (“EJV”) and cooperating joint ventures (“CJV”). The main difference is that in an EJV, profits and assets (upon winding up) are distributed in proportion to the parties’ equity holdings. In a CJV, the parties may contract to divide the economics disproportionately to their equity interests.

Forestry Bureau that it filed with the Zhanjiang City Foreign and Economic Relations and Trade Commission (“COFTEC”) a letter containing numerous grievances. We show this letter and a translation in Appendix A5. This letter and the rest of the EJV’s SAIC file make clear that the EJV never achieved the any operation remotely close to that envisioned by the partners or described by TRE in its annual reports. Moreover, the Forestry Bureau accuses TRE of misappropriating cash through improper transactions.

In its 1997 annual report, TRE claims that its Heyuan and Guangxi CJV partners took over the (fictitious) wood chip business from the Leizhou EJV – even growing it by 193% that year. Considering the base year (1996) revenue was zero, we believe investors should assume that 1997 results from the CJVs were shy of \$16.1 million TRE reported.⁶

TRE’s penultimate fraudulent act in Leizhou was to claim that the Leizhou Forestry Bureau reimbursed TRE \$12.43 million between 1999 and 2003 through a series of payments consisting of logs. This claim that the Forestry Bureau owed TRE in excess of \$10 million dollars was a gross exaggeration of the facts and contradicts the EJV’s SAIC file, improperly adding \$12.43 to TRE’s shareholders’ equity. This type of phantom transaction would become the blueprint for TRE’s massive fraud.

There was another critical outgrowth from the Leizhou EJV. Upon termination, TRE converted the company to a wholly foreign-owned enterprise (“WFOE”). The WFOE’s business scope⁷ included “producing and selling wood products.” TRE wound this company down in December 2003. This is the same year it began telling investors that it used AIs to handle its sales because it was not licensed to sell woodchips and wood based products domestically.⁸ In other words, TRE wound down a business that was licensed to sell wood chips; yet, at the same time was stating that it was forced to use AIs because none of its companies were licensed to sell woodchips in the domestic market. At that time, the Leizhou WFOE could have utilized this business to take over and carry out the proprietary sales of the wood chip and processed wood business. Essentially because TRE learned that it could successfully lie about operating a factory with a party known to shareholders, it went two steps further – lying about operating a trading business with a party unknown to shareholders.

Leizhou EJV – The Ghost of Ventures Past

The Leizhou EJV, the Zhanjiang Leizhou Eucalyptus Resources Development Co. Ltd., came into being on January 29th, 1994. TRE subscribed to 53% of the equity, which was to total \$10 million, and the total investment was established at \$25 million. TRE’s obligation was straightforward; it would contribute 53% of the investment in cash (\$5.3 million) in phases. It was to inject 15% of the registered capital within three months of incorporation, and its portion of the balance of the registered capital within two years. It paid in one million dollars, which left a balance of \$4.3 million. The Forestry Bureau was to contribute forest assets of 3,533 ha (note that this greatly contradicts TRE’s Canadian filings, which state 20,000 ha), and other assets.⁹ The articles of association show that the newly formed entity was created for the specific purposes of:

⁶ Annual Reports 1997 p. 21, 1998 p. 25

⁷ Leizhou WFOE business certificate April 12, 2000 See Appendix A10

⁸ 2003 Annual Information, p. 22

⁹ Leizhou EJV, Articles of Association, 1993 See Appendix A2

“Managing forests, wood processing, the production of wood products and wood chemical products, and establishing a production facility with an annual production capacity of 50,000 m³ of Micro Density Fiber Board (MDF), managing a base of 120,000 mu (8,000 ha) of which the forest annual utilization would be 8,000 m³.”¹⁰

The application included a detailed feasibility study for the MDF board production factory including financial analysis, market studies, and production plans totaling over sixty pages. Leizhou Forestry Bureau’s expectation was that the factory would generate profit, provide value-added manufacturing jobs, and introduce new technology and management knowhow. The articles also reveal a plan for the Leizhou Forest Bureau to make additional land available for harvesting and replanting that would total 8,000 ha (including the original 3,533 ha). This concept formed the basis of TRE’s “phasing-in” program and was also utilized to inflate TRE’s forest rights claims. However, the EJV never achieved “normal operations”, and neither the plans for the manufacturing facility, nor any additional land utilization or forest acquisitions were executed. The signature of TRE’s president, K.K. Poon on the amended articles evidences this fact.¹¹

The EJV’s 1995 PRC Capital Verification Report (contained in the SAIC file) showed that the JV lost \$1.1 million (RMB 8,709,107).¹² The audit report also shows inventory of only \$1,100 (RMB 9,000), which is hardly the level required to support an operation making weekly shipments of woodchips of approximately \$400,000, as claimed by TRE.¹³ By mid-1995, TRE had still not injected the balance of investment. The Forestry Bureau solicited the local COFTEC¹⁴ to send a formal notification reminding TRE of its obligation. By the time the contribution deadline arrived in January 1996, the TRE management team was incommunicado.¹⁵ After the Jan 29, 1996 deadline lapsed, Allen Chan and Chan Shixing failed to respond to formal letters. They also skipped a Board meeting called to resolve the issues.¹⁶

¹⁰ Id.

¹¹ Leizhou WFOE Amended Articles of Association, Appendix A3.

¹² 1995 Annual Audit Report

¹³ In 1995, p. 13 of TRE’s annual report claimed that TRE shipped out 204.2 BDMT of wood chips at an average price of \$103/BDMT. This equals \$21,032,600 USD, or approximately \$420,652 per week based on a fifty week year.

¹⁴ Zhanjiang City Foreign and Economic Relations and Trade Commission.

¹⁵ Leizhou Forestry Bureau, Letter Requesting Termination of the EJV See Appendix A5.

¹⁶ Leizhou Forestry Bureau, Letter Requesting Termination of the EJV See Appendix A5.

However, in Canadian filings, the Leizhou EJV was white hot. TRE disclosed the following information regarding the EJV.

Calculated Leizhou EJV Annual Sales According to Avg. Price and Qty in BDMT Reported by TRE			
Year	BDMT (Thousands)	Average price (USD/m ³)	Amount (Thousands USD)
1994	156.3	85	\$ 13,286
1995	204.2	103	\$ 21,033
1996	212.5	102	\$ 21,675
1997	45	98	\$ 4,410
Total	618		\$ 60,403

Source: 1994 ~ 1997 Annual Reports

TRE took a bit of a victory lap in its 1996 Annual Report, when it congratulated itself on the Leizhou EJV completing three years of profitable operations.¹⁷ Moreover, the Company even claimed that the Leizhou EJV carried out \$412,000 of research and development that year.¹⁸ According to TRE, it was floating its partner (rather than the other way around) for \$15.0 million:

“The \$14,992,000 due from the LFB [Leizhou Forestry Bureau] represents cash collected from the sale of wood chips on behalf of the Leizhou EJV. As originally agreed to by Sino-Wood, the cash was being retained by the LFB to fund the ongoing plantation costs of the Leizhou EJV incurred by the LFB.”¹⁹

In 1998, the Leizhou Forestry Bureau finally lost its patience and submitted a letter to COFTEC containing numerous grievances, and requesting that the EJV be terminated.²⁰ In addition to grievances related to the failure to inject capital and develop the MDF board factory as planned, the Forestry Bureau accused TRE of improperly removing money and making payments to a third party with which the EJV had not done business:

“After paying one million dollars, the foreign party not only failed to fully fund the company, but also approved in its own name the gradual withdrawal of funds in the amount of RMB 4,141,045.02 RMB [approximately \$500,000], from the paid in capital provided by the company for the Joint Venture, among which \$270,000 USD was paid out to the Huadu Baixing Wood Products Factory (花都市百兴木制品厂), which has had no business relationship with the joint venture at all. This amount of money equals 47.6% of the money [TRE’s] paid in capital. Although our side has almost entirely paid in the capital to which we subscribed (all but 0.9% of the subscription total), because of the limited contribution from the foreign party, and its withdrawal of a huge amount of money from among those funds it contributed, it is impossible to put into practice the project that the joint venture aimed to construct or set up and the intended production and business operation activities. This is because the funding has been insufficient and the

¹⁷ 1996 Annual Report, p.22

¹⁸ 1996 Annual Information, p. 8

¹⁹ 1996 Annual Report, p. 20

²⁰ Leizhou Forestry Bureau, Letter Requesting Termination of the EJV, Appendix A5.

foreign party did not contribute the majority of the equity to which it subscribed. The joint venture therefore is merely a shell, existing in name only.”²¹

In addition to phenomenally inflating the sales of woodchips from the EJV, TRE planted the seeds for a new mechanism that would propel its near infinite NAV growth, and enable it to create billion dollar forest accounts out of thin air. In the 1996 Annual Information Form, and that of previous years, TRE claims that the Leizhou JV had already “phased in” 20,000 ha of plantation lands from the Forestry Bureau.²²

However, the Articles of Association clearly stipulate that if the project requires capitalization beyond \$25 million USD total investment, then the foreign partner would contribute additional cash, and the Chinese partner would make additional in-kind contributions in the form of land use rights and forest assets.²³ Since the project was never fully capitalized, there was no need for the Chinese partner to make additional in-kind contributions, and therefore no new forest assets would have been added to the venture. Additionally, the 8,000 ha, were discussed in the Articles only in the section pertaining to the long range planning for the company. Those sections of the Articles defining the parties’ respective capital contributions specifically state 3,533 ha (53,000 mu) as the Leizhou Forest Bureau’s contribution.²⁴ In short, no additional contribution under a “phase-in” plan took place.

In addition to deducing that a scorned government EJV partner would not unilaterally contribute additional forest assets to support a manufacturing facility that had never been constructed, there is documentary proof that since inception, no significant increases in assets occurred. The EJV’s PRC audit reports from 1995 and 1997 show no change in the intangible assets, under which heading forest assets are classified.²⁵ Had an additional 16,500 Ha been phased into the EJV, intangible assets would have increased by approximately RMB 86 million.²⁶

In 1998, the two parties agreed to wind up the EJV. In the separation agreement, the parties agreed that the Forestry Bureau would receive all of the assets the Forestry Bureau originally contributed, and TRE would keep the entity and look for a new partner.²⁷

Interestingly, in its 1997 annual report TRE described the agreement to terminate the EJV as entitling it to \$12.4 million worth of assets from the LFB. TRE stated that it would in lieu receive payment over three years in the form of 730,440 m3 of standing timber the Forestry Bureau owned.²⁸

Four years later, the 2003 Annual Report includes a claim that the Company completed its recovery of open receivables from the Leizhou Forest Bureau with a final collection in the amount of \$10.2 million in the form of standing timber.²⁹ It is hard enough to collect on a debt

²¹ Id.

²² 1996 Annual Information, p. 5

²³ Leizhou EJV, Articles of Incorporation, 1993, p. 3 Appendix A2.

²⁴ Leizhou EJV, Articles of Incorporation, 1993, p. 2 Appendix A2.

²⁵ The 1997 audit report breaks out the forest rights as being valued at RMB 18,454,766. Appendix A9.

²⁶ The 1997 audit report itemizes the forest assets at a value of RMB 18,454,766, which equates to a total of 5,223 Rmb/Ha. A net increase of 16,467 Ha therefore should result in a net increase of 86,016,029 rmb. Appendix A9.

²⁷ Board Resolution, Leizhou Resources Development Company, June 3, 1998 See Appendix A6.

²⁸ 1997 Annual Report

²⁹ 2003 Annual Report, p. 34, 40

when the debtor really owes you money. It is substantially harder when you are really the debtor, and the counterparty is a government agency.

Leizhou WFOE A/R Collections from Leizhou FB	
Year	Amount ('000 USD)
1999	\$ 1,125.00
2000	\$ 1,063.00
2001	\$ -
2002	\$ -
2003	\$ 10,242.00

Source: TRE Annual Reports

After the exit of the Leizhou Forest Bureau, the Company did not locate a new joint venture partner. In May of 1999, TRE converted the EJV into a Wholly Foreign-Owned Enterprise ("WFOE"). In April of 2000, the WFOE's new scope of business, which included producing and selling wood products, was formally approved.³⁰

However, after receiving approval to reduce the size WFOE's remaining required capital contribution to only \$1.4 million,³¹ TRE still failed to do so for another three years.³² In October of 2003, TRE finally wound down the Leizhou WFOE (without having contributed the additional capital). The application for deregistration was made on Oct 28, 2003 and approved by the Guangdong Zhanjiang COFTEC on November 4, 2003.³³ The key point to note is that in the 2003 Annual Report, TRE began disclosing that it needed to conduct business through authorized intermediaries due to lack of proper licensing, while failing to disclose that in the fourth quarter of the year, it was winding down an existing WFOE that had the business scope to do the business.³⁴

How to Succeed in Business Without Really Trying (by Finding AIs)

TRE's initial AI model was that it purported to buy logs, turn them into woodchips, and then sell them to customers. TRE disclosed in 2003 that it had been engaging in this model via its Heyuan and Guangxi CJVs. (TRE makes shameless use of the corporate memory hole.)

This model appears to be a tortured attempt to create an accounting event for TRE even though it risked no capital and moved no physical goods. (TRE would later make this look less tortured by creating a third party to the transactions, the agent, which probably made its auditors feel better.)

³⁰ Board Resolution, Dec 1, 1999; Wholly Foreign Owner Enterprise Change of Registration Approval, April 12, 2000. Appendix A10.

³¹ Leizhou WFOE Application for Deregistration, Oct 28, 2003 Appendix A8; Zhanjiang COFTEC Approval for Reduction in Registered Capital, Dec 28, 1999. See Appendix A7

³² 2000 Annual Information, p. 26

³³ Application for Deregistration of a Foreign Invested Enterprise, Guangdong State Administration for Industry and Commerce, Oct. 28, 2003 See Appendix A8.

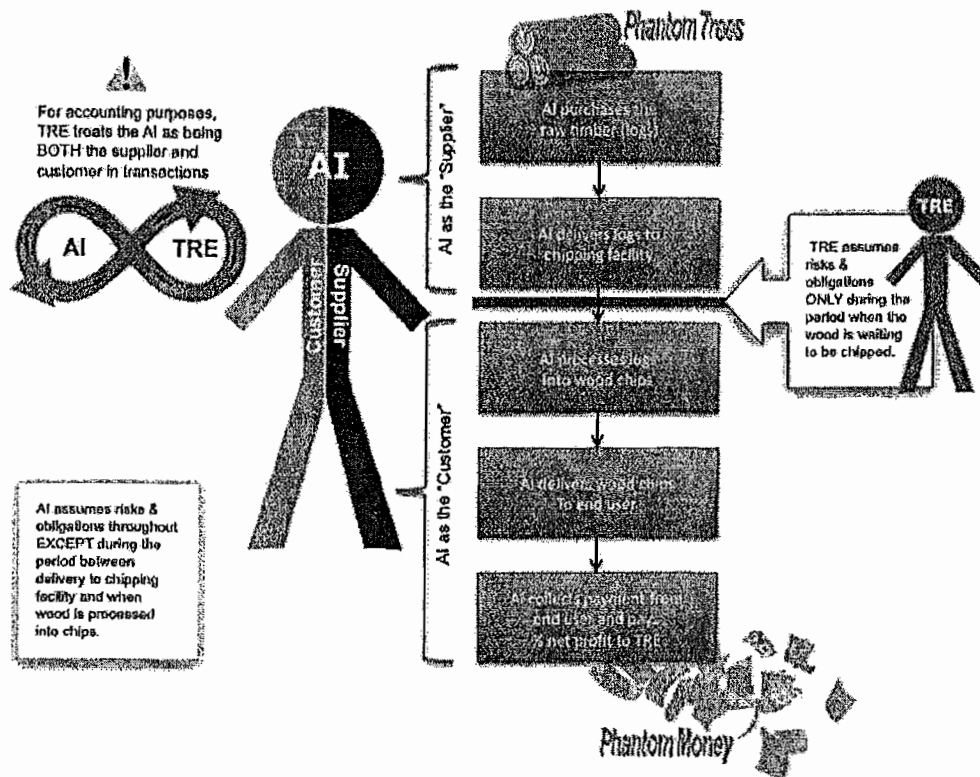
³⁴ 2003 Annual Information, p. 22

According to the description in its 2006 annual information of how these transactions worked, TRE (through the magic of AIs) booked revenue and profit, but

- did not commit capital to purchase the logs,
- did not enter into contracts to purchase the logs from suppliers,
- did not take title to the logs,
- did not at any time store (let alone view) the logs,
- did not commit capital to process the logs into wood chips,
- did not contract to process the logs into wood chips,
- did not market the wood chips,
- did not enter into contracts to sell the wood chips, and
- did not receive cash from the parties purchasing the wood chips.

Instead it “agreed to reimburse the costs of the AI, including the cost of the purchase of raw timber, and to pay both a processing fee and management fee...” However, “...all of [the aforementioned fees] are deducted from the sales proceeds of the wood chips.” In other words, TRE would not pay any money because the AI would be “reimbursed” when it sold the chips.

In order to make these transactions into accounting quasi-reality, TRE assumed “all risks and obligations relating to the raw timber once it arrives at the premises of the AI until it is processed into wood chips, except for any loss arising as a result of the AI’s default.” As the same filing specifies, the AI assumed the risks and obligations of the timber at all other times – from the time it is purchased until title passed to the customer. The below diagram illustrates the purported transactions:



Essentially, TRE's assumed risk was that a meteor would destroy the wood while at the AI's facility (assuming that the contracts lacked force majeure clauses). For this invaluable service, the AI paid TRE a fee on a "net basis after withholding of applicable taxes by the AI." In other words, there was no tax documentation that can be used to confirm whether TRE actually received any money in this way.

Believing that TRE actually generated substantial revenue this way strikes us as akin to believing in the power of diving rods to find precious metals. However, TRE was able to apply the same principles to a model that allowed it to raise billions of dollars more. The model is dealing in standing timber.

II. "AI" Really Means "Artificial Intermediary"

The structure of using anonymous parties that purportedly purchase from TRE without requiring TRE to generate VAT invoices allows TRE to invent sales figures without fear of being exposed by tax bureau records. Given that TRE has mostly been audited by accountants based in Canada, using this structure to commit fraud takes more audacity than skill. If TRE really is using an AI structure, shareholders should demand management be replaced immediately because TRE is running substantial and unnecessary legal risks. We are convinced that this model does not really exist though, so no board meeting to discuss the illegalities of the AI structure is yet necessary. As far as we are aware, TRE has disclosed the identity of only one AI, which happened at a recent credit analyst event in China. However, this purported AI's general manager, Lei Guangyu, is part of a web of shadow players spanning the AI, an agent, TRE, and Greenheart. He and the AI are closely related to TRE.

TRE May be a Great Supplier, but How Much Prison Time Would the AIs be Willing to do for TRE?

In a legitimate public company, management would be summarily dismissed for using TRE's AI structure, if it had not already been arrested. This model would violate fiduciary duties, and because it is so blatantly illegal in the PRC, would probably be beyond the scope of D&O coverage. Furthermore, it would be difficult for TRE to find a counterparty willing to work with it in this model in size. The size of the transactions is so large that the AI management would possibly be committing offenses that could land them lifetime prison sentences.

On the other hand, the cure for the problems is simple. TRE, which already has over 60 wholly-owned companies in the PRC, could buy and sell timber through new or existing WFOEs (wholly foreign-owned enterprises). It could pay its own VAT and enterprise income tax ("EIT"). This is what practically every other foreign investor with at least \$100,000 in its pocket does.

It is illegal for foreign companies to engage in domestic (i.e., non-import / export) business in the PRC without having incorporated a local subsidiary to carry out the business. The PRC deems profits generated by foreign companies doing domestic business without a domestic subsidiary to be illegal. The prior two years of illegal profits are subject to confiscation. Therefore, if TRE were really using this structure for its BVI subsidiaries, they would be risking confiscation of the prior two years of their profits.

As foreign enterprises conducting domestic business in China, TRE's BVI entities would still be subject to the PRC corporate income tax. TRE's failure to pay corporate income tax for its profits generated in China would subject TRE to penalties more severe than those disclosed. The penalties (on top of the unpaid tax) would be 50% to 500% of the unpaid tax. There is no statute of limitations that would prevent the tax bureau from recovering all of TRE's unpaid taxes with per day surcharges and penalties.

Because of TRE's disclosed contingent tax liability of \$156.9 million, it is clear that TRE's entities conducting a sizable portion of its business (whether foreign or domestic) are not paying taxes themselves under their own tax registration. Nor are the AI acting in a legal manner merely as tax payment agents that pay tax to the tax bureau in TRE's name. While such a situation would be critical for any company with sizable China operations, because TRE is free cash flow negative, such penalty would endanger TRE's solvency. Regardless, this is not what TRE is really doing. It is lying about selling such large volumes of timber to the AIs.

TRE would have numerous problems with the AIs trying to pay TRE's value added tax ("VAT"). Entering names other than the seller of the good on a VAT invoice is a tax crime. The penalty for VAT invoice-related crimes on large VAT amounts can be a lifetime prison sentence for managers of companies engaged in this behavior. We assume that many of these VAT payments would be in excess of the threshold to trigger such penalty; therefore, the managements of the AI would be risking the sentences in these transactions. It is difficult to understand how TRE generates a 55% gross margin from the AI on standing timber sales all the while risking their lives. TRE does not appear to add that much value.

TRE and the AIs' chances of getting away with the scheme would be low. The PRC banking system has controls in place for anti-money laundering purposes. The tax bureau is part of this platform. We consulted an attorney who is an expert in tax, foreign exchange, and banking matters. The attorney advised us that it is highly unlikely that TRE could have such large

amounts of RMB sloshing around the banking system without corresponding VAT documentation. Note also as discussed *infra* in The Capital Hole, TRE's BVI companies would be unable to open up RMB bank accounts.

Because the AIs are not importing this timber, they would not have customs invoices, and would not be able to convert RMB into foreign currency and pay TRE offshore. While it is possible that the AIs could pay TRE offshore from the AIs' existing offshore accounts, with over one billion dollars in payments being made annually, the AIs would likely be left with unmanageable foreign currency / RMB imbalances. Therefore, the banking system and foreign exchange controls would likely have long ago ended TRE's AI business – in an unpleasant way.

Everybody's All-Intermediary: Lei Guangyu

To our knowledge, TRE has only unveiled one AI to investors. In April 2011, TRE introduced credit analysts to Lei Guangyu, who is the president of Shenzhen Hongji Enterprises (Holdings) Ltd. ("Hongji"). Both Lei and Hongji are related to TRE. At the time that TRE sold its 12.73% stake in Greenheart Resources Holdings Ltd. to Ominicorp, Lei Guangyu was the signatory for two BVI entities, Fortune Universe Ltd. and Spirit Land Ltd., which held a combined 7.41% of Greenheart. The 2007 audit report from one of TRE's subsidiaries, Heyuan Jiahe Forestry Development Co. Ltd. ("Jiahe"), lists an account payable to Hongji for approximately \$400,000 (RMB 2.7 million) as a related party transaction. According to the audit report, Hongji's relationship to Jiahe is that they are both subsidiaries of the same parent. See Appendix BB1.

Hongji is engaged in irregular transactions with TRE. One of TRE's key PRC subsidiaries, Sino-Forest (China) Investments Co. Ltd. had an account payable of \$4.2 million (RMB 35 million) to Hongji at the end of 2005. This is a large amount of money in the context of TRE's onshore transactions that we have been able to see. Further, it shows a flow of funds opposite of what should occur (i.e., AI to TRE).

We sent a field agent to Hongji's headquarters in Shenzhen. It has a subsidiary called Gaoyao Hongji Panel Co. Ltd.. The legal representative of this company Wang You Wang is the signatory on a lease contract for the factory belonging to Guangdong Jiayao Wood Development Co., Ltd., one of TRE's key subsidiaries. Gaoyao Hongji also appears to be the "arms length" purchaser of \$30 million in machinery from TRE's Guangdong Jiayao on March 31, 2009. However, the owner of the company that leased the factory from TRE is a TRE and agent executive, Lam Hon Chiu. (We discuss more about Mr. Lam in TRE's Dodgy Timber Agents.) We are not sure what to make of this transaction, but it does not appear to be arms length to us.

As an aside, it appears that Hongji does not buy domestic timber from TRE. According to the person with whom we met at headquarters, Hongji primarily deals in timber imported from Russia and South America.

Below is Lei Guangyu's business card.



III. Gengma, Yunnan: Illegal Logging or Fraud? Timber Sales are Beyond PRC Quota

According to TRE's 2010 Management's Discussion and Analysis, the Company sold \$507.9 million of Standing Timber, of which 45.5% (\$231.1 million) of the sales were derived from broadleaf trees in Yunnan at an average price of 102 RMB/m³. This equates to 2,265,000 m³ of broad leaf timber in the form of "large logs".³⁵ In TRE's 2010 Annual Information Form, its claimed yield for broad leaf is between 105 to 210 cubic meters per hectare, which means that approximately between 10,800 ha (hectares) and 21,600 ha would be required for this sale. However, the 2009 Poyry report noted a regulation prohibiting clear cutting of these forests and revised the yield downwards by 50%.³⁶

Poyry has this year become aware that, under current regulations, this crop type cannot be clear-felled, but must be selectively logged, with only up to 50% of the volume allowed to be removed. Poyry has consequently adjusted the yield table for the broadleaf crop type, from 181 m³/ha to 90 m³/ha to reflect this constraint.³⁷

At a maximum of 90 cubic meters per hectare, at least 25,000 ha would be required for this sale. That is the equivalent of approximately 96 square miles, or one and one half the total area of

³⁵ In the June 2, 2011 Poyry/Sino-Forest joint conference call, the Poyry consultant further specified that the high price for the Yunnan broad leaf of \$102/m³ was for "large logs"

³⁶ Sino-Forest Corporation, Valuation of China Forest Crop Assets As at 31 December 2009, Final Report, pp. 15 and A5-3. <http://www.sinoforest.com/filings.asp>

³⁷ Sino-Forest Corporation, Valuation of China Forest Crop Assets As at 31 December 2009, Final Report, pp. 15 and A5-3. <http://www.sinoforest.com/filings.asp>

Washington D.C. The volume required under either yield calculation is enormous and in excess of both TRE's contracted holdings as well as the Lincang region's local quota.

First, as described in detail in section IV of this report, TRE's contracted holdings in Yunnan are in Lincang City and amount to only 20,000 ha (300,000 mu, 15 mu = 1 ha), not the 200,000 ha claimed by the Company.³⁸ The 25,000 ha equates to 375,000 mu of forest land.³⁹ This 375,000 mu needed for the transaction is 75,000 mu in excess of its total contracted holdings and also ignores any previous depletions made in the years 2009 or 2008.

Second, the forest area required for harvest exceeds the total area available in the Lincang region under the annual quota of both 2010 and 2011 combined. In China, forest harvests have been strictly controlled through a quota system since 2001, with quotas established in the Five-Year Plans. The Provincial Forestry Bureaus proposes the quotas to the National Forestry Bureau and the State Council, which have approval responsibility. The Provincial Forestry Bureau then allocates quotas to the local forestry bureaus. Using the maximum yield estimated by Poyry of 90m³/ha, the minimum harvest area of 25,000 ha required to complete this sale by far exceeds the permitted logging quota for the Lincang City (which includes Gengma county) where the Company's operations and land holdings are located.⁴⁰ Our local field work in Lincang and Gengma, our calls to the Lincang and Gengma Forestry Bureaus, and open source research all confirm that this alleged sale of 2,265,000 m³ of Yunnan broadleaf exceed the full available quota for natural forest (the classification for hardwood broadleaf) of not just the year 2010, or the two years of 2010 and 2011 combined, but all of 2010, 2011, 2012, 2012, 2014, and all of 2015! Our field agents contact the Lincang Forestry Bureau for re-confirmation of this fact, and the section chief there confirmed that the full years quota for each of 2009, 2010, and 2011 was 376,000 m³.⁴¹

Yunnan Lincang City Region Annual Quota for Natural Forest ('10 & '11)	376,000 m ³
Years of Quota Req'd to Meet 2010 Harvest From 2,265,664 (m ³)	6.02 years

How Much Forest Did Sino-Forest Forest if Sino-Forest Could Forest Forest?

Even if TRE's was able to simultaneous arrange unite a network of provincial traders in five surrounding regions, including from major competitors with both forests and local mills and plants, such as Yunnan Jinggu, Taixing Forestry, and Shanshui Forestry, around the common goal of filling TRE's order, there remain enormous bureaucratic and logistical obstacles, all of which could only be achieved through an miracle of political, labor, and logistics worthy of the last Great Chairman, Chairman Mao.

Assuming for a second, that all of the requisite plantation rights, logging permits, and transportation permits were properly secured, the actual task of logging still would need to be completed. The 2009 Poyry report explained that the typical harvesting practice in China as labor-intensive. This is especially so because of the required selective logging required for Yunnan broad leaf. Poyry states that, "Trees are typically felled by axe or handsaw, cut to length

³⁸ See Lincang City, Reply Regarding the Request for Approval D3 (English)

³⁹ Chinese land is typically measured in Mu (亩). 1 hectare (ha) = 15 mu.

⁴⁰ Muddy Waters field research, and Lincang City Forestry Dept., Lincang Quota, See Appendix C1

⁴¹ Muddy Waters field research, and Lincang City Forestry Dept., Lincang Quota, See Appendix C1

in the forest and then carried to the roadside by hand.”⁴² Additionally, Poyry found that logging broadleaf in Yunnan would be more expensive than any other region in China because of the mountainous terrain and the distances required for carriage of logs to a truckable road.⁴³ In the few of the Company’s plots that Poyry visited in Yunnan in 2009, its forest description notes frequently indicate that the plots which had the best trees with “good form” or “higher stocking and standing volume” were either in places that were “remote”, “several km from the nearest navigable road,” or with “slopes [that are] steep up to 35 degrees” making the harvest all the more arduous.⁴⁴

To understand the sheer magnitude of the task involved, it is important to understand that Yunnan is a remote, rugged, mountain province that rises from the mountainous border areas of Burma and Laos all the way into the Tibetan Himalayas. Lincang itself is 92% mountainous, with two peaks over 3,000 meters (9,000 ft.), Lincang Snow Mountain and Yongde Snow Mountain, and its southern border drops down to the banks of the Lancang river (headwaters of the Mekong) in a progressive sequence of mountains and valleys.⁴⁵ In this rugged geography even the less mountainous, or “hilly” areas, would make for a difficult harvest. The prospect of harvesting any sizeable quantity of logs by hand would be daunting, magnifying the inefficiency exponentially. This brings us to another major hard constraint in this supply chain: logistics.

If by some miraculous feat of human labor, the Company’s army of farmers was able to selectively harvest the 2.2 million cubic meters of logs, there is the issue of actually transporting all of the wood. The roads through the mountains are dangerous, with switchbacks, steep precipices, and even no guard rails in the more remote mountain sections; roads leading into the agricultural areas are of a lower quality and often unpaved.⁴⁶ During the rainy season, which lasts from May to October, travel by road is further complicated by mud and occasional landslides. According to a local wood trader in Gengma city, Yunnan, the typical load for a small truck is about 20m³ and a large truck is 30 m³. Even if TRE was able to load up all of its trucks with 25 m³ and 35 m³ of logs per load, somewhere between 65,000 to 90,000 truckloads would have been required to make the journey to nearest rail station 200 km (120 miles) away, assuming no losses of trucks or logs while navigating the precipices and hairpin turns.⁴⁷

In short, unless this sale of 2.2 million cubic meters of broad leaf timber from Yunnan was fulfilled illegally (in excess of quota and without all of the requisite permits) and accomplished with an army of Chinese farmers and shipped out via a secret under-ground train tunnel running below the mountains, it either never happened or was grossly over-inflated.

IV. TRE’s \$800 Million Yunnan Scam Shows Timber Holdings are Forged

TRE claims to have purchased, under various master purchase agreements since 2006, timber costing \$2.891 billion. Smoking gun evidence shows that TRE overstated purchases from the

⁴² 2009 Poyry report, p. 21 <http://www.sinoforest.com/filings.asp>

⁴³ 2009 Poyry report, p. 22 <http://www.sinoforest.com/filings.asp>

⁴⁴ 2009, Poyry report, pp. A3-3 to A3-7. <http://www.sinoforest.com/filings.asp>

⁴⁵ Muddy Waters Research field work in Lincang and Gengma. For more information on Lincang city and the surrounding regions see: <http://www.yunnanadventure.com/YunnanGuide/Lincang-Travel-Guide.html>, <http://www.seeyunnan.net/view.asp?id=224>

⁴⁶ Blog: http://uselesstree.typepad.com/useless_tree/2011/04/dazhai-yunnan.html

⁴⁷ Muddy Waters Research Reports by FM and team.

Yunnan agent, Gengma Dai and Wa Tribes Autonomous Region Forestry Co. Ltd.⁴⁸ (also known as Gengma Forestry Co. Ltd. – see Appendix D1), which appears to be a legitimate agent, by approximately \$800 million.

The value of purchases made under Yunnan master agreement is overstated by approximately \$800 million. TRE announced in March 2007 that it had entered into a master agreement to purchase up to 200,000 hectares of plantation trees in Lincang City, Yunnan Province.⁴⁹ (Note that Gengma County is a sub-division of Lincang City.)

The SAIC file for TRE's Yunnan entity, Sino-Panel (Gengma) Co. Ltd. and the Lincang City Forest Bureau's 2008 – 2010 Work Completion Reports contain the following documents, which we used to understand the real terms of the Yunnan master agreement:

- 1) the Approval Letter by the Lincang City Commercial and Business Bureau (临商发《2007》68号) (Appendix D2)
- 2) the Approval Letter by Lincang City Development and Reform Commission (临发改经贸发《2007》234号) (Appendix D3)
- 3) the Lincang City's Forest Bureau 2008 Work Completion Report Summary and 2009 Work Leads (临林发[2009]1号) (Appendix D4)
- 4) the Lincang City's Forest Bureau 2009 Work Completion Report Summary and 2010 Work Leads (临林发[2010]1号) (Appendix D5)
- 5) the Lincang City Forest Bureau's 2010 Half Year Work Completion Report and Planning for the Second Half. (Appendix D6)

⁴⁸ This is the agent that TRE refers to as the Gengma Dai and Wa Tribes Autonomous Region Forestry Company in its March 2007 announcement of the master agreement.

⁴⁹ See Sino-Forest website.

The approval letters state that TRE has entered into an agreement to acquire 6,667 ha (300,000 mu) of forest plantation in Lincang City. TRE acquired 75,000 mu in 2007 from Gengma Forestry Co. Ltd. The Yunnan agent told us that after TRE completed this purchase, it helped TRE acquire another 13,333 ha (200,000 mu) in the nearby Lincang counties of Mengding and Cangyuan. Below is a photo of the agent's office that our field agent took.



Lest there be any doubt that the approvals omitted the other 160,000 ha that TRE claims is covered under the agreement, information about the local economy and forest industry make it clear that TRE did not enter into agreements to acquire such a large amount of forest, and at such a high per unit price.

The 2008 Work Completion Report states that Lincang City's forest industry output was approximately \$380 million (RMB 2.6 billion). The report also states that the forestry business received only \$32 million in foreign investment in 2008. TRE would have represented 80% of the forestry GDP for the entire city – let alone county. It would have invested approximately substantially more than the city reports in foreign investment in the industry. (Again, their main operation is in Gengma county, which is a sub-division of the city.) In the 2009 Report, the industry output reached approximately \$440 million for the entire city. More interestingly, the report states that the city only issued forest rights concessions of 267 ha (4,000 mu) for the year. The 2010 semi-annual report states that as of 2010, Lincang City had issued forest rights concessions of 45,526 ha, valued at approximately \$50 million. From these numbers, we can see that TRE is overstating the per hectare cost by about four times. Below is the calculation based on Lincang City's numbers:

\$50 million / 45,526 ha = \$1,098 per ha

vs.

TRE's claimed purchase price of \$4,865 per ha.

The sheer scale of TRE's claims regarding its Lincang City, Yunnan transaction contradict reality. The Bureau of Statistics of Lincang stated the GDP of Lincang City was \$3.1 billion in 2010 (Appendix D7). This contract alone would have caused local GDP to grow to four billion dollars, making Lincang the next Shenzhen in terms of growth rate.

From our fieldwork, we were told that Gengma County's 2010 total GDP was only \$475 million. If TRE were to be believed, it would have been the vast majority of the entire economy of the county.

Further, we made calls to a local wood product manufacturer that appears to be one of the larger such companies in the area. He is familiar with TRE, and stated that he believes TRE purchased about 150,000 mu of plantation forest, which is in line with the documents we obtained. We spoke with a local official at the Gengma County Forestry Bureau who stated that TRE purchased 50,000 to 60,000 mu of forest. This range is a decent bit lower than the amount stated in the documents. The constant throughout is that the measurement unit is mu (again 6.7% of a hectare).

By all indications, the Yunnan agent is a legitimate agent. At least it is the only agent with a relevant scope of business. Its scope of business includes "wood and wood product purchasing, processing, and sales; forestry and forestry-related product planting, purchasing, processing, and sales; specialized economic forestry and wood project development and construction..." ("木材及木材制品收购、加工、销售; 林业及林下产品种植、收购、加工、销售; 特种经济林木及制品基地建设 and 项目开发...")

V. TRE's Dodgy Timber Agents

Four Other Agents are Highly Unlikely to Have Sold the \$2.9 Billion TRE Claims to Have Bought

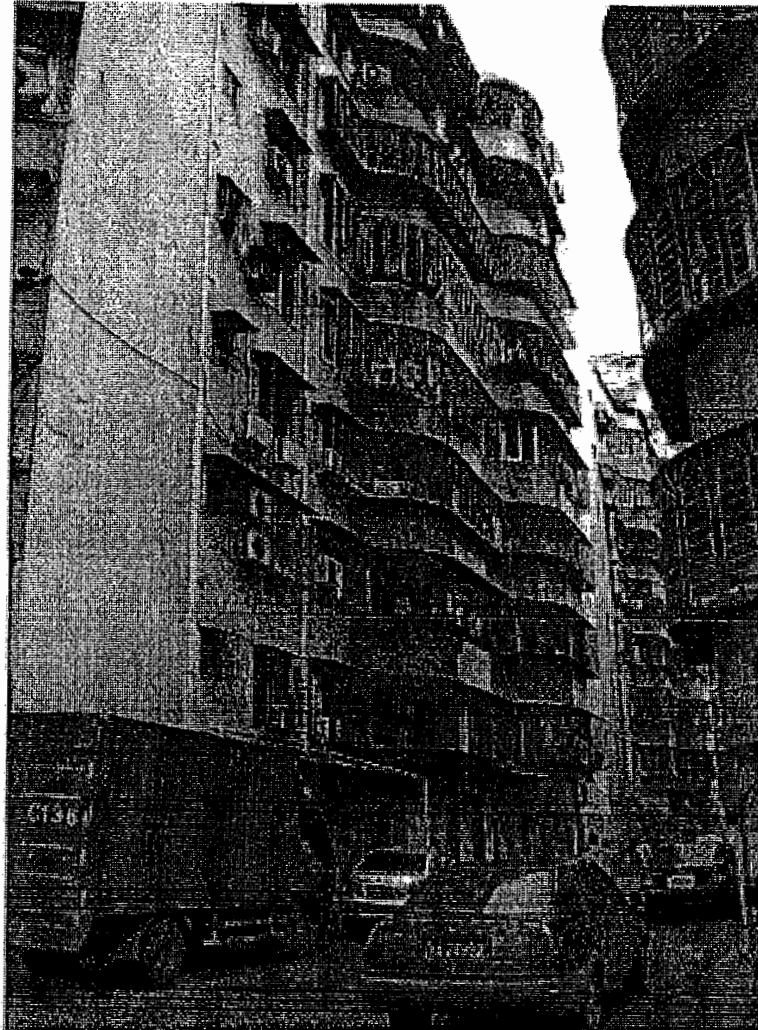
Four other agents are highly unlikely to have sold anything close to TRE's claim of a combined \$2.9 billion. These agents, which would be among the largest private businesses in their locales, generally operated out of apartments while purportedly each doing annual revenue in the hundreds of millions from TRE alone. Two of these agents are managed by a senior TRE executive, Lam Hon Chiu.

TRE does not disclose the Chinese translations of its agents' names. We obtained the Chinese names from PRC audit reports (contained in the SAIC files) of various TRE subsidiaries. We show the various audit report pages with the agents' names in Appendix E1. We did not obtain the Hunan agent's SAIC file in time for this report, and we did not find the Chinese name for the Guizhou agent.

Guangxi agent: Zhanjiang Bo Hu Wood Co. Ltd. (湛江博虎木业有限公司)

TRE claims to have entered into a master agreement in December 2007 under which (as of December 31, 2010) it has purchased 150,000 ha of plantation for \$646.6 million. We are skeptical for the following reasons:

- Bo Hu was incorporated only one month before TRE entered into this massive contract. See the business license in Appendix E2.
- Bo Hu was thinly capitalized at the time of entering into the agreement – its registered capital was only \$135,000 (RMB one million) at the time. Obviously Bo Hu was not extending any credit to TRE for the tens of millions of dollars in timber purchases it was likely making at a given time.
- Bo Hu's scope of business does not include anything related to forest agency (unlike the Yunnan agent supra). Its scope of business at the time of purportedly entering into the agreement was "wood products, plywood, glues, paper products, and decoration material (木制品, 胶合板, 胶水, 纸制品, 装饰材料). Bo Hu did not add attempt to anything relevant to forest agency until September 23, 2008. See the application to change the scope of business in Appendix E2.
- Bo Hu is incorporated in Guangdong province, and would likely have substantial tax issues operating in Guangxi province (due to incessant competition among tax authorities in China). Further, all companies dealing with wood products must have a wood product permit issued by the forestry bureaus within the provincial jurisdiction. Bo Hu's license is for Guangdong – not Guangxi. See Appendix E3.
- While purportedly generating hundreds of millions of dollars in annual revenue, Bo Hu's office was in an apartment building in this apartment complex from August 2008 through sometime in 2009:



How many \$200 million companies are in this apartment complex?

Bo Hu's current office is now in a proper office building, but the high level of security is unusual. On the ground floor, our researcher was stopped by security guards who seemed very cautious and alert. They questioned our researcher regarding why he was there. He was only permitted to enter the building after convincing the guards he had an appointment with Bo Hu's vice president of sales, Mr. Xu. There was yet another security guard stationed outside Bo Hu's office door on the second floor. This type of security around an office of this size is highly irregular in China.

- We spoke with a Mr. Xu, who is the vice president of sales for Bo Hu. He is certain that Bo Hu does not deal in Guangxi plantations. Mr. Xu did say however that Bo Hu is a customer of Sino-Panel (one of TRE's subsidiaries), and has been buying plywood from it since summer 2010 in volumes less than \$1.5 million annually.
- Bo Hu's audit report shows that it has made substantial payments to TRE entities, including an undisclosed subsidiary. (See Appendix E4 & E5.) As we discuss *infra* – Glimpses of How TRE Steals the Money, we believe that some of these entities may be tunnels through which TRE steals investor funds.
- Bo Hu's 2008 audit report shows revenue of approximately \$37,000 (RMB 250,189) – for the sake of clarity, that is thirty-seven thousand dollars. See Appendix E6. It is inconceivable to us that Bo Hu would be able to understate its revenue by over \$200 million (or 99.9%) – at over \$200 million in annual revenue, Bo Hu would be one of the larger privately-owned businesses in Zhanjiang. It would not be able to avoid booking so much revenue, in which case the revenue in the audit report would reflect much larger amounts.

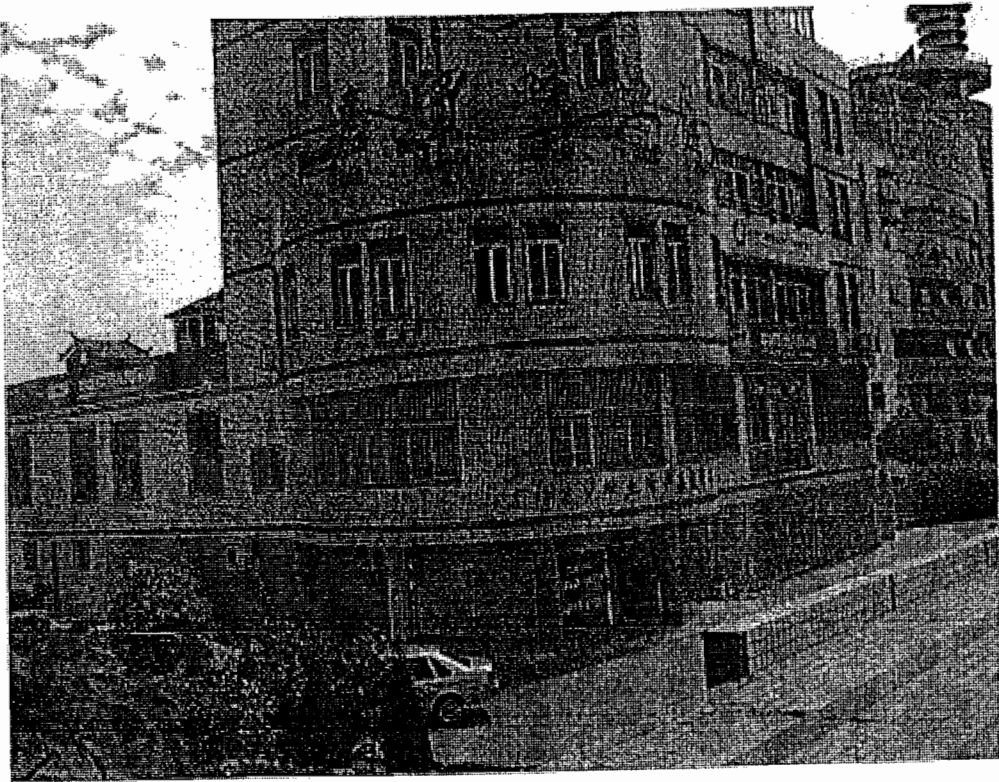
Fujian Agent

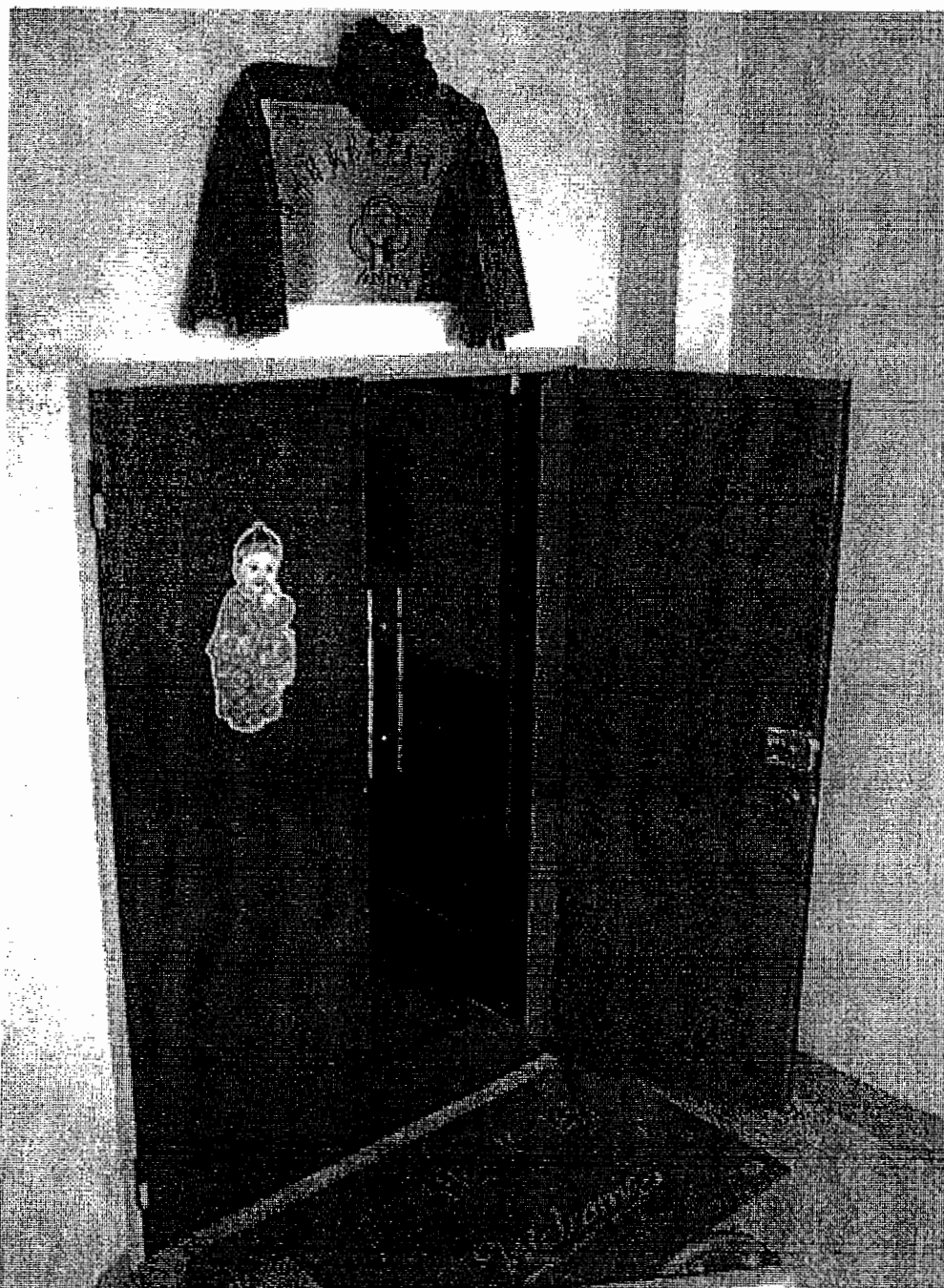
- Zhangzhou Lu Sheng Forestry Development Company Limited (漳州绿盛林业发展有限公司) was incorporated on Nov. 19, 2007 (Appendix E7), just nine months before TRE entered an approximately one billion dollar (RMB seven billion) master contract with it.
- The registered capital was only \$78,000 (RMB 550,000) (Appendix E7).
- The registered address was at Floor 1, No. 7 Xibian Hongyang New Village (Orchid Garden), Shan Cheng Village, Nanjing County (南靖县山城镇溪边宏洋新村 (兰花园) 7号1层) until November 29, 2010 (Appendix E10). This address is the personal residential address of Mr. Wang Rui Mei (Appendix E8), who is also listed on the SAIC filings to be the legal representative, executive director, supervisor, and manager of the company (Appendix E11).



Image 10 No 7 Orchid Garden

- A copy of the master agreement signed by TRE and Zhangzhou Lusheng was found in the Sino-Panel (Fujian)'s SAIC files (Appendix E9a-E9g). It is a contract with a total of seven pages with no terms regarding liability – it seems to be an unlikely billion dollar contract. Interestingly, the contract stated that as of the time signing the contract Lusheng has already been authorized by the owners of 200,000 Ha of the forests in Fujian to act on their behalf. However, Lusheng did not have any wood or forestry related license at the time it entered into the contract.
- We sent a team of field agents to visit Zhangzhou Lusheng in Fujian. Our agents located the new registered address at 5th Floor, Jiamao Honey Industry, No 362 Construction Road, Shancheng Town, Nanjing County (南靖县山城建设路 362 号嘉贸峰业大厦 5 楼)。





Field enquiries confirmed that Zhangzhou Lusheng operates at the address on the 5th floor. There are four desks in Zhangzhou Lusheng's office, which appeared to be approximately 180 m² with 5-6 employees in the office at the time of visit. This implies that Lusheng has an extremely efficient computer system (given that it processes so much money and so many payments with a small staff).

- Our researcher paid a visit to the Nanjing County Forestry Bureau and spoke with the Unit Head Mr. Ma there. Mr. Ma claimed that he has not heard about Zhangzhou Lusheng nor has he heard of Wang Rui Mei.

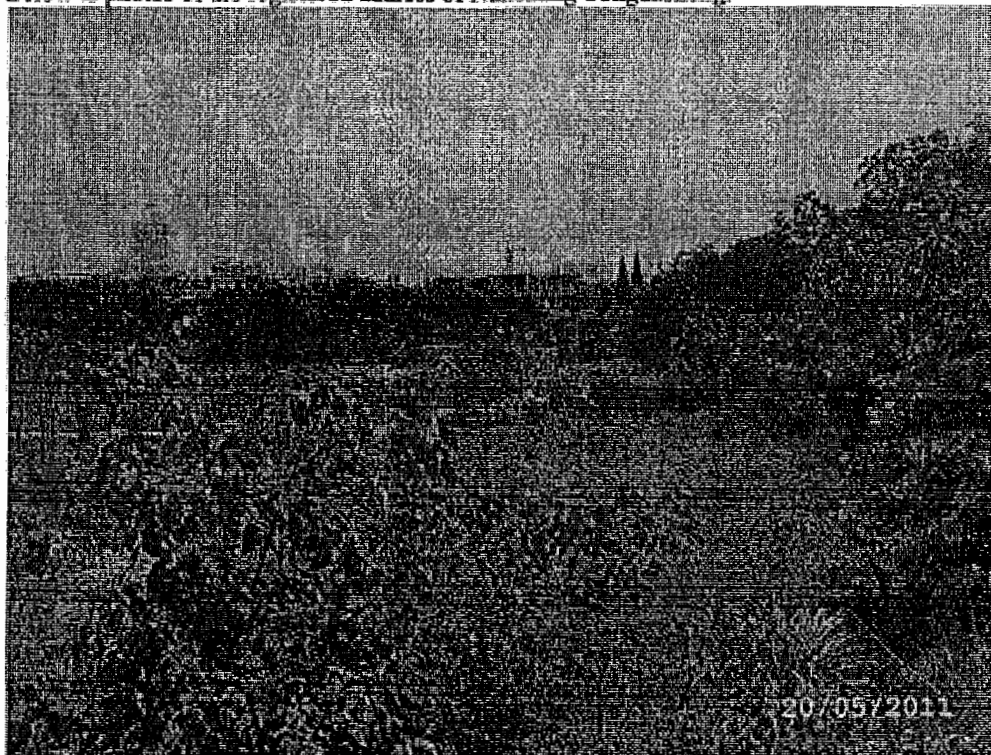
Jiangxi Zhonggan

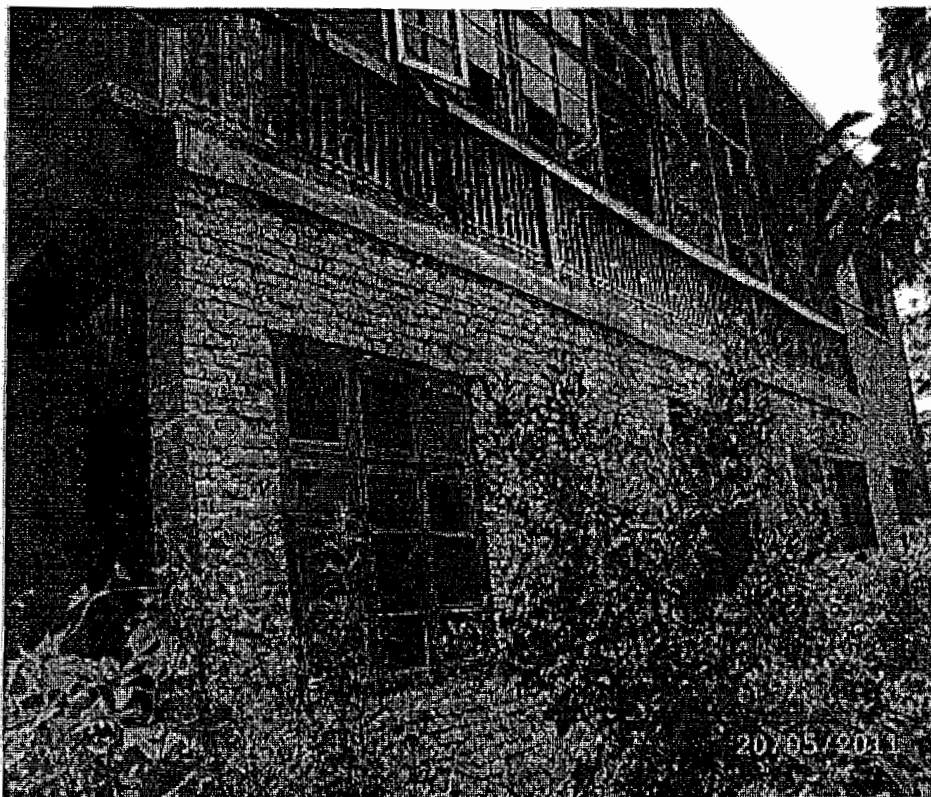
- This agent is a related party. The legal representative and President of this company is TRE executive vice president, Lam Hong Chiu.
- Jiangxi Zhonggan Industrial Development Company Ltd (“Zhonggan”)江西中赣实业发展有限公司 was incorporated on January 28, 2009 just five months before TRE entered into an approximately \$700 million contract on June 16, 2009. See the business license in Appendix BB2.
 - Yun County Electronic Paper (云县电子报), an online newspaper operated by the Yun County local government (中共云县委云县人民政府主办), published an article naming Lam Hon Chiu as the general manager of Hong Kong Sino-Panel Company who has visited Yun County with government officials on July 23rd, 2010. <http://61.166.10.99:8011/Qnews.asp?ID=5340&QID=1837> (Appendix E12)
 - Dongkou County Hunan, an online article published on Dongkou County government website stated that on February 5, 2007, the county government met with the top management of Canadian Sino-Forest Group including Chairman Allen Chan (陈德源), VP Ye Han Xiang (叶翰祥) and VP Lam Hon Chiu (林汉钊) at Changsha discussing the possibility of investment in Dongkou County. <http://dongkou.mofcom.gov.cn/column/print.shtml?zhongyaozt/200707/20070704898019> (Appendix E13)
 - Qiqihaer City Heilongjiang, an online article published on June 20, 2006 on the Qiqihaer city's government website stated that the Qiqihaer government official met with the VP of Sino-wood (Asia) Limited Lam Hon Chiu (林汉钊) on their trip to Hong Kong to discuss investment in Qiqihaer City. http://www.qqhrmofcom.gov.cn/index.php3?file=detail.php3&kdir=2200134&no_wdir=2030157&id=830707&detail=1 (Appendix E14)
 - On one of the company listing website <http://www.bldg-materials.com.hk/master.php?keyword=1854> listed Lam Hon Chiu as the Senior Manager of Sino-Panel (Asia) Limited. (Appendix E15)

Jiangxi Zhonggan is clearly a related party related party.

- Jiangxi Zhonggan is a joint-venture incorporated by Hong Kong China Square Industrial Ltd. 香港中国坊实业有限公司 (China Square) and Nanchang Tongdasheng Industrial Company Ltd. 南昌市通达盛实业有限公司 (Tongdasheng) with a total register capital of USD 5 million with USD 4 million by China Square and USD 1 million by Tongdasheng.

- China Square is a company registered in both Hong Kong and BVI with Lam Hon Chiu as its legal representative, it seems to be a shadow actor on TRE's behalf to setup undisclosed but related subsidiaries in China.
- By looking at the SAIC file of Jiangxi Zhonggan's Chinese partner Nanchang Tongdasheng, we don't see any reason for its existence except that TRE needs a Chinese name to legally register a joint venture as its agent in Jiangxi. Tongdasheng was incorporated November 3rd, 2006, with a registered capital of 500,000 RMB. The registered address is a fishing village near Nanchang city 南昌市西湖区桃花镇渔业村. The business scope is Domestic Trading 国内贸易 (Appendix E16). According to the 2009 Annual Check Report in the SAIC files that the revenue of Tongdasheng for 2009 is USD 14,909.84 (RMB 104,368.93) with a net profit of USD 326.58 (RMB 2,286.07). It is nearly impossible for such a company to invest on its own with USD 1 million to setup Jiangxi Zhonggan with China Square unless someone else is "funding" the amount.
- **Below is photos of the registered address of Nanchang Tongdasheng.**





The 2008 and 2009 Jiangxi Zhonggang's audit report shows numerous large transactions between the Company, TRE, and other parties. However, none of these transaction is forestry related.

VI. The Capital Hole

Chinese government records show a capital hole that makes claimed timber purchases impossible.

China imposes capital controls that ensure there are records of significant movements of foreign currency into China. From TRE's PRC company SAIC files, it is clear that TRE's cash needs in China outstrip the capital it has contributed to its China operations by at least \$377 million, and possibly quite more. China's capital controls prevent TRE from funding its operations from outside of the PRC by purchasing trees through payment of foreign currency.

When an existing PRC company wants to bring foreign currency into China as investment in the business, it applies to the Ministry of Commerce, the State Administration of Foreign Exchange, and the State Administration of Industry and Commerce ("SAIC"). Once the authorities approve the application, the company may bring in the approved amount of foreign currency. When an investor forms a new foreign-owned company, it must specify foreign currency it will invest.

The authorities will review the entire establishment application, including the portion requesting the right to bring foreign currency into China.⁵⁰

A given company's SAIC file shows records current within a few months of all applications for injecting equity capital. Further, PRC law requires equity capital injections to be verified by PRC licensed accountants. The amount of debt a company can borrow is limited by law, and SAIC records reflect the amount of money that a company is approved to borrow from offshore. However, debt injections are not recorded in SAIC files. We totaled up all of TRE's actual equity injections and approved debt injections (again, the debt capital is not verified, but we gave TRE the benefit of the doubt), and the amount of capital that went into TRE's PRC operations is only \$1.213 billion since 1994. Its investments were \$1.7 billion larger than its operating cash flow during this period. (Note that these figures also exclude the need for operating cash.) Therefore, TRE has a capital hole of \$377 million to \$922 million. It could not have purchased the trees it claims to have.

(USD millions)	
OCF	3,308
CapEx - Disposals	5,058
Total ST Borrowings incl. Repayments	160
Onshore Capital Need	1,590
Capital Contributed - High	1,213
Capital Contributed - Low	668
Onshore Cash Hole - Low	377
Onshore Cash Hole - High	922

Cash flow numbers from Bloomberg. To be conservative, we assumed that all short-term borrowings were onshore.

TRE could not have funded its business with foreign currency. If TRE were going to pay the supplier in foreign currency, it would be illegal unless the goods sold were for export. Because the investments are not for export out of the PRC, the sellers would not be able to obtain customs declarations. Large amounts of foreign currency hitting the sellers' bank accounts without accompanying customs declarations would be quite risky for the sellers just on a one-time basis – such a transaction could lead to inability to convert the currency, and issues with the customs and tax bureaus. We do not believe that TRE found suppliers willing to engage in transactions with such large risks throughout its 16-year reporting history. Therefore TRE could not have made these investments by paying the sellers in foreign currency in the PRC.

TRE's agents under the master purchase agreements are thinly capitalized (see *infra* TRE's Dodgy Timber Agents). They could not have each funded hundreds of millions of dollars in undocumented currency swaps done through offshore bank accounts.

⁵⁰ For more on how China's currency controls work, see Collins, Robert and Block, Carson "Doing Business in China for Dummies" (Wiley 2007), chapter 9.

TRE's only means of funding these investments would have been by injecting investment capital into its own PRC companies, which it did not do in sufficient amounts. Therefore, TRE's claimed investments and revenues are fraudulent.

VII. TRE's Manipulation of Poyry Reports

TRE's abuse of Poyry's name is well-illustrated by a recent statement that TRE CFO David Horsley made at the annual shareholders' meeting on May 30, 2011 that Poyry teams spend "four to six personal weeks" in the field evaluating TRE's holdings. On a June 1, 2011 call the statement was clarified to mean that a team of four people each spends six days in the field, so that the total approximates six man-weeks of work. (Amusingly reminiscent of Bill Clinton's "I did not have sexual relations" comment.)

Since 2003 Poyry (Beijing) and its Shanghai branch have been engaged to conduct reviews of TRE's operations and value its assets; however, Poyry's purpose is only to estimate the market value of the forest assets based on information provided by TRE, and not to perform due diligence or confirm the ownership of the forest areas.⁵¹ In numerous locations throughout the reports, Poyry adds disclaimers, stating:

- Poyry has not viewed any of the contracts relating to forest land-use rights, cutting rights, or forest asset purchases⁵²
- It is important to understand that this is not a confirmation of forest ownership, but rather a verification of the mapped and recorded areas of stocker forest.⁵³

However, despite a generally favorable report, Poyry nevertheless cannot hold back a degree of astonishment at TRE's unusual trading practices, describing in the reports opening paragraphs that TRE's forest holdings are "dynamic" (emphasis provided by Poyry).⁵⁴ Poyry states, "Unlike most forest owners and managers, Sino-Forest actively trades in forests. Each year the company both sells and buys forests, and accordingly the composition of the forest estate changes much more than for a business that is simply managing and harvesting a more static resource."⁵⁵ This fact greatly complicates its inspection and valuation process as "the composition of Sino-Forest's estate can change quite significantly from one year to the next."⁵⁶

Certainly such dynamic trading complicates inspection and verification activities, as it is tantamount to a giant shell game. With a maximum of only 53% of existing 2008 forest being carried over into 2009,⁵⁷ it is easy to disclaim any specific accusation of lack of forest rights ownership in any given plot or region.

⁵¹ Conference call, June 1, 2011, Poyry valuation discussion.

⁵² 2009 Poyry, Sino-Forest Corporation Valuation of China Forest Assets as at 31 December 2009, Final Report, 23 April 2010 Rev. 03, p. iv <http://www.sinoforest.com/filings.asp>

⁵³ 2009 Poyry, p. 12

⁵⁴ Poyry, Sino-Forest Corporation Valuation of China Forest Assets as at 31 December 2009, Final Report, 23 April 2010 Rev. 03, p. vi & 8

⁵⁵ Poyry, Sino-Forest Corporation Valuation of China Forest Assets as at 31 December 2009, Final Report, 23 April 2010 Rev. 03, p. vi & 8

⁵⁶ Poyry, Sino-Forest Corporation Valuation of China Forest Assets as at 31 December 2009, Final Report, 23 April 2010 Rev. 03, p. 8

⁵⁷ 2009 Poyry report, Valuation of China Forest Crop Assets As at 31 December 2009, 23 April 2010, Rev 03, www.sinoforest.com/filing.asp, p. 8

In introducing its methodology for assessing risk into the discount rate calculation, 2009 Poyry explains that the valuation of forest crop assets faces challenges, including:

- The reliability of forest descriptions
- The accuracy of yield prediction
- Achieving high growth rates in a consistent manner⁵⁸

The Poyry report explains that its review of forest land holdings consisted of selecting 66 cluster maps that represented only 1,611 ha of forest, or only about 0.3% of TRE's claimed 491,000 ha.⁵⁹ During the June 1, 2011 conference call, Poyry revealed that the figure for the 2010 assessment was only 0.1% of estate holdings due to the substantial increases in newly acquired plantations. Poyry further reveals that current yield tables for these forests have not been properly established.⁶⁰ Poyry has performed some field studies and collected sample data from various plots, but its statistical analysis comes with the caveat that "in comparison with most other forests, the large Sino-Forest estate is significantly under-sampled for growth and yield purposes."⁶¹ In short, due to the poor quality of data and documentation on the forest plot, until there is an opportunity to both verify the forest's physical characteristics and use satellite imagery on all forest claims, that the sample sizes are too small to establish significance. Poyry and all investors then can only take TRE at its word that the remaining 99.9% of its purported holdings are accurate in terms of their size, yield, and composition.

Do You Think a 2.5% Risk Premium on TRE's Discount Rate for WACC Seems a Little Low?

Poyry's 2009 report includes an appendix detailing the calculation method for the discount rate, WACC, and CAPM; wherein the consultant, Dr. Mardsen, from the University of Auckland's Dept. of Accounting and Finance of the School of Business, provides details on formulas used to value a generic forest asset in the China. Dr. Mardsen repeatedly emphasizes the need to keep in mind the additional risk associated with developing markets, such as capital controls, political instability, corruption, poor accounting and managerial controls, an uncertain legal framework and lack of protection of investor property rights; and factor a premium onto the discount rate of the cost of capital, stating:⁶²

In China and in emerging markets the level of corporate governance may vary significantly between companies. Corporate governance is important as it provides mechanisms whereby outside investors can protect themselves against expropriation by insiders. Corporate governance can impact on the risks that outside investors may face in respect of any expropriation of assets. These factors together with the size and other market frictions may warrant an adjustment to the cash flow expectations and/or an

⁵⁸ Poyry, Sino-Forest Corporation Valuation of China Forest Assets as at 31 December 2009, Final Report, 23 April 2010 Rev. 03, p. 55

⁵⁹ Poyry, Sino-Forest Corporation Valuation of China Forest Assets as at 31 December 2009, Final Report, 23 April 2010 Rev. 03, p. 11

⁶⁰ Poyry, Sino-Forest Corporation Valuation of China Forest Assets as at 31 December 2009, Final Report, 23 April 2010 Rev. 03, p. 17

⁶¹ Poyry, Sino-Forest Corporation Valuation of China Forest Assets as at 31 December 2009, Final Report, 23 April 2010 Rev. 03, p. 17

⁶² 2009 Poyry Report Appendix: Uniservices, Investment Appraisal for Forest Investment in China, 5 Jan 2010. P. 5

increment to the cost of capital for the forest if investors' property rights are not clearly defined. Where control is not obtained a minority discount and / or illiquidity discount may apply.⁶³

Dr. Marsden calculates the real pre-corporate tax WACC range of between 7.1% to 12.8%. Poyry then selected the current 8.5% to 9.0% discount rates in New Zealand and adds a 2.5% to 3.0% resulting in a discount rate of 11.5%, providing for the 2006 pre-tax cash flow valuation of TRE's assets at \$2,297.5 million USD as of December 31, 2010.⁶⁴ But, Dr. Marsden closes with a note and a warning:

If significant corporate governance and agency cost issues between insides and outside investors arise (e.g. from lack of transparency, possible risk of expropriation of assets, restrictions of remittance of profits, or exchange rate control), the use of cost of capital at the upper end of our range may be warranted.⁶⁵

It begs the question; if evidence of systemic and comprehensive fraud and illegal activity is discovered in the Company from inception, throughout its operating history, and into the present, by how much would the discount rate need to be adjusted?

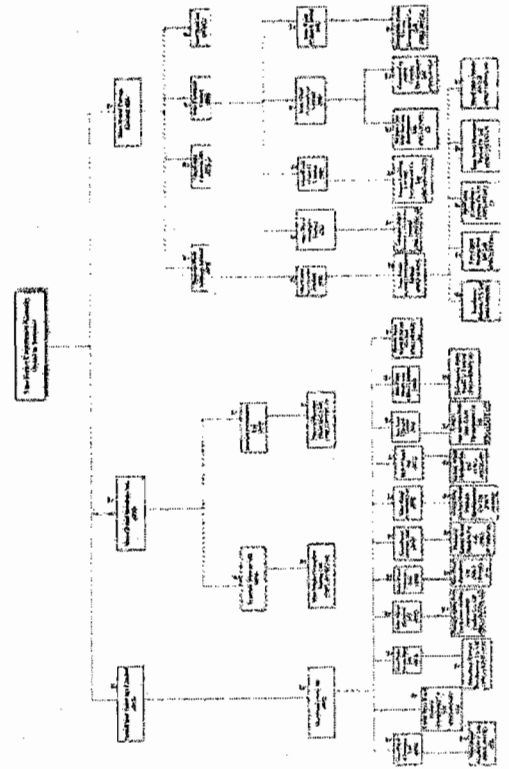
⁶³ 2009 Poyry, P. 4, 5

⁶⁴ 2009 Poyry, p. vi; 58; 2009 Poyry Report Appendix: Uniservices, Investment Appraisal for Forest Investment in China, 5 Jan 2010. P. 23.

⁶⁵ 2009 Poyry Report Appendix: Uniservices, Investment Appraisal for Forest Investment in China, 5 Jan 2010. P. 23

VIII. Egregiously Complex and Opaque Offshore Structure

In TRE's 2010 annual information form, it discloses that it has at least 20 British Virgin Island ("BVI") entities. As a recent South China Morning Post article points out, BVI is the favorite domicile of Chinese seeking opacity. There is no public shareholder registry, and there are no requirements to file tax returns. TRE no longer discloses its organizational chart, but the last one it made available in an annual information statement is from 2007 – see below. This structure is highly opaque, and in our view, unnecessary for legitimate business purposes. It is not a tax-optimized structure either due to direct ownership of PRC entities by BVI subsidiaries. (Dividends remitted to Hong Kong holding companies are taxed at a lower rate than dividends to BVI owners.) We therefore pose the following question to TRE's management (given its emphasis on its transparency): "Why have you structured the business in this way?"



IX. Suspicious Bank DocumentSuspicious Bank Document.

The following bank letter appears to be written on behalf of Sino-Wood Partners, Ltd. We found it in incorporation applications in the SAIC files for four of Mandra's entities. TRE, which now owns 100% of Mandra, was a founding shareholder of Mandra with a 15% stake. Sino-Wood was the entity that was reverse merged into the public shell to make TRE a public company. It had been expected to IPO in 2003, but the IPO was unexpectedly canceled.



PRIVATE & CONFIDENTIAL

Ref: CMB TSD Division B

Relevant Approval Authorities and Administration
Authorities for Industry & Commerce

1 February 2005

Dear Sirs

Re: MANDRA FORESTRY ANHUI LIMITED

At the request of Sino-Wood Partners, Limited (the "Company"), we have pleasure in advising that the Company has maintained an active and satisfactorily conducted current account with us. General banking facilities to the extent of HKD medium eight figures have been granted to the Company on an unsecured basis. For the past twelve months, we have handled their import/export bills business with satisfactory results. We consider the Company is good for normal business engagement.

The aforesaid information is given in strict confidence and without any responsibility, howsoever arising, on the part of the Bank or any of its officers.

Yours faithfully

Regina Lee
Relationship Manager

c.c. Mandra Forestry Anhui Limited

The Hongkong and Shanghai Banking Corporation Limited
Tsim Sha Tsui District Commercial Banking Centre
10/F HSBC Building Tsim Sha Tsui, 82 Nathan Road, Kowloon, Hong Kong
Tel: 2735 9111 Fax: (852) 2721 7648

X. Shoddy Corporate Governance

Internally, TREs fraud was enabled by poor corporate governance. The corporate governance issues include the following:

- TRE's board appears to be the retirement plan for partners of its auditor, Ernst & Young. It currently has five directors on its board from E&Y. We believe that such a clubby atmosphere can dull the auditors' ability to perceive problems.
- We are bothered by senior management's practice of paying its salary via fees to a consulting firm – this is inappropriate for a public company with a multi-billion dollar market capitalization. More disturbing is senior management's C\$12 million buyout of its own shares in subsidiary with investor funds. (The subsidiary's planned 2003 IPO was unexpectedly canceled.)
- TRE failed to disclose a 2003 petition to wind it up at the listed company level.
- TRE has failed its internal control test. The 2010 failure is due to senior management personally handling settlement of accounts receivable and accounts payable. This is particularly troublesome because the notes to TRE's financial statements appear to state that the majority of TRE's receivables from its accounts receivable are paid by TRE's AIs to TREs agents to pay off timber purchases. If our reading is accurate, then a substantial portion of TRE's purported revenue would not even be expected to hit its bank account, thereby making the fraud substantially easier to carry out.

XI. Glimpses of How TRE Steals the Money

- From reviewing TRE and the "Agent's" annual inspection and audit reports from the SAIC files, it seems that the agents mainly serve as a tunnel to move money for TRE.
- These agents generally report little to no revenue or profit, and pay little to no tax. However, they have balance sheets orders of magnitude the sizes of their revenues. The balance sheets mainly consist of receivables from TRE entities, and disturbingly, payables to TRE entities.
- Both Yunnan and Guangxi agents are sending a large amount of money to TRE's undisclosed subsidiary, Huaihua City Yuda Wood Co. Ltd. This subsidiary is based in Huaihua City, Hunan Province, which we suspect is the nerve center for TRE's illicit activities. We tried mightily to obtain SAIC files for TRE's four subsidiaries and the Hunan agent, but we were only able to obtain minimal information (such as shareholdings) after much effort. This is highly unusual.
- Payments to farmers and collectives for forest are noticeably scarce in the financial statements of the agents.
- The following tables shows the finances of three agents for 2008 and 2009

2008	Zhanjiang Bohu 湛江博虎	Jiangxi Zhonggan 江西中赣	Gengma Forestry 耿马林业
Revenue	¥250,188.59	¥0.00	¥161,944.45
Tax Paid	¥16,280.71	¥0.00	¥545,651.87
Profit	(¥707,828.30)	(¥473,604.40)	(¥1,730,241.89)
Total Assets (Year End)	¥328,764,932.35	¥78,342,694.60	¥127,590,736.52
Total Debts (Year End)	¥328,478,921.42	¥44,400,000.00	¥122,287,992.44

2009	Zhanjiang Bohu 湛江博虎	Jiangxi Zhonggan 江西中赣	Gengma Forestry 耿马林业
Revenue		¥58,516,200.00	¥455,400.00
Tax Paid		¥0.00	¥122,757.00
Profit	Not Available	¥42,528,626.48	(¥1,199,609.00)
Total Assets (Year End)		¥619,731,395.86	¥121,465,482.00
Total Debts (Year End)		¥543,260,074.78	¥120,338,833.00

Bohu's 2008 Transactions (TRE entities are highlighted) (Appendix E4 and E5)

Bohu 2008

Prepayments Made

Shaoyang Jiading (TRE)	邵阳嘉鼎	¥49,871,398.63
Hunan Jiayu (TRE)	湖南嘉裕	¥24,202,808.06
Xiangxi Jiayi (TRE)	湘西嘉熙	¥30,925,793.41
		¥105,000,000.10

Other Account Receivable

Sino-Panel (TRE)	嘉汉板业	¥38,661,000.00
Guangxi Dacheng	广西大成	¥15,000,000.00
Xuwen Hengdong	徐闻恒东	¥7,610,000.00
Guangxi Bohu	广西博虎	¥3,200,000.00
Beihai Real Estate	北海房地产	¥27,813,100.00
Zhanjiang Tianxiang	湛江天翔	¥25,450,000.00
Zhanjiang Tianlun	湛江天伦	¥19,000,000.00
Leizhou Bangsheng	雷州邦盛	¥40,000,000.00
Leizhou Hengfu	雷州恒福	¥1,897,777.11
Other	其它	¥1,009,563.51
		¥179,641,440.62

Other Account Payable

Sino-Panel (China)	嘉汉板业 (中国)	¥53,158,409.50
Sino-Panel (Sanjiang)	嘉汉板业 (三江)	¥31,297,786.00
Sino-Panel (Luzhai)	嘉汉板业 (鹿寨)	¥29,399,999.97
Sino-Panel (Hezhou)	嘉汉板业 (贺州)	¥79,000,000.00
Huahuá Yuda	怀化裕达	¥134,900,000.00
Guangxi Bobai Forestry	广西博白林场	¥2.09
		¥327,756,197.56

From the above table, Bohu has made three prepayments to TRE's subsidiaries totaling RMB 105 million. This flow of funds contradicts the disclosed nature of the parties' relationship. Further, with such low registered capital and poor operating results, it is difficult to understand how Bohu's balance sheet is this large.

Bohu has an account payable of RMB 327.8 million to six companies. Four of the six companies are Sino-Panel Subsidiaries. The fifth company Huaihua Yuda is an undisclosed TRE subsidiary that has been receiving massive amounts of money from TRE's subsidiaries. The last company listed is Guangxi Bobai Forestry, which is supposed to be a partner forestry company in Guangxi; however, but the amount owed RMB 2.09 (\$0.30) pales in comparison.

Jiangxi Zhonggan (an undisclosed related party) plays the same games. Its 2009 audit report shows that it had received a prepayment of RMB 448.6 million from Sino Panel China (Investment) Company Ltd. In the same year, it made a prepayment of RMB 212.0 million to Harbin Oubangde Economic and Trading Co. Ltd., a trading company in Harbin, whose business has nothing to do with acquiring forests in Jiangxi Province. According to the audit report, Jiangxi Zhonggan has dealt with more trading companies than forestry companies. (Appendix K3 and K4)

The same is true for Gengma Forestry (a mostly legitimate agent). Its revenue has been declining since it entered into the master agreement with TRE. The revenue was RMB 3.6 million in 2007, and declined to RMB 160,000 RMB in 2008 and RMB 455,400 in 2009. The assets and debts are 787 times 2008 revenue, and 266 times 2009 revenue. Although it really does broker forests, it appears to be helping TRE in some way beside acquiring forest.

TRE has a significant undisclosed subsidiary, Huaihua Yuda Wood Company Ltd. (怀化裕达木业有限公司). Huaihua Yuda has taken massive amount from TRE's subsidiaries, but its existence was never disclosed. In 2007, Huaihua Yuda received a prepayment of RMB 92.0 million from Sino Panel (Hezhou) and another payment of RMB 81.0 million from Sino Panel (Gengma). (Appendix K5 and K6) According to our research from two government websites, Huaihua Yuda is a subsidiary of TRE.

XII. The Multi-Billion Dollar Ponzi Scheme

Sino Forest to date has raised over \$3.05 billion from the capital markets and has not paid a cent back from free cash flow, nor has it paid a dividend.

Sino-Forest raises capital in increasingly larger amounts, which is effectively a Ponzi scheme. TRE raises cash from the financial markets, purportedly buys forestry assets, which are then valued at a significantly higher level by Poyry (which takes TRE's word on the size and scope of the acquisition at face value), leading to a higher reported net asset value which acts as the support or collateral for an even larger capital raise. The first investor relies upon the new capital to generate the return, thereby fitting a classic Ponzi scheme definition.

It is a fairly standard capital markets transaction to complete a new financing of an asset that has increased in value. In isolation, this conceptually would not be a Ponzi scheme. However, a series of financings almost wholly reliant upon a series of unreliable reports covering the asset values of a company that has been free cash flow negative for 16 straight years should raise some red flags. In order to understand how this cycle has managed to continue for such a long period of time, it is important to understand two key issues: the manipulation of Jakko Poyry's valuation reports, and the way the TRE uses these reports to convince new investors to finance them.


With the exception of an incentive payment of \$30 million to exchange an existing bond into a longer dated one, TRE has never returned any capital to shareholders despite so many financings. Because of the nature of the company, TRE must continue to spend in order to survive. Without

an acquisition pipeline, TRE cannot justify raising capital from new investors. Without new investors, it cannot repay old investors, and would fall apart.

As expected, TRE is still talking about a large acquisition pipeline for 2011.

THIS IS EXHIBIT "R" TO
THE AFFIDAVIT OF W. JUDSON MARTIN
SWORN MARCH 30, 2012

A Commissioner, etc.


LEE HONG KIU KILDARIA
Solicitor, Hong Kong SAR

**SECOND INTERIM REPORT OF
THE INDEPENDENT COMMITTEE OF THE BOARD OF DIRECTORS OF
SINO-FOREST CORPORATION**

November 13, 2011

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I. EXECUTIVE SUMMARY

I. EXECUTIVE SUMMARY

A. Introduction

The IC was established by the Board on June 2, 2011, immediately following the release by Muddy Waters of the MW Report regarding SF. The members of the IC are William Ardell (Chair), James Bowland, and James Hyde. At the invitation of the IC, Mr. Garry West, an independent director of SF, attends virtually all IC meetings and participates in its process. Following the delivery to the Board of the IC's draft of this Second Interim Report on November 3, 2011, Mr. James Bowland resigned as a director and therefore from the IC. The mandate of the IC, in general terms, is to independently examine and review the serious and wide-ranging allegations made in the MW Report and report back to and, if appropriate, make recommendations to the Board. To date, the IC has met approximately 48 times.

The IC Advisors' role is to support the IC in its mandate to review the allegations made in the MW Report and related matters. The IC Advisors have conducted various investigative and review processes, all at the direction of, and subject to such scope limitations as the IC, in its judgment, deemed appropriate. (See Part IV.) This Second Interim Report to the Board, while based on the work of such advisors, is the report of the IC and (other than Schedule IV) not the report of the IC Advisors.

The IC's First Interim Report to the Board dated August 10, 2011 outlined the nature and scope of the IC's activities (principally data collection) to that date and the planned next steps. The purpose of this Second Interim Report is to report to the Board on the activities undertaken by the IC since mid-August, the outcomes and findings from such activities and further next steps. The First Interim Report is attached as Schedule I.A.

While the MW Report took a scatter gun approach in its allegations, the IC determined to address the issues raised in three core areas: (i) timber asset verification; (ii) timber asset value; and (iii) revenue recognition. Overlaying the latter two areas are the issues raised by the MW allegations relating to related party transactions. The IC also determined to focus on the years 2006 to 2010. Using this framework for its review, the IC's focus since its last report has been principally on:

- the ownership structure of timber assets on SF's balance sheet;
- verifying the Company's holdings of standing timber ("purchased plantations" as referred to in the 2010 AIF) and plantation land use/lease rights ("planted plantations" as referred to in the 2010 AIF, though some plantation land use/lease rights, such as the Mandra holdings, are classified as "purchased plantations" in the 2010 AIF), held through BVIs and WFOEs and the nature of its interests in such assets (see Part V below);
- interviewing Suppliers and AIs with a view to verifying the existence and nature of SF's relationship with such third parties and seeking to obtain financial particulars about purchase and sale transactions between such third parties and SF (see Part VI below); and

- examining and assessing the relationship with Yuda Wood, historically one of the largest Suppliers of standing timber to SF supplying approximately 21.5% of BVI timber purchases from 2008 through 2011 (see Section VI.A below).

The IC's work has also included:

- examining a number of specific situations which are the subject of MW allegations or critical newspaper articles (see e.g. Sections IV.B.6, VI.B and VI.C and Part VII below);
- engaging with and assisting E&Y in its examination of various issues relevant to its reports on the Company's financial statements (see Schedule IV attached);
- responding to questions and requests for documents and information from the OSC, including enquiries made through the Hong Kong securities authorities, in connection with its publicly announced investigation (see Part IX below);
- meeting with and responding to requests for information from BJ and FTI;
- conducting interviews of certain members of Management;
- inspecting original versions of documents issued to the WFOEs and BVIs on letterheads with forestry bureau names and featuring Chops (the seal typically used in place of signatures) that indicate that they had been issued by the corresponding forestry bureau (the "forestry bureau confirmations"), and attending meetings with forestry bureaus in an attempt to verify the Company's holdings of standing timber;
- attending interviews of AIs and Suppliers, examining SF employee and other relationships with AIs and Suppliers (see Schedule IV attached); and
- meeting with and responding to requests for information from the RCMP (see Part XI).

In addition to the IC review, the MW Report has spawned various actions by public and private parties. These actions, which have affected the IC's activities and processes, include:

- an OSC investigation of matters related to SF;
- a review by E&Y of various matters relating to its 2010 and prior years' audits;
- three class action lawsuits in Ontario (one of which has a companion action in Quebec) by securities holders against the Company, its officers, E&Y and others;
- a threatened derivative claim against E&Y and certain officers and employees of the Company;

- extensive newspaper and analyst reporting of the Company, including several in-depth investigative reports; and
- an enquiry by the RCMP through IMET.

While the IC believes its work is substantially complete, there remain certain further steps which it intends to undertake as follows:

- review the information and analysis very recently provided by Management intended to respond to certain issues regarding relationships of the Company with AIs and Suppliers and between AIs and Suppliers identified in this Second Interim Report (see Part VI);
- engage an independent valuator (see Part VIII);
- such other steps as the IC, in its judgement, deems advisable in the discharge of its mandate; and
- submit its final report and recommendations to the Board.

The IC expects to be able to deliver its final report to the Board prior to the end of 2011.

B. Overview of Principal Findings

The following sets out a very high level overview of the IC's principal findings and should be read in conjunction with the balance of this report.

Timber Ownership

Based on its review and subject to its comments herein, the IC has confirmed to its satisfaction that the Company has:

- registered title to approximately 151,000 Ha. of SW and SP planted plantations and Mandra plantations. This constitutes approximately 17.9% of its timber holdings by area as at December 31, 2010;¹ and
- contractual or other rights to approximately 683,000 Ha. of plantations, being 81.3% of its timber holdings by area as at December 31, 2010 (of these, the Company holds original Plantation Rights Certificates, issued in the name of the Supplier, representing approximately 15,000 Ha., which the IC believes gives the Company a demonstrable chain of title). See Section III.B.

In connection with such confirmation, the IC has reviewed originals or copies of purchase contracts (and the corresponding set-off documentation confirming payment, in the case of the BVI purchased plantations) for the acquisition by the Company of:

- approximately 467,000 Ha. of BVIs purchased plantations;²
- approximately 237,000 Ha. of WFOE purchased plantations;³ and
- approximately 129,000 Ha. of planted plantations⁴

representing approximately 106%⁵ of SF's disclosed timber holdings of 788,700 Ha. as at December 31, 2010. With respect to these holdings, the IC has verified to its satisfaction that the Company has registered title:

¹ Timber holdings by area as at December 31, 2010 have been calculated by adding approximately 51,000 Ha. of planted plantation land for which the Company has contracts but has yet to classify as plantations under management for the purposes of its annual disclosure, to the Company's disclosed plantation holdings in China of 788,700 Ha.

² BVI purchased plantations are comprised of standing timber without underlying leases of land use rights.

³ The Company classifies this as being comprised of all WFOE (SP) standing timber and all Mandra leased plantations. Mandra leased plantations are considered to be "purchased" plantations in the Company's public disclosure because they were acquired through the 2010 acquisition of Mandra.

⁴ The Company classifies this as being comprised of all WFOE (SW and SP) leased plantations.

⁵ The Company's explanation for this figure being approximately 106% of its disclosed timber holdings as at December 31, 2010 is that the IC reviewed leases for approximately 51,000 Ha. of plantation land which were

- via original Plantation Rights Certificates in the Company's name, to approximately 86,000 Ha. of WFOE purchased plantations,⁶ and approximately 43,000 Ha. of WFOE planted plantations;⁷ and
- via copies of Plantation Rights Certificates in the Company's name, to approximately 9,000 Ha. of WFOE purchased plantations, and approximately 12,000 Ha. of WFOE planted plantations.

In addition, as at December 31, 2010, the IC has determined that the Company has original or copies of forestry bureau confirmations relating to the acquisition of:

- approximately 467,000 Ha. of BVIs purchased plantations;
- approximately 89,000 Ha. of WFOE (SP) purchased plantations; and
- approximately 50,000 Ha. of WFOE (SP only) planted plantations.

The Company does not obtain registered title to BVI purchased plantations. In the case of the BVIs' plantations, the IC has visited forestry bureaus, Suppliers and AIs to seek independent evidence to establish a chain of title or payment transactions to verify such acquisitions. The purchase contracts, set-off arrangement documentation and forestry bureau confirmations constitute the documentary evidence as to the Company's contractual or other rights. The IC has been advised that the Company's rights to such plantations could be open to challenge. However, Management has advised that, to date, it is unaware of any such challenges that have not been resolved with the Suppliers in a manner satisfactory to the Company.

Forestry Bureau Confirmations and Plantation Rights Certificates

Registered title, through Plantation Rights Certificates is not available in the jurisdictions (i.e. cities and counties) examined by the IC Advisors for standing timber that is held without land use/lease rights. Therefore the Company was not able to obtain Plantation Rights Certificates for its BVIs standing timber assets in those areas. In these circumstances, the Company sought confirmations from the relevant local forestry bureau acknowledging its rights to the standing timber.

The IC Advisors reviewed forestry bureau confirmations for virtually all BVIs assets and non-Mandra WFOE purchased plantations held as at December 31, 2010. The IC Advisors, in meetings organized by Management, met with a sample of forestry bureaus with a view to obtaining verification of the Company's rights to standing timber in those jurisdictions. The

not included in the disclosed total of planted plantations of 77,700 Ha. as of December 31, 2010, due to a number of reasons, primarily because these lands had not yet been planted.

⁶ These 86,000 Ha. of WFOE purchased plantations are composed of approximately 84,000 Ha. of leases under Mandra and approximately 2,000 Ha. of standing timber under SP.

⁷ These 43,000 Ha. of WFOE planted plantations are composed approximately of 31,000 Ha. of leases under SW and approximately 12,000 Ha. of leases under SP.

result of such meetings to date have concluded with the forestry bureaus or related entities having issued new confirmations as to the Company's contractual rights to the Company in respect of 111,177 Ha. as of December 31, 2010⁸ and 133,040 Ha. as of March 31, 2011,⁹ and have acknowledged the issuance of existing confirmations issued to the Company as to certain rights, among other things, in respect of 113,058 Ha. as of December 31, 2010.¹⁰

Forestry bureau confirmations are not officially recognized documents and are not issued pursuant to a legislative mandate or, to the knowledge of the IC, a published policy. It appears they were issued at the request of the Company or its Suppliers. The confirmations are not title documents, in the Western sense of that term, although the IC believes they should be viewed as comfort indicating the relevant forestry bureau does not dispute SF's claims to the standing timber to which they relate and might provide comfort in case of disputes. The purchase contracts are the primary evidence of the Company's interest in timber assets.

In the meetings with forestry bureaus, the IC Advisors did not obtain significant insight into the internal authorization or diligence processes undertaken by the forestry bureaus in issuing confirmations and, as reflected elsewhere in this report, the IC did not have visibility into or complete comfort regarding the methods by which those confirmations were obtained. It should be noted that several Suppliers observed that SF was more demanding than other buyers in requiring forestry bureau confirmations.

Book Value of Timber

Based on its review to date, the IC is satisfied that the book value of the BVIs timber assets of \$2.476 billion reflected on its 2010 Financial Statements and of SP WFOE standing timber assets of \$298.6 million reflected in its 2010 Financial Statements reflects the purchase prices for such assets as set out in the BVIs and WFOE standing timber purchase contracts reviewed by the IC Advisors. Further, the purchase prices for such BVIs timber assets have been reconciled to the Company's financial statements based on set-off documentation relating to such contracts that were reviewed by the IC. However, these comments are also subject to the conclusions set out above under "Timber Ownership" on title and other rights to plantation assets.

The IC Advisors reviewed documentation acknowledging the execution of the set-off arrangements between Suppliers, the Company and AIs for the 2006-2010 period. However, the IC Advisors were unable to review any documentation of AIs or Suppliers which independently verified movements of cash in connection with such set-off arrangements between Suppliers, the Company and the AIs used to settle purchase prices paid to Suppliers by AIs on behalf of SF. We

⁸ Composed of 106,446 Ha. of BVI plantations and 4,731 Ha. of WFOE planted plantations, of which 60,707 Ha. were confirmed in the Hunan Forestry Entity #1 Confirmation. This amount is, however, different from the total 60,696 Ha. shown on the confirmation, which appears to arise from an addition error.

⁹ Composed of 128,309 Ha. of BVI plantations and 4,731 Ha. of WFOE planted plantations, of which 60,707 Ha. were confirmed in the Hunan Forestry Entity #1 Confirmation. This amount is however different from the total hectare of 60,696 shown on the confirmation, which appears to arise from an addition error.

¹⁰ Composed of 90,905 Ha. of BVI plantations and 22,153 Ha. of WFOE planted plantations.

note also that the independent valuation referred to in Part VIII below has not yet been completed.

Revenue Reconciliation

As reported in its First Interim Report, the IC has reconciled reported 2010 total revenue to the sales prices in BVIs timber sales contracts, together with macro customer level data from other businesses. However, the IC was unable to review any documentation of AIs or Suppliers which independently verified movements of cash in connection with set-off arrangements used to settle purchase prices paid, or sale proceeds received by, or on behalf of SF.

Relationships

- Yuda Wood: The IC is satisfied that Mr. Huang Ran is not currently an employee of the Company and that Yuda Wood is not a subsidiary of the Company. However, there is evidence suggesting close cooperation (including administrative assistance, possible payment of capital at the time of establishment, joint control of certain of Yuda Wood's RMB bank accounts and the numerous emails indicating coordination of funding and other business activities). Management has explained these arrangements were mechanisms that allowed the Company to monitor its interest in the timber transactions. Further, Huang Ran (a Yuda Wood employee) has an ownership and/or directorship in a number of Suppliers (See Section VI.B). The IC Advisors have been introduced to persons identified as influential backers of Yuda Wood but were unable to determine the relationships, if any, of such persons with Yuda Wood, the Company or other Suppliers or AIs. Management explanations of a number of Yuda Wood-related emails and answers to E&Y's questions are being reviewed by the IC and may not be capable of independent verification.
- Other: The IC's review has identified other situations which require further review. These situations suggest that the Company may have close relationships with certain Suppliers, and certain Suppliers and AIs may have cross-ownership and other relationships with each other. The IC notes that in the interviews conducted by the IC with selected AIs and Suppliers, all such parties represented that they were independent of SF. Management has very recently provided information and analysis intended to explain these situations. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board. Some of such information and explanations may not be capable of independent verification.
- Accounting Considerations: To the extent that any of SF's purchase and sale transactions are with related parties for accounting purposes, the value of these transactions as recorded on the books and records of the Company may be impacted.

- 8 -

Cash

As reported in the IC's First Interim Report, as a precautionary measure, the IC requested that PwC confirm SF's cash balances. PwC did this as of June 13, 2011 for both China accounts and "offshore" accounts. A total of 293 accounts controlled by SF in Hong Kong were confirmed, representing 100% of the expected cash position. There are a very significant number of accounts held by SF in China (in excess of 260) and the logistics and requirements of in-person/in-branch verification in that country led the IC to confirm only a portion of the China accounts (28 accounts, representing approximately 81% of the expected China cash position). The IC was satisfied that SF's expected cash position existed as at the date of the confirmation. The Board should be aware that at the time of the cash confirmation process, SF only updated the details of its cash position quarterly, so the confirmation results must be considered in that context. The IC has instituted certain additional controls over cash movements in excess of \$1 million held in SF Hong Kong bank accounts in order to provide the IC with some precautionary comfort during the examination process. Further, Management has advised that cash balances are now updated on a more frequent basis. See Part XII.

BVI Structure

The BVI structure used by SF to purchase and sell standing timber assets could be challenged by the relevant Chinese authorities as the undertaking of "business activities" within China by foreign companies, which may only be undertaken by entities established within China with the requisite approvals. However, there is no clear definition of what constitutes "business activities" under Chinese law and there are different views among the IC's Chinese counsel and the Company's Chinese counsel as to whether the purchase and sale of timber in China as undertaken by the BVIs could be considered to constitute "business activities" within China. In the event that the relevant Chinese authorities consider the BVIs to be undertaking "business activities" within China, they may be required to cease such activities and could be subject to other regulatory action. As regularization of foreign businesses in China is an ongoing process, the government has in the past tended to allow foreign companies time to restructure their operations in accordance with regulatory requirements (the cost of which is uncertain), rather than enforcing the laws strictly and imposing penalties without notice. See Section II.B.2.

C. Challenges

Throughout its process, the IC has encountered numerous challenges in its attempts to implement a robust independent process which would yield reliable results. Among those challenges are the following:

(a) Chinese Legal Regime for Forestry:

- national laws and policies appear not yet to be implemented at all local levels;
- in practice, none of the local jurisdictions tested in which BVIs hold standing timber appears to have instituted a government registry and documentation system for the ownership of standing timber as distinct from a government registry system for the ownership of plantation land use rights;
- the registration of plantation land use rights, the issue of Plantation Rights Certificates and the establishment of registries, is incomplete in some jurisdictions based on the information available to the IC;
- as a result, title to standing timber, when not held in conjunction with a land use right, cannot be definitively proven by reference to a government maintained register; and
- Sino-Forest has requested confirmations from forestry bureaus of its acquisition of timber holdings (excluding land leases) as additional evidence of ownership. Certain forestry bureaus and Suppliers have indicated the confirmation was beyond the typical diligence practice in China for acquisition of timber holdings.

(b) Obtaining Information from Third Parties: For a variety of reasons, all of them outside the control of the IC, it is very difficult to obtain information from third parties in China. These reasons include the following:

- many of the third parties from whom the IC wanted information (e.g., AIs, Suppliers and forestry bureaus) are not compellable by the Company or Canadian legal processes;
- third parties appeared to have concerns relating to disclosure of information regarding their operations that could become public or fall into the hands of Chinese government authorities: many third parties explained their reluctance to provide requested documentation and information as being "for tax reasons" but declined to elaborate; and
- awareness of MW allegations, investigations and information gathering by the OSC and other parties, and court proceedings; while not often

explicitly articulated, third parties had an awareness of the controversy surrounding SF and a reluctance to be associated with any of these allegations or drawn into any of these processes.

(c) Small Management Team: The Company has a very small executive management team and it is stretched by:

- demands from the IC, the OSC and E&Y;
- the placement on administrative leave in late August 2011 of certain members of Management by the Company, based upon the advice of BJ. These employees remained available to assist Management upon request on a supervised basis, which further stretched the remaining management;
- the appointment of a new Chief Executive Officer part way through the IC process; and
- the fact that Management is dispersed among Canada, Hong Kong and various parts of China.

(d) Cultural/Language/Geographic Issues:

- vast majority of operational documents are in Chinese;
- most Asia-based Management employees' first language is Chinese;
- business practices in China and the SF business model:
 - rely heavily on personal relationships; and
 - documentation of contractual arrangements is not as comprehensive as would be typical in Western jurisdictions, is often not done until after the transaction is agreed and is frequently incomplete;
- geographic and time distances for the North American-based teams;
- SF's operations in China are widely and remotely geographically dispersed, a number of plantations are close to sensitive border areas and some are accessible only by overland vehicle travel; and
- public records in China are more limited than in Western jurisdictions and are often not complete, accessible, up to date or accurate.

(e) Corporate Governance/Operational Weaknesses: Management has asserted that business in China is based upon relationships. The IC and the IC Advisors have observed this through their efforts to obtain meetings with forestry bureaus, Suppliers and AIs and their other experience in China. The importance of

relationships appears to have resulted in dependence on a relatively small group of Management who are integral to maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority or lack of segregation of duties has been previously disclosed by the Company as a control weakness. As a result and as disclosed in the 2010 MD&A, senior Management in their ongoing evaluation of disclosure controls and procedures and internal controls over financial reporting, recognizing the disclosed weakness, determined that the design and controls were ineffective. The Chairman and Chief Financial Officer provided annual and quarterly certifications of their regulatory filings. Related to this weakness the following challenges presented themselves in the examination by the IC and the IC Advisors:

- operational and administration systems that are generally not sophisticated having regard to the size and complexity of the Company's business and in relation to North American practices; including:
 - incomplete or inadequate record creation and retention practices;
 - contracts not maintained in a central location;
 - significant volumes of data maintained across multiple locations on decentralized servers;
 - data on some servers in China appearing to have been deleted on an irregular basis, and there is no back-up system;
 - no integrated accounting system: accounting data is not maintained on a single, consolidated application, which can require extensive manual procedures to produce reports; and
 - a treasury function that was centralized for certain major financial accounts, but was not actively involved in the control or management of numerous local operations bank accounts;
- no internal audit function although there is evidence the Company has undertaken and continues to assess its disclosure controls and procedures and internal controls over financial reporting using senior Management and independent control consultants;
- SF employees conduct Company affairs from time to time using personal devices and non-corporate email addresses which have been observed to be shared across groups of staff and changed on a periodic and organized basis; this complicated and delayed the examination of email data by the IC Advisors; and

- lack of full cooperation/openness in the ICs examination from certain members of Management.
- (f) Complexity, Lack of Visibility into, and Limitations of BVIs Model: The use of AIs and Suppliers as an essential feature of the BVIs standing timber business model contributes to the lack of visibility into title documentation, cash movements and tax liability since cash settlement in respect of the BVIs standing timber transactions takes place outside of the Company's books.
- (g) Cooperation and openness of the Company's executives throughout the process: From the outset, the IC Advisors sought the full cooperation and support of Allen Chan and the executive management team. Initially, the executive management team appeared ill-prepared to address the IC's concerns in an organized fashion and there was perhaps a degree of culture shock as Management adjusted to the IC Advisors' examination. In any event, significant amounts of material information, particularly with respect to the relationship with Yuda Wood, interrelationships between AIs and/or Suppliers, were not provided to the IC Advisors as requested. In late August 2011 on the instructions of the IC, interviews of Management were conducted by the IC Advisors in which documents evidencing these connections were put to the Management for explanation. As a result of these interviews (which were also attended by BJ) the Company placed certain members of Management on administrative leave upon the advice of Company counsel. At the same time the OSC made allegations in the CTO of Management misconduct.

Following the implementation of these administrative leaves and the subsequent appointment of Judson Martin as the new Chief Executive Officer of the company on August 26, 2011, the cooperation received by the IC Advisors from the Company improved significantly. As a result of Mr. Martin's direction, meetings have been arranged and held with Suppliers, AI's and additional forestry bureaus. In addition, as noted above, very recently, Management presented information regarding AIs and Suppliers and relationships among the Company and such parties. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board.

- (h) Independence of the IC Process: The cooperation and collaboration of the IC with Management (operating under the direction of the new Chief Executive Officer) and with Company counsel in completing certain aspects of the IC's mandate has been noted by the OSC and by E&Y. Both have questioned the degree of independence of the IC from Management as a result of this interaction. The IC has explained the practical impediments to its work in the context of the distinct business culture (and associated issues of privacy) in the forestry sector in China in which the Company operates. Cooperation of third parties in Hong Kong and China, including employees, depends heavily on relationships and trust. As noted above, the Company's placing certain members of Management on administrative leave, as well as the OSC's allegations in the CTO, further hampered the IC's ability to conduct its process. As a result, the work of the IC was frequently done

with the assistance of, or in reliance on, the new Chief Executive Officer and his Management team and Company counsel. Given that Mr. Martin was, in effect, selected by the IC and BJ was appointed in late June 2011, the IC concluded that, while not ideal, this was a practical and appropriate way to proceed in the circumstances. As evidenced by the increased number of scheduled meetings with forestry bureaus, Suppliers and AIs, and, very recently, the delivery to the IC of information regarding AIs and Suppliers and relationships among the Company and such parties, it is acknowledged that Mr. Martin's involvement in the process has been beneficial. It is also acknowledged that in executing his role and assisting the IC he has had to rely on certain of the members of Management who had been placed on administrative leave.

II. BUSINESS MODEL AND CORPORATE STRUCTURE

II. BUSINESS MODEL AND CORPORATE STRUCTURE

A. Business Model

The IC's understanding of the Company's business model remains as described in its First Interim Report and reference should be made to that for an overall understanding of the business segments of the Company and their relative importance. The plantation fibre operations and, in particular, the core activity of purchasing and selling standing timber through the BVIs/AI structure is the central driver of asset value, revenue and income for SF. BVI entities within the BVI/AI structure represented as at December 31, 2010 \$2.476 billion of book value (466,826 Ha.) and \$1.326 billion in revenue, and approximately \$622 million of Income for the year then ended before allocation of corporate overhead.

The plantation fibre operations use two principal business models, a "purchased plantation" model and a "planted plantation" model and disclose its timber assets in its AIF and other disclosure documents on that basis. The purchased plantation model operates through two legal structures: a BVI/AI legal structure and, to a lesser but growing extent, a China incorporated WFOE legal structure. The planted plantations model is operated exclusively through the WFOE legal structure (although the WFOEs themselves are typically held indirectly through a BVIs holding structure). Management advised that no new cash capital had been deployed by SF into the BVIs' standing timber operations since 2004. Recently identified e-mails suggest that payments may have been made from the WFOE structure into the BVIs structure, e.g., by an offshore customer of a WFOE to settle amounts due to a BVIs, and by WFOEs to establish BVIs Suppliers. Management has not yet provided a full explanation of all these emails. However, Management has advised that there have been transactions whereby SF subsidiaries sell imported logs offshore to a Chinese customer who then owes SF U.S. dollars or Hong Kong dollars. As a result of pressure to collect receivables and the fact that the customer does not have the required currency, SF accepts payment in RMB. The RMB is accepted as payment onshore and is used to buy trees in the BVI model.

The purchased plantation model involves the purchase of standing timber and sale of standing timber pursuant to standardized timber purchase agreements and Entrusted Sale Agreements. The standing timber purchased is generally on land owned by collectives or villages (i.e., not state-owned land). When conducted through the BVIs/AI legal structure, of which 20 BVIs hold all of the BVI timber assets, the timber purchases are arranged through Suppliers. The relationship between such Suppliers and SF has been the focus of much review by the IC. (see Part VI below.) The BVIs structure does not involve the BVIs concurrently purchasing land use rights or leases with the purchase of standing of timber. However, the BVIs supply contracts typically contain a right of first refusal for the BVIs to acquire, or nominate an affiliate to acquire the plantation land use rights after the timber has been harvested. Despite such common contractual provision, the IC Advisors did not identify any occasions when such rights have been exercised.

The BVIs do not sell standing timber directly to customers; they sell under contract to an entity referred to as an AI who usually resells to others. The BVIs timber sales accounts receivables are settled by the AI making payments to Suppliers (directly or indirectly to other parties on their behalf) on behalf of SF. These payments by way of set-off enable the BVIs to acquire further standing timber from Suppliers. As SF has publicly disclosed, no cash actually flows directly

through the BVIs – all BVIs purchases are funded through the set-off mechanism using accounts receivable owed to SF. The particulars of the sales process between BVIs and AIs is set out in Section II.B and Section V.C.15.(b), below.

WFOEs are also engaged in the purchase and sale of standing timber through the SP group of entities with such activity classified as purchased plantations in the 2010 AIF disclosure. When conducted through a WFOE, purchases of standing timber are sometimes accompanied by concurrently obtaining plantation land use rights. The IC understands that WFOE standing timber transactions do not usually involve payments by way of set-off but are conducted on a direct fund transfer basis.

The planted plantation model is conducted by WFOEs through both SP and SW. It involves obtaining plantation land use rights, sometimes with standing timber but often as bare land suitable for planting. Management advises that sales from these planted plantations do not utilize the AI model but rather generally involve direct fund transfers by the WFOEs to the customer, some of whom are the same as or related to AIs under the BVIs/AI model. The IC understands that WFOEs, whether selling standing timber or selling logs from either planted plantations or purchased plantations, both buy and sell on a direct fund transfer basis; with all transactions settled in RMB.

What has become apparent throughout the examination process, is that important and integral elements of the business model are the relationships with business partners. Management had not been forthcoming in clarifying the parties behind the Suppliers and AIs or the relationships with the forestry bureaus that Management stresses are important to the ongoing business. However, as noted above, very recently, Management presented information regarding AIs and Suppliers and relationships among the Company and such parties. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board. The extent of relationships, as discussed later in this report, are important to both the business model and to reporting requirements.

B. BVI Structure

The Company has established 58 companies in the British Virgin Islands. It uses these companies as both holding companies for subsidiaries in China and to engage in the purchase and sale of standing timber in China.

During the IC's review period of the first fiscal quarter of 2006 to the first fiscal quarter of 2011, a total of 20 BVIs entered into a total of 453 timber purchase contracts for the purchase of 823,153 Ha. of standing timber. The aggregate purchase price was RMB 28.654 billion. Of those purchases, 466,826 Ha. of standing timber from 310 timber purchase contracts remained in the Company's books as at December 31, 2010, with the balance being accounted for by sales between the first fiscal quarters of 2006 and 2011, and by purchases made in the first fiscal quarter of 2011.

Of those 20 BVIs, only Suri-Wood Inc. and Sino-Panel (Yunnan) Limited were incorporated prior to 2009. The remaining 18 BVIs are subsidiaries of Suri-Wood Inc. incorporated in 2009 or later and have company names not immediately associated with Sino-Forest, such as Brain Force

Limited, Glory Billion International and Trillion Edge Limited. A table summarising BVI corporate search results for all BVIs is found at Schedule V.A.1.

The BVI with the most purchases during the review period was Suri-Wood Inc., which had 131 purchase transactions amounting to a total of 325,697 Ha. and RMB 10.994 billion. However, its last purchase transaction was in 2008. Over the same period Sino-Panel (Yunnan) Limited had just two purchase transactions in 2007 amounting to 10,438 Ha. and RMB 670.5 million. Further, another BVI called Sino-Forest Resources Inc. had purchases prior to but not during the review period.

The remaining 18 BVIs account for all 320 BVI timber purchase contracts entered into from the first fiscal quarter of 2009 to the first fiscal quarter of 2011, amounting to 487,018 Ha. and RMB 16.989 billion.

During the IC's review period, Suri-Wood Inc., Sino-Panel (Yunnan) Limited and Sino-Forest Resources Inc. had a total of 582 sales transactions amounting to a total of 548,292 Ha. and RMB 27.465 billion. The BVI with the most sales during this period was Suri-Wood Inc. which had 509 sales transactions amounting to a total of 492,718 Ha. and RMB 24.099 billion. The 18 BVIs incorporated after 2009 are yet to have sales recorded as at the date of this report.

Despite criticism of the use of British Virgin Islands holding structures in the MW Report (which describes them on page 2 as an "unjustifiable black hole"), IC believes that there are proper commercial reasons for using British Virgin Islands holding structures for investing in China.

1. BVIs as Investment Vehicles

Many foreign investors, including well known multi-national companies, hold their investments in China in special purpose vehicles established overseas in jurisdictions with a familiar and internationally accepted system of corporate governance. By way of example, over 75% of blue chip companies listed on the Hong Kong Stock Exchange (Hang Seng Index constituent stocks excluding the Finance Sub-Index) utilise British Virgin Islands holding structures, including for their investments in China. This reduces the uncertainties of operating under relatively new and untested Chinese corporate structures, and enables investors to enter into shareholding arrangements under familiar Western structures, governed by a common law system.

The British Virgin Islands has been a particularly popular jurisdiction in which to establish such companies, because of the lack of corporate income tax, capital duty and stamp duty on profits or issue or sale of shares. The use of such special purpose companies, one for each investment, also facilitates raising capital offshore and restructuring such companies without the uncertainties and delays inherent in the domestic Chinese system which requires a host of government approvals for even minor changes to a company ownership or structure.

2. BVIs as Vehicles to Purchase and Sell Timber

The IC has been advised by its Chinese counsel that there is no express statutory prohibition that foreign companies such as the BVIs may not purchase, hold and sell assets including standing timber located in China. Foreign companies may, after obtaining necessary government approvals and clearances and going through the proper formalities relating to foreign exchange,

remit foreign exchange into China and pay the purchase prices and repatriate the sale proceeds outside of China on the basis of proper documentary support, including evidence of payment of income tax and other taxes such as VAT (which is usually withheld by the domestic payer as withholding agent).

However, business operations in China conducted by foreign companies without an onshore presence is generally not allowed. Since 1992, SAIC regulations have required foreign companies to set up onshore entities within China before carrying out “business activities” within China. Chinese laws do not have any express definition of what activities carried out by foreign companies would constitute “business activities.”

The Company has obtained Chinese legal opinions that state that the purchase of timber in China by certain BVIs and the sale of such timber by those BVIs are not prohibited by Chinese law,¹¹ and that “to the best of [local counsel’s] knowledge after reasonable investigation and inquiry and as confirmed by the Company, each of the [BVIs listed] has the right to conduct business in China in the manner as presently conducted and as described in the Disclosure Package and the Final Offering Memorandum”.¹² However, Chinese counsel to the IC has advised that, on the basis of the materials reviewed by it, interviews with Company officers and representatives of Suppliers, AIs and forestry bureaus, as well as its other investigations from June 2011 to the present, it cannot definitively conclude that the activities of the BVIs are not “business activities” carried on within China, and it is believed there is a risk that such activities, taken as a whole, might be considered carrying out “business activities”, which requires a business to be registered in China. Chinese counsel to the Company and Chinese counsel to the IC met to consider these issues on November 11, 2011, and concluded that, given the lack of an express definition of “business activities” under Chinese law, and the uncertainty of the Chinese legal system, it was not possible to reach a definitive opinion on this issue.

Under the BVI structure, the BVIs do not sell standing timber directly to customers, they sell to AIs who, the IC are told, usually resell to others. Instead of receiving after-tax payment directly from the AIs, the BVI sales accounts receivables are settled in RMB by the AIs making payments to Suppliers on behalf of SF, which are usually by way of set-off (and some AIs and Suppliers stated to the IC Advisors during interviews that they sometimes directed the set-offs to be made to and from other parties), and thus enable the BVIs to acquire further standing timber from Suppliers without remitting the sale proceeds offshore and purchase monies back onshore again. This process avoids Chinese foreign exchange controls which must be complied with in a normal cross-border sale and purchase transaction, and this could present an obstacle to future repatriation of sales proceeds, and could have tax implications as well.

The Chinese authorities have demonstrated tolerance towards business activities that may be regarded as technically non-compliant or arguably non-compliant as business practices are gradually regularised over time, and tax laws are enforced more strictly year by year. While such practices by the BVIs and AIs have been going on for many years (since the 1990s according to

¹¹ See Jingtian & Gongcheng legal opinions issued for the reference of the Company’s auditors in 2007 and 2008.

¹² Jingtian & Gongcheng legal opinion dated October 21, 2010 in respect of offering of 6.25% Guaranteed Senior Notes Due 2017.

Management), the Company has achieved large scale operations only in more recent years, which may result in more attention from the Chinese authorities. The BVIs are subject to withholding tax, stamp tax liabilities and VAT or business tax (as the case may be) and the AIs need to specifically record in their financial statements liabilities of those taxes to be paid on behalf of the BVIs. While AIs are responsible for paying tax on behalf of the BVIs according to the terms of the standard form entrusted sales contracts they enter into with BVIs, the IC has not been able to verify that any relevant income taxes and VAT have been paid by or on behalf of the BVIs in China.

The Company discloses potential Chinese tax liabilities as a risk factor in its AIF, and sets out the methodologies it uses for calculating such liabilities. The Company states that Management applies significant estimates and judgment to determine the appropriate amount of tax related liabilities, and contingencies for such liabilities, to be recognized and disclosed in the financial statements. The Company recognized a provision of approximately \$160 million as at December 31, 2010 for contingent Chinese tax liabilities.

In the event that this business model is challenged by the relevant Chinese authorities as carrying on business activities in China by the BVIs, Chinese counsel to the IC has advised that, quite apart from the tax and foreign exchange compliance issues mentioned above, SF may be required to cease operations under this business model and could be subjected to administrative fines and other penalties.

However, as regularization of the practices of foreign businesses in China is an on-going process (as has happened in various industries since the early 1990s), the government has in the past tended to allow foreign companies a period to restructure their operations in accordance with regulatory requirements rather than enforcing the laws strictly and imposing penalties without notice.

3. WFOEs as Trading Vehicles since 2004

Chinese counsel to the IC has advised that, under Chinese law, the business of purchase and sale of standing timber could be categorized as a form of trading or commodity distribution business, which is an industry in which foreign investment in China has been subject to various restrictions and has been subject to change over the years.

In 1992, the State Council issued a notice to permit foreign-invested enterprises to be established in the commodity distribution industry in five trial cities, subject to relevant approval. However, in that notice, the State Council explicitly prohibited wholly foreign-owned enterprises from engaging in that industry.

In 2004, MOFCOM issued a notice that lifted both the prohibition on wholly foreign-owned enterprises from engaging in the commodity distribution industry and the limitation to certain cities. Since then, foreign investors have been permitted to, subject to relevant regulatory approval, establish trading companies (either as joint ventures or wholly foreign-owned enterprises) to participate in most areas of the commodity distribution industry, including the purchase and sale of standing timber, throughout China.

The Company established its first WFOE to engage in the purchase and sale of standing timber in 2004 in compliance with such regulatory requirements.

C. Corporate Structure

The Company's corporate structure is detailed in Schedule II.C. The organization has multiple subsidiary companies that have been formed over time to hold the different assets of the Company. There are, for example, about twenty BVIs holding different parcels of standing timber in China.

From a legal perspective, the vast majority of the subsidiaries are held through two holding companies: Sino-Wood and Sino-Panel.

Sino-Wood

SW holds, through many subsidiaries in the British Virgin Islands, Hong Kong and China, the Mandra assets, the BVIs' standing timber assets and a significant portion of non-Mandra WFOE assets. Management explained that functionally within SW, the domestic WFOE business and BVI business are operated quite separately. SW is also responsible for the flooring manufacturing operations, HOMIX, and the nursery business. SW is engaged in the buying and selling of imported logs.

In the SW WFOE domestic business (including Mandra), Albert Zhao is responsible for operations and Chen Hua is responsible for finance.

Sino-Panel

SP holds, through many subsidiaries in the British Virgin Islands and China, a significant portion of the non-Mandra WFOE assets. Management explained that Albert Ip was responsible for operations and George Ho was responsible for finance.

SP engages in both the purchased plantation business model and in the planted plantation business model. It also engages in the buying and selling of imported logs and, to a limited extent, in the buying and selling of domestic logs. We also understand it has some manufacturing operations.

For the BVI standing timber business, Albert Ip is responsible for purchases, Albert Zhao is responsible for sales, and Alfred Hung is responsible for finance.

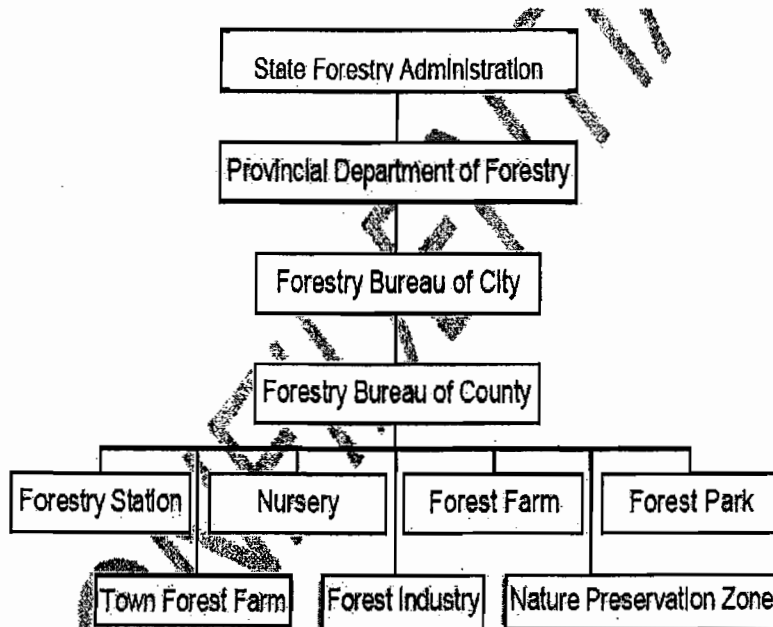
III. LEGAL REGIME

A. Evidence of Ownership of Tree Plantations

The core activity of the Company's business is the purchase and sale of standing timber using the "purchased plantation" model, principally through BVIs, and to a lesser extent, through WFOEs. The BVI model is described more fully in Part II above. The BVIs (and sometimes WFOEs) acquire standing timber pursuant to timber purchase contracts from Suppliers without acquiring any land use rights. Forestry bureau "confirmation letters" are commonly obtained by the Supplier from the local forestry bureau at county level or above in respect of such contracts. One Supplier, in its interview with the IC, noted that SF is its only customer requiring confirmation letters for standing timber purchases in addition to a purchase agreement. It appears that issuing confirmations is not typical practice and that such confirmations have been provided as a "favour" at the request of the Company and its Suppliers. WFOEs acquire standing timber on a stand-alone basis or in conjunction with land use rights or land leases. When land use rights or land leases are acquired, Plantation Rights Certificates are often eventually obtained in the name of the contracting WFOE subsidiary evidencing registered title.

- (a) Forestry Administration - China utilizes a top-down hierarchical system to govern its timber resources:
 - (i) *State Forestry Administration* - the central level, responsible for national legislation, policy development, national strategic planning and key forestry programs;
 - (ii) *provincial departments of forestry* - the regional level, responsible for forest regulation, by-laws and regional policy, short-term forestry and forest resource planning and organizing key programs;
 - (iii) *city-level Forestry Bureaus* - primarily act as a bridge for county and provincial level communications; and
 - (iv) *county Forestry Bureaus* - the local level, oversees the implementation of the central or provincial projects, resource management planning and land/forest title management.

This administrative structure is illustrated in the following figure:



- (b) Regulatory Framework - The key legislation regulating the forestry industry in China is the Forestry Law (effective from January 1, 1985, as amended), and its Implementation Regulations (effective from January 29, 2000, as amended). These are supplemented by various provisions, notices and other administrative rules at the national and provincial level.

The transfer of timber and other plantation rights is permitted by the relevant legislation, in particular the “Opinions on Comprehensively Promoting the Reform of the Collectively Owned Plantation Right System” (promulgated by the State Council of China on July 14, 2008). Such Opinions provide that, among others, farmers with contractual rights over collectively-owned commercial plantations may, without change of the plantation usage, and in accordance with applicable laws and regulations, dispose of such rights relating to plantation operations and plantation tree ownership rights through sub-contracts, leases, transfers, mortgages, or as contributions in capital or under cooperative structures.

The Forestry Law and its Implementation Regulations implement a system of plantation rights registration and issuance of certificates as evidence of such registration. Pursuant to the Implementation Regulations, all entities must apply to the forestry bureau of the local government at the county level or above for plantation rights registration, and such forestry bureau is responsible for issuing Plantation Rights Certificates.

There are four types of rights associated with plantations in China, being:

- (i) plantation land ownership,
- (ii) plantation land use rights,

- (iii) timber ownership and
- (iv) timber use rights,

all of which are separate rights. Private enterprises cannot hold plantation land ownership but may hold plantation land use rights for a specified duration (up to 70 years), timber ownership and timber use rights. In certain provinces, foreign enterprises cannot acquire land use rights. The various rights are separate rights and can be separately owned by different parties.

- (c) Plantation Rights Certificates and Confirmations - A Plantation Rights Certificate should reflect plantation rights as registered in the registration system and is the ultimate proof of ownership and sets out the parties that hold each of such rights. There is a nationally mandated registration system for Plantation Rights Certificates, though there appear to be some locations where Plantation Rights Certificates are not issued. In every visit with forestry bureaus conducted by the IC Advisors, they were told that Plantation Rights Certificates are not issued for timber ownership alone and that there is no forestry bureau record of the sale and purchase of standing timber alone. In these circumstances, the Company required their Suppliers to seek and they typically obtained from local forestry bureaus, "confirmation letters" (or "approvals") relating to the standing timber purchase contracts entered into by its BVIs and some WFOEs. These confirmation letters are not title documents as there appears to be no official regulatory basis for their issue. We understand that there is no registration system for such confirmation letters or approvals.

The forestry bureau confirmations are not a form of official documents contemplated by the applicable regulatory regime. Rather, we believe, based on meetings with certain forestry bureau officials or former officials and with certain Suppliers, and discussion with Management, that they are documents issued at the request of either the Company or, more commonly, its Suppliers as a "favour" and should not be disclosed outside the Company or relied upon legally. They have what purports to be the forestry bureau's Chop on them. We believe the forestry bureau confirmations should be viewed as comfort indicating that the relevant forestry bureaus do not dispute SF's claims to the standing timber to which they relate, but which are not documents of title that could be relied upon in event of a dispute or in a court of law. However as noted below, a number of the forestry bureaus have indicated that these have been issued at SF's request and that the confirmations are for SF internal use only and may not be shown to third parties. This could limit the usefulness of these documents in any legal dispute.

In two instances the IC Advisors have identified that forestry bureau officials were either concurrently or subsequently employees of, or consultants to, SF. One forestry bureau indicated that it assigned employees to SF and other companies to assist in the development of the forestry industry in its jurisdiction.

Attached as Schedule III.A is a chart prepared by the IC's independent Chinese counsel setting out the availability of Plantation Rights Certificates in various provinces in China.

B. Available Legal Opinions

Given the foregoing, the IC's independent Chinese counsel has advised that the available legal opinions regarding the Company's interests in its planted and purchased plantation standing timber, vary depending on the nature of the interest held. Schedule III.B sets out the form of opinion which JH has indicated it could provide to the IC. In summary, and subject in each case to the qualifications and assumptions set out in such form of opinion:

- (a) **if the BVI or WFOE has entered into a timber purchase contract to acquire standing timber, has from the local forestry bureau a written confirmation letter and does not have a Plantation Rights Certificate registered in its name or been provided the relevant Plantation Rights Certificate registered in the name of the Supplier for such standing timber:** each such timber purchase contract entered into by such BVIs or WFOE is valid, effective and legally binding on the parties thereto subject to the authorization by (a) the *de facto* owner with the Plantation Rights Certificate for such standing timber, if any, or (b) the ultimate farmer or collective economic organization who has legally obtained the ownership of the standing timber during the reform of the collectively-owned plantation rights system, as the case may be. If the *de facto* owner or the ultimate farmer or collective economic organization, as the case may be, refuses to grant the authorization to any contract, the contract will be void and the Company will have no contractual rights. However, if the Company has paid consideration to the Supplier pursuant to the contract, the Company will have a cause of action against the Supplier for the return of the consideration based on the legal theory of unjust enrichment;
- (b) **where the WFOE has entered into a timber purchase contract and a forest land use rights lease contract and has the relevant Plantation Rights Certificate registered in its name:** the WFOE has legally obtained the use right of the forest land and the ownership of the standing timber as recorded in the Plantation Rights Certificate;
- (c) **where the WFOE has entered into a purchase contract and forest land use rights lease contract, has a forestry bureau confirmation letter and has not acquired the relevant Plantation Rights Certificate registered in its name but has been provided the relevant Plantation Rights Certificate registered in the name of the Supplier:** the forest land use lease contract and timber purchase contract are valid, effective and legally binding upon the parties thereto and are enforceable against the parties thereto; as a result, the WFOE has contractual rights to the forest land and standing timber as provided in such contracts;
- (d) **where the WFOE has entered into a timber purchase contract and a forest land use rights lease contract and has obtained a forestry bureau confirmation letter but has not obtained relevant Plantation Rights**

Certificate registered in its name or been provided the relevant Plantation Rights Certificate registered in the name of the Supplier: such timber purchase contract and forest land use rights lease contract is valid, effective and legally binding subject to the authorization by (a) the *de facto* owner with the relevant Plantation Rights Certificate, if any, or (b) the ultimate farmer or collective economic organization who has legally obtained the ownership of the standing timber during the reform of the collectively-owned plantation rights systems, as the case may be. If the *de facto* owner or the ultimate farmer or collective economic organization, as the case may be, refuses to grant the authorization to any contract, the contract will be void and the Company will have no contractual rights. However, if the Company has paid consideration to the Supplier pursuant to the contract, the Company will have a cause of action against the Supplier for the return of the consideration based on the legal theory of unjust enrichment; and

- (e) **where the WFOE has entered into a timber purchase contract, has obtained the forestry bureau confirmation letter and has not acquired the relevant Plantation Rights Certificate registered in its name but has been provided the relevant Plantation Rights Certificate registered in the Supplier's name:** the timber purchase contract is valid, effective and legally binding upon the parties thereto and is enforceable against the parties thereto pursuant to the terms and conditions thereof; as a result, the WFOE has contractual rights to the standing timber as provided in such contract.

JH's form of legal opinion also provides that, while a forestry bureau confirmation letter does not constitute definitive evidence of ownership of the standing timber referred to therein, such letters may provide certain comfort in respect of the BVIs or WFOE contractual or other rights over such standing timber. This is because under applicable Chinese law, in the event of any dispute in respect of the ownership of standing timber, the disputing party shall seek determination of such ownership from the government, namely the forestry bureau, before they may start litigation in the court.

We note that in prior years SF has obtained legal opinions from its Chinese counsel regarding its plantation rights assets and business in China. These opinions were issued in connection with its annual audit or offshore securities issues. It is not clear to the IC what level of due diligence was undertaken by Chinese counsel in connection with the issue of such opinion. In the context of the IC's review, JH's due diligence process has been rigorous and has included JH's visits with forestry bureaus, review of original contracts, Plantation Rights Certificates and forestry bureau confirmations, and participation in the investigation undertaken by the IC.

C. SAIC Filings

The SF transaction volumes with a number of AI and Suppliers do not match the revenue reported by such Suppliers in their SAIC filings. The AIs and Suppliers, which are private entities, make their own filings without input or review by SF. Attached as Schedule III.C is a chart setting out such differences. Both MW and the OSC have focused greatly on this differential.

IC Advisors made the following observations to the IC regarding the reliability of SAIC filings:

- (a) Discrepancies between the information set forth in SAIC filings and the filer's books and records, as well as the filer's tax filings, can be expected in China. There are a number of reasons for this, such as the following:
 - SAIC searches are not definitive - filings and searches are not of the same status as in many Western countries, and should not be relied upon as being up-to-date and wholly accurate; and
 - the requirements for filing accounts with SAIC branches may be different from the requirements for statutory tax audits, resulting in different numbers.
- (b) SAIC filings should not be relied upon exclusively. The unreliability of financial information in such filings is something that one should take into account in China.
- (c) The way in which companies file with the SAIC / MOFCOM / SAFE / Finance Bureau / Tax Bureau / etc. would not usually be seen as a matter that concerns the counterparties that deal with such filers in China, with the possible exception of tax filings in the case of SF, as the AIs have an obligation under the Entrusted Sales Agreements to "pay relevant taxes on behalf of the Company".
- (d) While information in such filings as to legal representations and shareholders is generally more accurate it is not uncommon practice in China that one or more registered shareholders may be a trustee or nominee holder for an underlying beneficial holder who is undisclosed.
- (e) Legal and practical consequences of inaccurate SAIC filings could range from the draconian (on a literal interpretation of the legislation in the case of repeated, egregious breaches) to an expectation not to rely on filings (as a matter of common practice). The national government policy is that filings should be accurate, but the system of corporate filings / independent audits / imposition of tax / etc. is still at an early stage in China, and as a matter of practice, legislation reflecting such policy will only be enforced as and when the regulators choose to do so.

The conclusion that the IC has drawn from this advice is that information in SAIC filings, particularly financial filings, is one data point to consider but no conclusions can be drawn from that information alone, whether it be conclusions of a financial nature, ownership nature or otherwise based.

IV. PROCESS TO DATE

IV. PROCESS TO DATE

The IC Advisors' report on the process conducted on behalf of the IC is attached as Schedule IV. The scope of review and the processes undertaken by the IC Advisors to date were determined by the IC and have been subject to certain limitations. The IC, in its judgment, considers such limitations to be appropriate, having regard to the challenges discussed in Section I.C of this report, time constraints and cost/benefit considerations.

V. TIMBER ASSET VERIFICATION

V. TIMBER ASSET VERIFICATION

The principal objective of the asset verification process is to confirm SF's ownership of or contractual and other rights to standing timber in China, whether held by BVIs or WFOEs. In addition, steps were taken to verify the corporate existence of the subsidiary entities within the Company's corporate structure.

A central theme of the MW Report is that the Company does not own all the timber assets recorded on its books and that its reported revenue from timber is overstated. A principal task of the IC has been to examine the Company's rights to its timber assets and the revenue therefrom as reported in its 2010 Financial Statements. The chart attached as Schedule V sets out an overall summary of the Company's timber holdings as at December 31, 2010 broken down by organizational stream within the Company and showing the type of document held by the Company as evidence of title or contractual and other rights. Such documents include purchase contracts, Plantation Rights Certificates and forestry bureau confirmations.

A. Corporate Existence

The Company provided a list of the 149 entities comprising the SF group of companies: 58 BVI entities, 7 HK entities, 75 China entities, 2 Canadian entities, 1 Barbados entity, and 6 other entities (See Schedule V.A.) and a Chart showing the organization thereof (see Schedule II.C).

The existence of the Subsidiary BVIs and the WFOEs indicated on the Chart and the Company's ownership thereof has been confirmed as at the date of the searches. As noted below, the directors and officers of all such subsidiaries, with the exception of one,¹³ were listed in SF records as being employees of the Company at the time of the searches. This included Mr. Allen Chan, who has subsequently resigned from his position. Management and its counsel have advised that they are undertaking changes to install current Management as directors and officers of such subsidiaries. The IC has not independently verified this process. Such searches do not assure that the Company does not own other subsidiaries or interests in other entities.

1. BVIs

To verify the incorporation and existence of the Subsidiary BVIs on the Chart, the IC:

- confirmed that the list provided by the Company included all of the BVIs listed as material subsidiaries in the 2010 AIF;
- obtained search results (including copies of charter documents) and original certificates of good standing through BVI counsel for all 58 BVIs listed;
- obtained original certificates of incumbency showing directors, officers and shareholders for the Subsidiary BVIs listed; and

¹³ The authorized person to handle SAIC matters for Sino-Forest (Heyuan) Co., Ltd., He Qianghua, does not appear on the list of employees provided by the Company.

- summarized the search results in respect of each Subsidiary BVI listed, including verifying that the list accurately reflected the corporate name and shareholders of such Subsidiary BVI and that its directors and officers were employees of the Company at the date of the searches.

A table summarizing the BVI corporate search results is appended hereto as Schedule V.A.1.

2. WFOEs

To verify the incorporation and existence of the WFOEs on the Chart, the IC Advisors have:

- confirmed that the corporate list provided by the Company included all of the WFOEs listed as material subsidiaries in the 2010 AIF;
- obtained SAIC search results in China (including up to date basic company information sheets) for all WFOEs identified in the list; and
- summarized the search results in respect of each WFOE listed, including verifying that the list accurately reflected the name and shareholders of such WFOE Subsidiary and confirming its lawful incorporation, validity of business license and current scope of business.

A table summarizing the Chinese SAIC search results is appended hereto as Schedule V.A.2.

B. Master Framework Agreements

1. Overview of MFAs

Between September 2006 and the second fiscal quarter of 2011, through both BVIs and WFOEs, the Company entered into nine long-term MFAs with nine different Counterparties. These contracts address the supply to the Company of standing timber covering 1,667,667 Ha. in seven provinces over varying periods of three to fourteen years.

The MW Report questioned the legitimacy of certain of the MFAs. In its response to the MW Report, Management characterized the MFAs as framework agreements that are similar to a "Heads of Agreement" commonly used in Western business circles to outline the terms of a business deal. The MFAs provide the basis for subsequent specific purchase agreements for standing timber in the specific region.

2. MFA Review Process

The IC:

- reviewed the MW Report and Management's Response thereto;
- reviewed the Chinese texts and English translations of nine MFAs;

- reviewed certain public disclosure relating to the MFAs, including that set out in the 2010 AIF, 2010 MD&A and press releases issued by the Company concerning the MFAs;
- reviewed BVI and WFOE purchase contracts provided by the Company for standing timber held as at December 31, 2010, various BVI and WFOE contract spreadsheets, and BVI and WFOE asset listings as referred to elsewhere in this report;
- engaged in discussions with Management with respect to the business, including MFAs;
- performed corporate searches on each MFA Counterparty and potential related parties; and
- interviewed two of the MFA Counterparties (Supplier #3 and Supplier #19) in connection with its process interviewing certain Suppliers and AIs.

3. Muddy Waters MFA Allegations

The MW Report made a number of allegations with respect to the legitimacy of various Suppliers to the Company. Pages 16 to 29 of the MW Report focus on certain MFAs and the Counterparties thereto, particularly the MFAs with:

- Gengma Dai and Wa Tribes Autonomous Region Forestry Co., Ltd. (incorporated March 25, 1995, with registered capital of RMB 3 million, contract on March 23, 2007 for a 10 year term - approximately 200,000 Ha.);
- Zhanjiang Bohu Wood Co., Ltd. (incorporated on November 2, 2007, with registered capital of RMB 10 million (versus RMB 1 million disclosed in the MW Report), contract on December 10, 2007 for a 5 year term - approximately 150,000 Ha.);
- Zhangzhou Lu Sheng Forestry Development Co., Ltd. (incorporated November 19, 2007, with registered capital of RMB 2 million (versus RMB 550,000 disclosed in the MW Report), contract on August 11, 2008 for 10 year terms - approximately 200,000 Ha.); and
- Jiangxi Zhonggan Industrial Development Co., Ltd. (incorporated January 28, 2008 (versus January 28, 2009 as disclosed in the MW Report), with registered capital of USD 5 million (as disclosed in the MW Report), contract on June 11, 2009 for a 3 year term - approximately 150,000-300,000 Ha.).

The thrust of the Muddy Waters allegations is that the Company could not have made purchases from those Suppliers in the volume stated in those agreements. A number of reasons are put forth for that allegation which broadly can be summarized as follows:

- allegations that the Counterparties are generally newly created and thus cannot be credible Suppliers of the contracted supply volumes;

- allegations that based on SAIC filings the Counterparties have insufficient capital to support the contracted supply volumes;
- allegations that the Counterparties occupy simple offices or homes indicating that they are not sophisticated enough to be credible Suppliers of the contracted supply volumes; and
- allegations that the Counterparties' SAIC filings relating to their financial activity do not reflect SF's recorded contracted volume of business with such Counterparties; (including a detailed analysis of the Gengma Dai MFA by reference to Lincang City Forestry Bureau reports of forestry activity, reports on GDP and foreign investment levels for Lincang City in addition to SAIC financial filings).

There are a number of other specific allegations pertaining to each of the above-noted MFA Counterparties some of which are addressed in Part VI.

4. MFA Contract Terms

Each English translation of an MFA is 6-8 pages long. The MFAs are substantially similar although they have evolved over time to more closely reflect apparent actual practice. Key terms, and facts are summarized below:

- The SF subsidiary entering into an MFA was a BVI in the first 6 MFAs (2006-2008) and a WFOE subsidiary in the last 3 MFAs (2009-2011). The SF subsidiary may assign all its rights and obligations under the MFA to another SF subsidiary.
- Under each MFA, the SF subsidiary has first right of refusal to purchase very large volumes of standing timber (measured by mu/Ha. and cubic meters) in a designated area or region. Plantation land use rights are explicitly excluded from this first right of refusal.
- The MFA's do not contemplate the sale of the large volumes of standing timber through one transaction. Rather, the SF subsidiary is to exercise its rights by entering into a series of specific timber purchase agreements with the MFA Counterparty. Given the SF subsidiary may assign its rights and obligations under the MFA to any other SF subsidiary, both BVIs and WFOEs may ultimately enter into those specific timber purchase agreements.
- The MFAs stipulate that after a specific timber purchase agreement has been entered into, and the subject standing timber has been harvested, the SF subsidiary then has a preferential option to lease the underlying land.
- The MFA recitals state that the Counterparty has received, either directly or indirectly through an entrusted third party, the full commission of the original owner to enter into the MFA. Regarding the actual performance of the MFA, the actual contractual warranties are weaker, stipulating that the Counterparty has acquired or will acquire the necessary consent and approvals, including those of the original owners either directly or through a third party designated by it.

- The Counterparties' representations and warranties in the MFAs have become stronger over time. All of the MFAs contain a soft "authority" representation to the effect that the Counterparty has or will have authority to transfer the assets. In the case of MFAs signed with WFOEs, this has evolved to a representation that a third party designated by the Counterparty has or will have authority to transfer. In the case of MFAs signed with BVIs, the representation is to the effect that the forests assigned are subject to a Plantation Rights Certificate or other documents that evidence legal ownership. More recent MFAs include a title representation and a compliance with law representation and, in the case of the three most recent MFAs, a representation that the forests were commercial forest lands not subject to any restrictions on transfer.

Schedule V.B.4.1 sets out a detailed summary of the MFAs terms and Schedule V.B.4.2 provides an unofficial English translation of the Gengma Dai MFA.

5. MFA and BVI Timber Purchase Contract Pricing

The MFAs set maximum prices at which standing timber is to be purchased by the company SF subsidiary within areas covered by MFAs. While the MFAs contemplate the purchase of specified amounts of standing timber measured in mu/Ha. and cubic meters, with an estimated volume, the maximum contractual prices contemplated in the MFAs (generally in cubic meters) varying between 260 RMB per cubic metre and 380 RMB per cubic metre. See Schedule V.B.5.

The MFA maximum price per cubic metre of timber does not differentiate between species of trees. However, the MFAs identify the main species of trees that are to be the subject matter of the specific purchase contracts. All specific BVI timber purchase contracts for timber in that province or region signed after the relevant MFA, regardless of the identity of the Supplier, are generally priced almost exactly to the maximum price set out in the MFA for that province or region.

For example, in March 2007, SF signed an MFA with Gengma Dai setting a cap of RMB 260 per cubic metre. The IC Advisors found that most subsequent BVI timber purchase contracts for Yunnan, irrespective of the Supplier, are priced at exactly RMB 260 or to within several RMB of that. However, two contracts signed in September 2010 for pine and fir, as opposed to broadleaf, are priced at an average of RMB 510 and three contracts signed in the first fiscal quarter of 2011 are priced at an average of RMB 310. Some BVI timber purchase contracts signed before the March 2007 MFA for Yunnan were priced higher than RMB 260. A spot review revealed several contracts priced at around RMB 370.

Similarly, in December 2006, SF signed an MFA with the Hongjiang City Forestry Technology Integrated Development Services Company for Hunan timber, capping prices at RMB 260 per cubic metre. Again, most of the subsequent BVI timber purchase contracts the IC Advisors have seen for Hunan are priced at exactly that price or to within several RMB except for the five aforementioned contracts signed in September 2010 and in the first fiscal quarter of 2011.

Further, in December 2007, SF signed an MFA with Bohu Wood which priced timber in Guangxi at a cap of RMB 380 per cubic metre. All subsequent BVI timber purchase contracts for Guangxi for all Suppliers were priced either at that price or to within several RMB. In contrast,

BVI timber purchases signed for Guangxi prior to the signing of the Bohu Wood MFA tended to have higher prices, sometimes as much as RMB 465 per cubic metre.

It appears that the MFAs establish a target price at which the subsequent specific BVI timber purchase. A chart summarising the pricing information for the MFAs from September 2006 onwards is attached as Schedule V.B.5. It is noted that there are some MFAs where the MFA Counterparty itself did not subsequently enter into any specific BVI timber purchase contracts. There are also MFAs under which the Company has not disclosed any subsequent purchases.

Very recently, Management provided the IC Advisors with information, which they indicate pertains to the market pricing of timber in each of the regions that are the subject matter of the MFAs at the time of entry into each of the MFAs. The IC has not yet reviewed or analyzed this information.

6. Summary of Findings on MW Allegations Regarding MFA

The MW Report seems to assume that the MFA Counterparties owned the standing timber that is the subject of the MFAs and that those Counterparties are directly supplying timber under the MFA itself. This assumption, together with the simplicity of the MFAs and the SAIC information on incorporation dates and capital, appears to have led MW to conclude that the contracts must be fraudulent.

In particular the MW Report alleges that the timber purchases under the Gengma Dai MFA were overstated by \$800 million primarily based upon information from Lincang City public records about direct sales with associated land rights from Gengma Dai as the seller. The allegations appear to be based on several misconceptions:

- that Lincang City records show all forestry transactions.
- that Gengma Dai was the sole supplier under the Gengma Dai MFA.
- that the supply disclosed by the Company was all purchased in Gengma County.

In respect thereto the IC found as follows:

- (a) Based on its interviews the IC does not believe trading in standing timber on a standalone basis is registered with the forestry bureaus. Accordingly, such trading volumes are not likely included in formal government statistics.
- (b) Management provided a letter from Gengma Dai confirming that it had sold to SF 520,000 mu (approximately 34,670 Ha.) of standing timber and 190,000 mu (approximately 12,670 Ha.) of plantation land use rights combined with standing timber. The IC reviewed contracts covering such sales. In addition, Gengma Dai indicated it had also facilitated sales of some 3,040,000 mu (approximately 202,670 Ha.) of standing timber by third parties. The IC reviewed contracts for sales of standing timber in Yunnan that at least equalled the indicated volumes although those contracts did not reference Gengma Dai or the MFA. Management explained that the MFA Counterparties did not receive compensation for such

arrangements. The IC received no other evidence of MFA Counterparties facilitating supply by other parties.

- (c) MW ignores the fact that the MFA with Gengma Dai is to be fulfilled over as long as a ten year period. The various forestry and other economic statistics cited by MW are only for Gengma County and Lincang City whereas the underlying BVI timber purchase contracts disclosed by the Company are for plantations in 18 different counties within six different cities in Yunnan (not just Lincang City). For a table showing purchases of timber assets in Yunnan Province, please refer to Schedule V.B.6.(c).

The MW Report also indicated that SAIC filings by the MFA Counterparties did not reflect the values of the contracted supply in the MFA. The general issue of the accuracy of financial information in such filings is addressed under Section III.C. However, the point in this context reflects a misunderstanding by MW of the framework nature of the MFAs. In practice, only a small portion of the volume stated by the Company to be purchased under MFAs (with the exception of Supplier #3) has actually been supplied by the MFA Counterparty. As a result, the MFA Counterparty's SAIC records, even if accurate, would not be the basis by which to measure the Company's activity levels. As set out above, in the case of Gengma Dai, the role of the MFA Counterparty is explained by Management as also being a facilitator of supply through other parties. Further detailed analysis of the actual supply provided by MFA Counterparties is set out in Schedule V.B.6.

The MW Report suggests that the MFA Counterparties are generally newly incorporated entities. Four of the entities were incorporated more than two years prior to their entry into the MFAs. Three of the MFA Counterparties were incorporated within one year of their entry into the MFAs. The IC believes it is likely that at least some of the Suppliers are specifically incorporated for the purposes of acting as project companies to supply the Company. The MW Report also suggests (based on their SAIC filings) most MFA Counterparties have very modest offices and minimal capital.

Management's response to these points was as follows:

"For foreign investors looking to invest in standing timber in the PRC, it is natural, and more likely, a necessity, to deal through local agents in a specific geographical area who are either a supplier and/or agent for the suppliers, or both, of standing timber. During the past several years, SF has worked with a small team of agents knowledgeable in their specialized geographical regions within the PRC, who work as intermediaries between SF and the local villagers and collectives, private owners and companies that own the standing timber....

Under a typical "timber acquisition contract" used by SF in the acquisition of standing timber in the PRC, the buyer, a BVI company wholly owned by SF, will acquire standing timber from the suppliers/suppliers' agent who either has expressed authority from the original holder of timber rights to sell or is the holder of the timber rights....

A good suppliers' agent does not need to have a large base nor a strong balance sheet nor a long history, but its key man needs to have extensive and in-depth local knowledge of the timber resources in the region, to have excellent

relationship with the villages, their inhabitants and their respective elders, familiarity with their local practices and preferences; and a good knowledge and understanding of local rules and regulations, and the enforcement thereof, as well as good working connection with local regulators. None of them needs a posh, western office with high tech gears located in a class A office building at the centre of a major city (as stipulated by MW). In fact, by necessity, they should be located close to the villages, with humble and low cost set up for their offices.

All SF suppliers' agents are selected on the basis mentioned above and are fully independent of and unrelated to SF in any way or form."

Schedule V.B.4.1 identifies the reported registered capital of each of the MFA Counterparties, where available in SAIC filings.

For the purposes of the IC's interviews of certain Suppliers, Management identified the key personnel at such Suppliers which included two MFA Counterparties. Interviews did not necessarily take place at the Supplier's place of business and little documentation was provided. The IC Advisors have observed that the business sophistication of these individuals and the apparent scope of the Suppliers' operations and related operations varied greatly. See Section V.C.12. The IC was unable to gain insight into the scope of capital necessary to act as a Supplier or whether the Suppliers are effectively funding their supply to the Company using deferred payments to underlying suppliers and the funds paid to it by the Company itself. The IC's analysis of BVI Suppliers activity generally is found at "BVI Suppliers General Observations" in Section V.C.13 below.

C. BVI Standing Timber Asset Review

1. BVI Asset Review Process

The BVI review process involved capturing, assembling and organizing into usable form massive amounts of documentation and data.

IC Advisors reviewed:

- 453 standing timber purchase contracts entered into by BVIs for the purchase of standing timber for the period January 1, 2006 to March 31, 2011, of which 337 were originals and 116 were copies. Of these, the timber acquired through 310 outstanding timber purchase contracts remained in the Company's books as at December 31, 2010 (consisting of 304 originals and 6 copies of contracts).
- 579 BVI Entrusted Sale Agreements by which BVIs sold standing timber for the period from January 1, 2006 to March 31, 2011, of which all were copies, see Section V.C.14.
- Documents among BVIs, AIs or parties related to AIs and BVI Suppliers recording set-off payments between the AI parties and BVI Suppliers on behalf of the BVIs for each timber purchase transaction. See Section V.C.14 below.

- 209 (196 originals and 13 copies) forestry bureau confirmations. The confirmations are on letterheads with forestry bureau names and feature Chops that indicate that they had been issued by the corresponding forestry bureau from 49 different forestry bureaus for BVI standing timber acquired from the third fiscal quarter of 2008 onward. 181 originals and 13 copies cover timber acquired before 2011 and the remaining cover timber acquired from January 1, 2011 until March 31, 2011.
- No originals or copies of Plantation Rights Certificates regarding BVI timber supply transactions, either in the name of the Company or other parties who previously owned the standing timber, were available to the IC Advisors. (Forestry bureaus visited generally advised that Plantation Rights Certificates are not available for standing timber only, and in one jurisdiction, are not available at all.)
- For the second fiscal quarter of 2011, 10 original BVI timber purchase contracts and set-off documents corresponding to each (set-off documents are discussed in Section V.C.15 below). No corresponding forestry bureau confirmations for these transactions were available. (Management advised that the Company has developed a new form of forestry bureau confirmation which it intends to obtain.)

The Company organized data including extensive spreadsheets listing:

- Detailed BVI timber assets spreadsheet tracking detailed information from 2006 to the first fiscal quarter of 2011 on BVI timber acquisitions and dispositions including information on contract number, buyer, seller, transaction dates and hectares moving;
- For the second fiscal quarter of 2011, BVI timber acquisitions and disposals including information on contract number, buyer, seller, transaction dates, hectares moving and set-off arrangements;
- Detailed BVI timber asset inventory information as of December 31, 2010 showing detailed flow chart of the asset inventory, a list of plantation timber holding amounts shown on the Company's balance sheet in the 2010 Financial Statements;
- Detailed BVI timber revenue information across a wide range of data points including contract tracking numbers, tree type, location, yield, margins by a number of measures, cost and maintenance costs;
- Email reviews, interviews with forestry bureaus, AIs/Suppliers and Management and other reviews as noted in Schedule IV; and
- The MW Report and the Management MW Response.

The IC observed that the Company possesses extensive and elaborate documentation with respect to its stated BVI standing timber purchases and standing timber sales.

2. BVI Standing Timber Purchase Contracts Reviewed

The IC has reviewed 337 original contracts and 116 copies of contracts for the purchase of standing timber by BVIs for the period of 2006 to the first fiscal quarter of 2011, of which 304 original contracts (452,959 Ha.) and 6 copies of contracts (13,667 Ha.) were for the standing timber held as at December 31, 2010.

Through timber purchase contracts, the BVIs acquire contractual and other rights from the Supplier or if the Supplier is properly acting as authorized agent of the underlying owner, then from such underlying owner, to standing timber purchased by them under such contracts. In the case of BVI standing timber purchases, the Company does not concurrently lease or obtain plantation land use rights.

3. Asset Reconciliation and Tie-in to 2010 Financial Statements

Management provided a detailed reconciliation of the contract purchase prices and amount of hectares shown in the BVI standing timber contracts to the BVI standing timber book value in the 2010 Financial Statements and the Ha. disclosure in the 2010 AIF. The IC reviewed and discussed this reconciliation (which was filed with the OSC) at length with Management. It contained a listing of BVI timber purchase contracts and purchase prices which the IC Advisors reviewed against the actual contracts. The IC is satisfied that the aggregate purchase prices shown in the BVI timber purchase contracts that SF indicated it held at December 31, 2010 reconcile to the book value of BVI standing timber assets of \$2.476 billion as recorded as part of the total timber holding shown on the 2010 Financial Statements. The BVI holdings of 466,826 Ha. of standing timber disclosed by the Company as at December 31, 2010 also tied-in to the hectare amounts contained in the BVI timber purchase contracts reviewed by the IC.

This is consistent with the Company's public disclosure reviewed by the IC. Such management reconciliation also contained consolidated information for WFOE purchased plantation standing timber assets and WFOE planted plantation assets at a corporate level.

4. Form of BVI Timber Purchase Contract

The BVI timber purchase contracts are the previously discussed "specific purchase contracts". They are signed between the BVI and Counterparties (i.e. Suppliers). Not every BVI timber purchase contract is signed with a MFA Counterparty. All are written in Chinese and mostly follow a template format with standard wording, even though they may have varying titles. An English translation of an example contract, together with a summary of the terms, is attached as Schedule V.C.4.

5. BVI Supply Contract Payment Process

The BVI timber purchase contracts do not specify the manner in which Suppliers are paid. The Company discloses in Note 4 to its 2010 Financial Statements that as a result of the accounts receivable from the BVI timber purchase contracts being denominated in RMB (which is not freely remittable out of China and its conversion is restricted), the majority of accounts receivables arising from sales by BVIs of standing timber are realized by the Company instructing its AIs i.e., customers/debtors, to settle on behalf of the Company the amounts

payable by it to Suppliers for further standing timber purchases and other liabilities denominated in RMB. For more discussion of set-off arrangements between BVIs and AI, see Section V.C.15.

Management advised that no new cash capital had been deployed by SF into the BVIs' standing timber operations since 2004. Rather the proceeds of disposition of BVI standing timber sales were generally redeployed to purchase further standing timber supply using the BVI/AI model. The IC email review indicated certain emails suggesting payment of certain BVI Supplier accounts payable were made by an offshore subsidiary of a customer and the IC has sought an explanation thereof from Management. Management's explanation is set out in Section VI.B.1, below.

6. Timber Rights Diligence Process

(a) Company Surveys

Each BVI timber purchase contract had an accompanying Forest Resource Survey Report ("Survey Report") which provides a general introduction of the county where the forest resources contemplated by the survey are located. The IC considered such surveys in connection with the asset verification process. The Survey Report also sets out the general geographic location of the county (including the longitude/latitude coordinates) and describes its natural conditions, total plantation land area, forest covering rate, timber reserves, tree types, tree details such as average height, diameter, density, transport conditions, and social and economic conditions. The Survey Report generally describes the verification method used and sets out the verification results of plantation area (mu), total number of compartments and sub-compartments that compose the plantation, and timber reserves (cubic meters). Although the reference numbers of compartments are included, no centralized system which connects compartments to the location of specific plantations is available to the IC and other location data that would be required to identify specific locations of the plantations is general in nature.

The Survey Reports for the BVI timber purchase contracts are almost exclusively produced by one survey company called Survey Co #1. The use of one company has raised concerns by the OSC. Management has provided an explanation as to its use of the surveys. See Section G of Schedule IX.

Management explained that the Survey Report was part of the due diligence process to determine suitability for acquisition and not a valuation or cash flow analysis. Management indicates in its diligence process summary that it also conducts an internal investment return analysis. The technical data, however, set out in the Survey Report were factors in the pricing of the timber. The most important factor is the volume of timber given that, on the basis of price per cubic metre of timber, the BVI timber purchase contracts are almost always priced in accordance with MFA pricing.

Management has explained that it reviews maps that allow them to locate the properties but does not retain them. The IC has not been able to verify this explanation and notes the Plantation Rights Certificates in the Company's possession in respect of WFOE timber transactions have detailed location descriptions. The IC Advisors were able to verify that most Mandra and SW purchase contracts have attached to them either a map or a description of boundaries or both. It is

not clear to the IC Advisors how the Company would be able to identify the relevant areas of timber purchased by the BVIs at the time of sale or harvesting.

(b) Standing Timber Chain of Title Diligence

The IC initially considered and rejected a process of tracing the Company's title back through the chain of supply to the holder of a Plantation Rights Certificate in favour of a forestry bureau confirmation process. The issue was revisited in light of the delays related to obtaining new confirmations, information that emerged about the nature of the confirmations and the OSC request for BVI timber purchase contract attachments.

None of the BVI timber purchase contracts have as attachments either (i) Plantation Rights Certificates from either the Counterparty or original owner or (ii) villager resolutions, both of which are contemplated as attachments by the standard form of BVI timber purchase contract employed by the Company. The OSC expressed grave concerns as to such absence and surmised in its discussions with the IC that such absence is per se evidence of fraud. The IC disagrees with this proposition and has indicated that to the OSC. While there is little question possession of such documentation would provide significant evidentiary comfort that the representations of the Suppliers in the BVI timber purchase contracts were accurate, the IC believes that their absence is evidence of Chinese forestry practices, weak internal diligence practices and weak document retention practices rather than anything else.

The response of Management to the MW Report indicated as part of a comprehensive diligence review process for timber purchases that the Company reviewed underlying Plantation Rights Certificates if timber was purchased directly from the plantation right land owner. If the supply of the timber was through a Supplier who owned the rights, Management indicated the underlying contract by which such Supplier purchased the timber and, if available, the Plantation Rights Certificate of the underlying owner of that property, were reviewed. A complete set of the steps that Management indicated in its response that it followed is set out in Schedule V.C.6.(b).

Ms. Xu Ni (Head of Legal) relayed from Mr. Ip that the operations department reviewed Plantation Rights Certificates and villager resolutions as part of the Company's diligence review process but that copies of such documents were not maintained. The reluctance by Suppliers to provide the underlying documents was confirmed during the various visits by the IC Advisors.

IC Advisors, in its e-mail review in August found a detailed SP diligence checklist from 2008. SP is a holding company for many non-Mandra SF WFOE companies that also purchase and sell standing timber. The diligence checklist stipulates that legal chain of title documentation is to be reviewed as part of the purchase of standing timber. Although the timber purchase process is conceptually the same for a WFOE as a BVI (although payment procedures are different), the document does not specify that the outlined diligence process is applicable to purchases by the BVI group. No similarly detailed document specifically addressed BVIs. An accounting flow diligence checklist for the BVI purchases indicates that Messrs. Chan and Ip were closely involved in BVI purchase planning and in approving individual purchases at several stages including selecting the BVI to make such purchases.

In response to a detailed OSC request, Management provided an updated report on its diligence process that evolved from prior explanations. Management indicated that when buying from a Supplier who was authorized by the original owner, it did not view Plantation Rights Certificates and may only view parts but not all of the underlying contract relevant to its purchase. Further, when buying from a Supplier who purchased from another Supplier, Management indicated that it relies upon Supplier representations without viewing underlying contracts or Plantation Rights Certificates. Management indicated that they may randomly check villagers' authorizations. No evidence was produced to support the Management explanation.

Management also indicated in its response to the OSC that it had visited certain forestry bureaus to view the history of the area in which timber is purchased and advised of SF's intention to purchase. It is unclear to the IC the extent and nature of the diligence that Management could have undertaken at forestry bureaus. The IC interviews with forestry bureaus indicate none maintained any records of standing timber-only transfer transactions, although most acknowledged they had issued Plantation Rights Certificates for land ownership.

In the course of assisting the Company to inspect specific transaction documents in connection with the 2011 second fiscal quarter report, it became apparent to the IC Advisors that the BVI timber purchase contracts and BVI timber sale contracts for the 2011 second fiscal quarter were only documented at quarter end. No forestry bureau confirmations were obtained in the second fiscal quarter of 2011. (Management advised that the Company has developed a new form of forestry bureau confirmation, which it intends to obtain.) Forestry bureau confirmations in respect of the 2011 first fiscal quarter purchases and the related BVI purchase contracts were provided to the IC Advisors in June 2011 for review.

The IC requested on a number of occasions commencing in late July that Management seek copies of the attachments to the BVI purchase contracts from the Suppliers. The Company provided copies of correspondence dated September 20, 2011 in which it made requests for the information but has advised that none has been forthcoming. In advance of and at each Supplier interview, requests for documentation including the attachments to BVI timber purchase contracts were made but no pertinent documents were produced by any BVI Supplier even though some BVI Suppliers undertook at various points to provide them.

7. Plantation Rights Certificates Not Generally Available for Standing Timber Alone

As noted above, under Chinese national forestry law (see Section III.A), Plantation Rights Certificates, a document evidencing ownership issued by governments in China (through local forestry bureaus), should theoretically be available for standing timber.

As noted above, the BVI standing timber contracts contemplate either a Plantation Rights Certificate or other valid ownership certification being held by the Counterparty or the original owner of the Counterparty in assisting the BVI in registering ownership of timber.

However, Management indicates that in practice it is not able to obtain Plantation Rights Certificates for standing timber purchases when no land transfer rights are transferred. Nine forestry bureaus visited by the IC generally advised that Plantation Rights Certificate's were not

available to a holder of interests in standing timber only. Very recently, one official at one forestry bureau suggested that Plantation Rights Certificates may be available for standing timber alone. However, he advised that the forestry bureau had never issued such a certificate. This suggestion is also inconsistent with all of the other information received by the IC in respect of BVI standing timber and the availability of such Plantation Rights Certificates has not been tested.

While this is not definitive evidence that Plantation Rights Certificates are not available anywhere in China for standing timber alone, the IC has concluded that proof of ownership of standing timber through possession by SF of a Plantation Rights Certificate for standing timber interests alone is not currently available in the jurisdictions in which SF has been conducting business.

8. Forestry Bureau Confirmations

(a) Existing Confirmations

The IC is satisfied that it is not yet possible to obtain Plantation Rights Certificates for standing timber alone in most, if not all jurisdictions in which the Company is doing business.

Management indicated that, in the absence of Plantation Rights Certificates, it has sought further acknowledgements from relevant forestry bureaus in the form of "confirmations" that it has rights in the timber. The Company has previously obtained legal opinions from the Chinese law firm of Jingtian & Gongcheng regarding the issuance of such confirmations. According to the legal opinions, if in a particular locality the work of registering plantation rights and issuing the new format of Plantation Rights Certificates has been delayed, and it is not possible to obtain the old form of Plantation Rights Certificates, and the BVI needs to prove the legality of its plantation rights to a third party, the BVI may apply to the competent department in charge of forestry administration at county level or above where the timber is located for the issuance of a "certification letter or confirmation letter" to prove the lawful rights that the BVI holds over the timber, and in such a case, such a certification letter or confirmation letter may be seen as valid proof that the BVI has the right to own the timber. Management has advised that they relied upon such opinions and also believe that these confirmations provide additional comfort in the event of any dispute.

The Company provided and the IC reviewed 196 originals and 13 copies of existing confirmations for the period of 2006 to the first fiscal quarter of 2011 in the possession of the Company, of which 181 originals (452,958 Ha.) and 6 copies (13,868 Ha.) comprising all of the 466,826 Ha. of the Company's disclosed BVI standing timber holdings as at December 31, 2010.

The BVI confirmations were in the form prepared by SF outside counsel and all were printed on letterheads with forestry bureau names and featured Chops that indicate that they had been issued by the corresponding forestry bureau. The confirmations reviewed are substantially of the same standard form, which include the following key terms:

- forestry bureau confirms that it has reviewed the BVI timber purchase contract before issuing such confirmations;

- forestry bureau approves the contract arrangement under which timber is transferred to the BVIs;
- forestry bureau agrees to issue Plantation Rights Certificates to the BVIs and register its timber ownership according to the schedule of municipal or city government implementation for Plantation Rights Certificates; and
- forestry bureaus confirm that subject to applicable laws the BVI is entitled to harvest, transport and sell the timber once the timber grows to full size.

Attached to each confirmation is a chart setting out the timber stipulated in the corresponding BVI timber purchase contracts. Because SP WFOEs also obtain confirmations for both standing timber and leases, the wording of SP WFOE confirmations is different.

Further, it is apparent from documentation found in email searches that the Company, at least in some instances, prepared the actual forestry bureau confirmations on notional forestry bureau letterhead on which a forestry bureau Chop was then obtained. Management explained that it created the notional letterhead copies, as the issue of the confirmation was not a statutory or mandated action, but rather a favour to assist the activities of the Company. Accordingly, they had to arrange all the logistics to obtain the confirmation. The IC Advisors did not find any evidence, through its email searches or otherwise, of the Company having falsified the Chop on forestry bureau confirmations.

There are indications in emails and in interviews with Suppliers that gifts or cash payments are made to forestry bureaus and forestry bureau officials. The reasons are not clear although two Suppliers noted benefits were provided for the issuance of confirmations.

Affirmations of existing confirmations were not initially sought by the IC for the reasons set out below. Eventually certain affirmations were sought and the results are described under Section V.C.9 - "Summary Outcome of Forestry Bureau Visits" below.

(b) New Form of Forestry Bureau Confirmations sought by the IC

After input from Management, the IC concluded that it would be disruptive to SF's forestry bureau relations to reconfirm the existing confirmations. A new form of confirmation with a more limited scope (i.e. did not address issues such as transportation, harvesting, and sale, as SF did not have these rights) was agreed upon with Management and sought from forestry bureaus. It is attached as Schedule V.C.8.(b).

The IC Advisors determined that it was appropriate to initially focus on BVI forestry assets in Yunnan Province in its asset verification process because Yunnan was the focus of the Muddy Waters allegations pertaining to the Company's plantation assets, and the vast majority of the Company's book value and net income resides in the BVI standing timber business. Yunnan Province represented 186,700 Ha. of the Company's total plantation assets as at December 31, 2010 and 201,673 Ha. as at March 31, 2011. The IC Advisors conducted an analysis to select forestry bureaus at which new confirmations would be sought. Management arranged visits at each of the forestry bureaus, with the exception of Yunnan FB#8 which was originally selected

by the IC Advisors but not yet visited. This focus was later broadened to include BVI forestry assets elsewhere and WFOE forestry assets both Mandra WFOEs and non-Mandra WFOEs.

9. Summary Outcome of Forestry Bureau Visits

The IC Advisors attended meetings with ten forestry bureaus or associated bodies between July 7 and November 12, 2011. The process by which meetings were arranged and the scheduling of those meetings took substantially longer than expected by the IC. Management explained that these delays were due to local holidays, changes in officials, personal holidays of officials, official forestry bureau requirement for background survey diligence and the adverse publicity surrounding SF, and conflicting demands on Management's time involved in both assisting the IC and conducting the Company's business.

The forestry bureaus responsible for Plantation Rights Certificates and from whom the Company has confirmations are located in the areas in which the Company assets are located, and visits to such locations involved significant time and travel, including multiple modes of transportation, often to somewhat remote locations in southern China.

The IC, on the advice of Management as to the importance of its forestry bureau relationships and on the advice of the IC Advisors that some form of introduction from the Company was a necessity, had Management arrange all of the visits and follow-up. The IC had little visibility into that process. Management attended and participated in all the forestry bureau meetings. There was sometimes disagreement with Management as to the tenor and findings of the meetings. The details of the IC process around the forestry bureau meetings is set out in Part IV. The status and results of these meetings to date are set out in narrative format below and a table in Schedule V.C.9.1. Summaries of the meetings with forestry bureau officials at the individual forestry bureaus are provided in Schedule V.C.9.2 and more complete notes of the interviews are available to the Board for its confidential review.

New confirmations representing a total of 54,781 Ha. of BVI standing timber were issued by two forestry bureaus from Yunnan selected by the IC Advisors (Yunnan FB#9 (14,433 Ha.) under Yunnan FB#6 (40,348 Ha.)). The visit to the Yunnan FB#2 resulted from the advice of the Yunnan FB#1 that it would not be able to issue a confirmation but that underlying county forestry bureaus may do so.

Two new confirmations representing a total of 75,892.71 Ha. of BVI standing timber were issued by two organizations related to forestry bureaus selected by Management. These were Hunan Forestry Entity #1 in Hunan Province (60,696.88 Ha.) and Yunnan Forestry Entity #1 in Yunnan Province (15,195.83 Ha.). The IC understands that these organizations are sponsored by the Hunan FB#2 and Yunnan FB#7, respectively.

Each of the four new confirmations varied from the form of confirmation agreed upon by SF's in-house counsel and the IC Advisors. Some of the material differences between the old confirmations and the new confirmations include the following:

- The new confirmations only state that SF BVIs have contractual rights and do not discuss other ownership characteristics.

- The Hunan Forestry Entity #1 issued a new confirmation ("**Hunan Forestry Entity #1 Confirmation**") corresponding to 60,696.88 Ha.¹⁴ which states that standing timber transactions comply with national and provincial laws, regulations and policies and such contracts are lawful and effective.
- The three Yunnan confirmations confirm the contract and Ha. information set out in the table of plantation rights as well as confirm that the BVI standing timber purchase contracts are lawful and effective.

There were indeterminate outcomes from several forestry bureau visits as follows:

- One forestry bureau in Yunnan Province (Yunnan FB#4) agreed to issue a new confirmation during the IC Advisors' visit subject to its completion of certain due diligence exercises, which it indicated would take approximately one month to complete from July 22, 2011. As of the date of this report, the new confirmation has not been received.
- Two forestry bureaus in Yunnan Province (Yunnan FB#3 and Yunnan FB#5) declined to issue new confirmations relating to a total area of 95,550 Ha., as at December 31, 2010 or 121,062 Ha. as at March 31, 2011, referring the IC to the county level forestry bureau within that area. Management later advised that the forestry bureaus were willing to issue the confirmations after conducting some due diligence. As of the date of this report, new confirmations from these two forestry bureaus have not been received. In the case of the Yunnan FB#5, Management arranged for the issuance of the confirmation in relation to Yunnan Forestry Entity #1 as noted above.

Existing confirmations representing a total of 90,905 Ha. of BVI standing timber were acknowledged by two forestry bureaus as having been issued by that forestry bureau. The reconfirmation process was subject to certain caveats noted below, including that Management selected the forestry bureaus at which reconfirmations were sought. A brief description of the two visits follows below:

- One forestry bureau in Hunan Province (Hunan FB#1) affirmed the issuance of certain samples of confirmations prior to the MW Report corresponding to BVI plantations with a total area of 13,845 Ha. as at December 31, 2010. At the forestry bureau meeting, the party to whom Management introduced the IC Advisors affirmed the authenticity of the confirmation. Subsequent to the meeting, the IC Advisors determined that the person was a recently retired former vice-chief who had been briefly on the SF payroll after the announcement of his retirement, receiving a monthly consulting fee. Management provided evidence of the arrangement and of termination of employment.
- One forestry bureau in Guangxi Province (Guangxi FB#1) affirmed the issuance of certain confirmations corresponding to BVI plantations with a total area of 77,060 Ha. as at December 31, 2010. A single official attended the meeting.

¹⁴ The hectareage of 60,696.88 Ha. differs from the total shown on the Hunan Forestry Entity #1 Confirmation, which shows 60,707 Ha. The difference appears to arise from an arithmetic error.

The new confirmations and acknowledged existing confirmations also cover certain WFOE standing timber assets and these are detailed under Section V.3.(d). Other information obtained from forestry bureaus:

- The level of transparency as to the nature of the diligence undertaken in issuing new confirmations or examining and reconfirming existing confirmations did vary, ranging from confirmation of an extensive review of underlying documentation (including confirmation of discussion of the underlying Suppliers and the review of such Suppliers' rights, including underlying Plantation Rights Certificates in the names of Suppliers) to no indication as to the methodology by which (or if) diligence was undertaken prior to the issuance of a confirmation.
- The interviews indicate that forestry bureaus have varying levels of completion in different Provinces with respect to the issuance of Plantation Rights Certificates to village collectives and other parties residing in the relevant area. All forestry bureaus visited by the IC Advisors in Yunnan Province and one in Hunan Province claimed to have issued Plantation Rights Certificates in respect of all plantations under their jurisdiction. In the case of the only forestry bureau visited in Guangxi, the IC Advisors were told that not many Plantation Rights Certificates (less than 3% in terms of plantation area) had been issued by it. The IC inquired about the ability to review Plantation Rights Certificate registries that are ostensibly available to the public. In some instances, it was indicated that no Plantation Rights Certificate registry exists. At other times, it was indicated that the Plantation Rights Certificate registry existed, but could not be reviewed or was kept at the county level rather than the city level. A variety of other reasons were provided as to why the Plantation Rights Certificate registry could not be seen at the time of the visit.
- All of the forestry bureaus acknowledge the activity of SF in their jurisdiction. A number expressly indicated that foreign offshore companies were not entitled to obtain Plantation Rights Certificates; but most expressly acknowledge that a foreign company was able to buy timber and sell timber.
- It was also clear that the forestry bureaus were of the view that the only means to establish legal rights with respect to the sale of standing timber alone was through contract.
- A number of the forestry bureaus indicated they had active relationships with SF and were aware of its activities as a buyer. In two instances the forestry bureau confirmed that SF was the largest owner of plantation forest areas within their jurisdiction.
- During the Hunan FB#2 visit, the party with whom the IC Advisors met advised that a specific vice-chief of the forestry bureau had been assigned to work closely with SF and that whilst he still drew a basic salary from the forestry bureau he also acted as a consultant to SF to assist SF in conducting its business. The IC Advisors were told that this arrangement had been in place for several years and a similar arrangement was in place between another forestry company and the forestry bureau at the direction of the local government. IC Advisors have confirmed that according to the Company's records

the vice-chief has appeared on the payroll since January 2007 with a monthly payment of RMB 15,000 which is likely to be significant compared with his forestry bureau salary.

- The IC Advisors were informed by one of the forestry bureaus (Yunnan FB#2) that the harvest of plantations belonging to SF in that county is very difficult, if not impossible, to be approved since the forest of that county is located in the "Natural Forest Preservation Zone". The forestry bureau also indicated that there could be a few exceptions, namely the "Middle or Lower Output Forest Replanting Scheme". It is not apparent whether standing timber purchased by SF qualified as "Middle or Lower Output Forest".

10. Introduction to Supplier and AI Interviews

The IC Advisors have attended meetings with Suppliers and AIs between September 22, 2011 and October 25, 2011. The IC concluded that the only means by which Supplier and AI interviews could be arranged was through Management. Much delay was encountered in arranging such meetings; in part, Management advised, due to concerns about confidentiality and in part due to the notoriety of the matter, particularly after the OSC announced the CTO. Certain limited assurances were eventually provided by the OSC. All such meetings were also attended by Management with the concurrence of the IC. Apart from an initial meeting with Supplier #1 at the request of Management and the concurrence of the IC, the interviews were led by the Company's counsel, BJ.

The purpose of these meetings was to obtain information relevant to certain allegations made by Muddy Waters – specifically ownership of timber, the genuineness of the BVI purchase and sale transactions and allegations of related party relationships.

The IC Advisors established and provided an interview protocol, a detailed sample of transactions and a list of specific documents to SF which the IC Advisors understand were provided to Suppliers/AIs in advance of the meetings.

The IC Advisors created a detailed set of questions to be asked by BJ at these meetings. The IC Advisors were provided with additional questions from the OSC to be asked by BJ at these interviews. The IC Advisors posed some additional questions at the meeting.

The interviewees declined to show any evidence of financial transactions, notwithstanding the request provided to them. The reasons given for not producing financial documents included avoiding scrutiny regarding tax, media exposure, and that SF should have copies of certain of the same documents.

The limited sample documents provided by certain of the interviewees such as Plantation Rights Certificates and villager's resolutions were not the documents requested in the interview protocol and could not be tied back to the sample transactions.

Many of the responses of the interviewees were similar – for example, no financial records were given, no copies of documents presented could be taken and the interviewees were not prepared to discuss any aspect of any other companies that deal with SF that they control or that appear to be in the same corporate group or any transactions with other parties, including any other

Suppliers and AIs. The SAIC filings indicate a number of accounts payable and receivable as well some minority cross shareholdings amongst Suppliers and AIs.

Members of Management and Supplier/AI employees attended all meetings with the IC Advisors but one meet and greet with Supplier #1.

The IC and its Advisors are unable to compel the AIs and Suppliers to cooperate or to produce documents.

With the exception of the Supplier Supplier #20, none of the meetings took place at the business addresses of the AIs and Suppliers provided by SF or the registered addresses noted in the relevant SAIC filings.

With respect to Supplier #3, the meeting took place at substantial business premises of what the IC Advisors understand to be a Supplier #3-related entity.

11. Summary of Supplier Interviews

During September 2011 the IC Advisors interviewed four of nine selected Suppliers (Supplier #3, Supplier #1, Supplier #20 and Supplier #19). Summaries and detailed notes in respect of each visit are also available to the Board for its confidential review.

In preparation for the Supplier interviews the IC Advisors reviewed SAIC filings for the Suppliers and AIs and identified numerous potential relationships between AIs and BVI Suppliers such as payables and receivables amongst them, cross personnel appointments and cross minority shareholdings. This raised questions amongst the IC Advisors as Mr. Allen Chan had previously explicitly denied knowledge of any relationships between BVI Suppliers and AIs or between BVI Suppliers/AIs and the Company. Details of these relationships are discussed below at Section VI.B. Very recently, Management provided information regarding AIs and Suppliers and relationships among the Company and such parties. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board.

Interviews were held with Supplier #1 and Supplier #3, which are Suppliers to BVIs and WFOEs, and Supplier #20 and Supplier #19, which are Suppliers to WFOEs only. Supplier #3 also purchases logs from the Company's log import trading business segment and is not an AI of the plantation fibre business as characterized by MW. All of the Suppliers interviewed indicated that they did business at arm's length with the Company and that there were no common employees or shareholders between them and the Company. However, three of the four Suppliers interviewed confirmed that they had personnel that were former SF employees. These relationships are discussed below at Part VI.

The Suppliers generally confirmed the levels of business activity between them and the Company but none of the Suppliers of BVI timber produced any documentation evidencing receipt of funds from the Company's AIs or any other parties or relevant chain of title documentation. A few sample documents such as contracts, villagers' resolutions, Plantation Rights Certificates and/or confirmations were provided by Supplier #1, Supplier #20 and Supplier #19. However, apart from the five Supplier/SF contracts provided by Supplier #20 and

one contract provided by Supplier #1, none of the supporting documentation provided could be reconciled with transactions selected for review by the IC Advisors based on the information available on the documents. Nor could this documentation provide assistance in understanding movements of funds between these Suppliers and the relevant parties. Some interviewees did acknowledge doing business with other Suppliers and/or AIs.

The IC Advisors have also found additional information which suggests connections between former SF employees, Suppliers and AIs. (see Schedule VI.B.1.1). This information has been provided to SF Management for comment.

Supplier interviews indicated that the Supplier due diligence process for the purchase of timber is likely less rigorous than that of the Company. A number of the Suppliers advised that they used rotating project companies and under-reported revenue, all with the purpose of minimizing taxes payable. Additionally, some Suppliers indicated that they only traded in standing timber and avoided applying for Plantation Rights Certificates also in an effort to minimise tax payable. The table in Schedule V.C.11 sets out a summary of the outcome of Supplier and AI visits to date.

Very recently, Management provided information regarding AIs and Suppliers and relationships among the Company and such parties. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board.

12. Suppliers Site Visits

In addition to the Supplier interviews, the IC instructed the IC Advisors to conduct unannounced site visits for a small sample of these companies to verify their existence at the addresses recorded in their SAIC filings, or at an address taken from the Company's records. Certain of these visits are described in more detail in Schedules V.C.11.

A selection of Suppliers was identified that would enable the IC Advisors, where applicable, to combine this manner of testing in conjunction with travel to various locations for planned Supplier visits, or to visit locations within a travel radius of two hours or less of an IC Advisor's office.

During the period from October 18, 2011 to October 20, 2011, the IC Advisors performed site visits to the following Suppliers offices based on addresses provided by SF and company information included in SAIC filings:

- Supplier #1 was a supplier to BVIs and WFOEs from 2007 to 2010. Four locations were identified in the surrounding area. Three of the locations were no longer occupied by Supplier #1 and the fourth address was incorrect. The IC Advisors were provided with a new address from individuals identifying themselves as Supplier #1 personnel. A sign at the site indicated that Supplier #1 had offices at this new location. One of the three Supplier #1 interviews took place at a business location in Chongqing, which appeared to involve newly planted forest plantations, although this location was not independently identified as being owned by Supplier #1.

- Supplier #10 was a supplier to BVIs in 2007 and 2008. Two locations were identified in the surrounding area. Offices belonging to Supplier #10 could not be found at either location.
- Supplier #11 was a supplier to BVIs in 2006 and 2009. Two locations were identified in the surrounding area. One address was not sufficiently specific to be located and the second address was not a corporate office.

Results of these site visits have been summarized in Schedule V.C.11.

13. BVI Suppliers General Observations

A chart showing the Suppliers to the BVIs from 2002 through 2011 by volume of transactions is attached as Schedule III.C. In that period the BVIs purchased from as few as four Suppliers to as many as eight Suppliers in any given year. The length of time the BVIs have dealt with any one Supplier has not exceeded four years despite large volumes of transaction.

(a) Suppliers as Project Companies

Management has suggested that the use of limited life project companies is not uncommon in China. The IC was advised that Mr. Chan undertook to identify the conglomerate structure behind these Suppliers in August, 2011. Such information was provided very recently. It identifies certain persons as supporting certain of the Suppliers and in many cases the same person supporting multiple Suppliers. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board.

Further, interviews with certain Suppliers have supported the notion that the Suppliers are part of a conglomerate. However, such Suppliers have declined to reveal the identity of such entities or their backers with a limited exception and that person is one of the people identified by Mr. Chan. The SAIC information on the shareholders of the various BVI Suppliers does not point to a consistent pattern of direct replacement of successive Suppliers with the same shareholders. However the use of nominee shareholders has been alluded to by many of those interviewed so the true beneficial ownership of the Suppliers may not be discernable through SAIC filings.

The MW Report noted in some instances the low capitalization based on SAIC filings and unsophisticated offices of some Suppliers. Management's general response to such allegations is reproduced in Section V.B.6, "Summary of Findings on MW Allegations on MFA". If certain Suppliers are part of a group of companies, the level of capitalization of Suppliers as project companies would be less of an issue as they would be supported by their respective parent company with greater capital resources. The timing of payments by the Suppliers to underlying landholders or other Suppliers and whether such Suppliers utilize SF payments to them in order to pay underlying owners or suppliers is not known to the IC.

(b) Local Knowledge

Management also suggested that the Company relies heavily on Suppliers due to their unique local knowledge on contacts necessary to aggregate and sell plantation assets in their respective provinces. That appears generally correct for the MFA Counterparties with one exception. Upon

reviewing the timber purchase agreements, the IC Advisors observed that several of the Suppliers conduct business with the Company in multiple provinces rather than in one specific location that would require focused local knowledge. For instance, while Supplier #6 has its head office in Jiangsu Province, it has sold timber to the BVIs in five different provinces including Guangxi, Guizhou, Heilongjiang, Hunan and Yunnan.

(c) Payments to Suppliers

The IC Advisors found limited anecdotal evidence in an email in the Company records that suggested the Supplier mark-up on two contracts was in the range of 158% to 170%.

Payments to BVI Suppliers occur by way of set-off from Company customers. These are all documented by set-off documents although the Suppliers and AIs interviewed declined to provide the IC Advisors with any independent evidence of movement of funds evidencing payments. The basis for the price paid to Suppliers by the Company has not been determined although all the Suppliers interviewed and Management maintain the relationship between the Company and Suppliers is at arm's length and all pricing on market terms.

Very recently, Management provided the IC Advisors with information that it indicated supported that MFAs were priced at then market prices for the regions to which such MFAs applied. Such information has not been reviewed by the IC Advisors or independently verified.

14. BVI Standing Timber Sales Contract Reviewed

(a) Contract Review

The IC also reviewed 579 copies of contracts for the sale of BVI standing timber for the period of 2006 to the first quarter of 2011, of which 167 sales contracts with an aggregate sale price of approximately \$1.327 billion related to sales in 2010. As described below, these 2010 sales contracts have been reconciled to the revenue of \$1.327 billion in respect of the sale of BVI standing timber recorded on the 2010 Financial Statements.

(b) BVI Standing Timber Revenue Reconciliation

The IC Advisors established procedures to assist the IC in determining the facts related to revenue reconciliation issues. The IC Advisors have performed the following procedures to date:

- Obtained understanding of revenue streams and revenue recognition policies as applied by SF across its operating segments; and
- Obtained a listing of all transactions and, for standing timber, related purchase and sales agreements, and have tied revenue reported in the 2010 Financial Statements for BVI timber sales to the sales prices shown in the underlying BVI timber sales contracts.

15. Terms of BVI Timber Sale Agreements

As disclosed in the 2010 Annual Report, the BVIs sell standing timber through Entrusted Sale Agreements. These are contracts signed between the BVIs and the AIs. The IC reviewed 579

BVI Entrusted Sale Agreements by which BVIs sold standing timber for the period from January 1, 2006 to March 31, 2011, of which all were copies. All are written in Chinese and mostly follow a template format with standard wording. These agreements are also referred to as "AI Agreements". The IC Advisors observed the following regarding such contacts:

(a) Agency vs. Principal Transactions

The AIs are Chinese incorporated companies that engage in timber trading. In the preamble to the Entrusted Sale Agreements, it is stipulated that the BVI "entrusts" the AI to sell the standing timber on its behalf. AIs are sometimes described by SF as "selling agents".

Under a typical Entrusted Sale Agreement, the AI is entrusted by the BVI to sell the BVIs standing timber assets located in China on its behalf. Notwithstanding its stated role as an "agent", the Entrusted Sale Agreements stipulate that the AI is itself directly liable for paying SF. That is, the AI's obligation to make payment to SF is not conditional upon the AI on-selling the standing timber to its customers. The AI does not receive any commission or fee from SF. It appears in reality that the Entrusted Sale Agreements are principal-to-principal contracts and do not appear to involve an actual "agency" arrangement. During meetings with AIs in September and October 2011, representatives from the AIs confirmed to the IC Advisors that they do not act as "agents" for SF and are responsible for finding their own customers. The IC understands that Management has treated the BVI sales transactions as being complete upon the sale to the AIs for revenue recognition process.

(b) Payment through Set-Off

Payment terms may vary but typically involve payment of 20% of the total sale price within 60 days of signing the Entrusted Sale Agreement, an additional 40% within 150 days, and the balance within 270 days of signing. Upon signing, the AI has full powers and rights to dispose of and handle the standing timber, and simultaneously, all risks in the standing timber pass to the AI. This confirms that the Entrusted Sale Agreements do not involve an agency arrangement.

In practice, proceeds from the Entrusted Sale Agreements are not paid to SF but are held by the AIs as instructed by SF and subsequently used to pay for further purchases of standing timber by the same or other BVIs. The AIs will continue to hold these proceeds until the Company instructs the AIs to use these proceeds to pay for new BVI standing timber purchases. No proceeds are directly paid to the Company, either onshore or offshore.

When an AI makes payment for a new BVI standing timber purchase, the funds used to make payment may originate from the proceeds of multiple Entrusted Sale Agreements. However, the Company's accounting records show that any set-off payments made by an AI are deemed to contribute to either the partial or complete settlement of the account or accounts receivable from an AI in the books of a BVI that is earliest in time. That is, the accounts receivable from any one particular AI in the books of a BVI are always settled in chronological order while any one account receivable may be settled through one or more set-off payments by the AI for new BVI standing timber purchases. Examination of the accounting records of the Company indicate that most AIs with regular entrusted sales transactions with the Company will at any one time have multiple accounts payable to the Company.

Further, the BVI on whose behalf an AI holds proceeds from an Entrusted Sale Agreement may request that AI to use those held proceeds to pay for a new standing timber purchase by a different BVI. For example, the BVI Suri-Wood Inc. entered into 131 standing timber purchase transactions from 2006 to 2008 but has had none since. Proceeds from the sales of standing timber purchased through these 131 standing timber purchase transactions have been used to pay for new standing timber purchase transactions by 18 new BVIs established from 2009 onwards, including Amplemax Worldwide, Ace Supreme and Glory Billion International. The 18 new BVIs have yet to have any sales.

In this way, proceeds from the Company's BVI timber sales have been re-invested on behalf of SF to expand its asset base in China. This re-investment of the proceeds from standing timber sales by the BVI is confirmed in Note 4 to the Company's audited financial statements set out in the 2010 Annual Report. SF refers to such arrangements as "set-off arrangements".

(c) Set-off Documents

Set-off arrangements are not stipulated in the Entrusted Sale Agreements themselves but rather are stipulated in separate documents which SF refers to as "Set-off Documents". The set-off documents are organized into sets and use standard wording and formatting, with each set containing the following documents:

- written instructions from a BVI with accounts receivable from an AI for that AI to make payment to a particular Supplier as payment for a new timber purchase by that same BVI or another BVI. These written instructions feature the name of the BVI at the top and are dated, signed and stamped and set out the amount to be paid;
- written notification from SF to the Supplier that payment is being made through the AI via set-off on behalf of the purchasing BVI. This written notification features the name of the BVI at the top and is dated, signed and stamped and set out the amount to be paid;
- written confirmation from the AI that payment has been made to the Supplier as requested by the instructing BVI. This written confirmation features the name of the AI and is undated and stamped and sets out the amount and date of payment; and
- written confirmation from the Supplier to the instructing BVI and paying AI that payment has been received from the AI. This written confirmation features the name of the Supplier and is dated stamped and sets out the amount and date of payment received.

The set-off documents are only produced and stamped after the Company enters into a new BVI Timber Purchase Contract and therefore reflect the payment of the consideration for this new BVI Timber Purchase Contract using proceeds from earlier Entrusted Sale Contracts held by the AIs on behalf of the Company. The set-off documents do not explicitly relate to any particular Entrusted Sale Contract and are not a record of BVI sales transactions. Apart from the Entrusted Sale Contract itself, and until set-off documents are produced pursuant to a new BVI timber purchase, there is no other document produced dealing with payment or settlement of BVI timber sales.

The IC Advisors have received copies of the Set-off Documents related to all the BVI standing timber purchase transactions between the first fiscal quarter of 2006 and the first fiscal quarter of 2011. However, the IC Advisors have not been provided with any documents showing movement of money to confirm that such set-off arrangements have been carried out. During meetings of the IC Advisors with AIs and Suppliers, representatives from the AIs and Suppliers declined to produce such documents showing movements of money. Common reasons cited for declining to produce documents included "tax reasons" and sensitivity towards the MW allegations and the resultant publicity. Further, some AIs visited stated that they may not in fact make payment themselves as instructed by SF but would instead arrange for other parties ("fourth parties") to make payment on their behalf. Those fourth parties may then instruct "fifth" or "sixth" parties to make payment.

In this situation, the Suppliers receiving payment will sometimes instruct its own "fourth" parties to receive payment on its behalf. All the AIs interviewed stated that these fourth parties are unrelated to SF. A common reason cited to explain the use of such expanding set-offs was for tax reasons but all AIs declined to discuss exactly how such use of fourth parties reduce taxes payable. During the meeting with Supplier #1, its legal representative explicitly stated that it would always instruct another party to receive payment from the AIs on its behalf. Reasons given for this arrangement included tax minimization and the fact that Supplier #1 did not have transactions with the AIs and therefore would be unable to account for the receipt of payment from the AIs.

(d) Tax Arrangements

The Entrusted Sale Agreement expressly provides that all taxes and fees that are to be borne by the BVI are to be withheld and paid by the AI to the appropriate tax bureau on behalf of the BVI. However, SF has not provided any documents to the IC Advisors showing that the AIs had in fact paid tax on behalf of any BVIs. Management has advised that they have not requested confirmations from the AIs with respect to payment of taxes. The AIs also declined to produce any such documents during meetings although several confirmed that they made such payments. Others either declined to discuss the issue of paying tax on behalf of SF or indicated that they were not aware of the details of whether tax is paid. The Company has recorded in its audited balance sheet as at December 31, 2010 a provision of approximately \$160 million in respect of any contingent liability it may have with respect to these tax liabilities.

(e) Harvesting Timber

All the Entrusted Sale Agreements impose an obligation on the AI to return the plantation land within a stipulated period. Some additionally impose an explicit obligation on the AI to harvest the timber within a stipulated period. It should be noted that there are harvesting quotas imposed by forestry bureaus in many areas. Management are of the view that these quotas are subject to negotiation. Harvesting license requirements are also stipulated in Chinese laws. The IC Advisors have not received any information confirming that any standing timber sold through Entrusted Sale Agreements has been harvested. The AIs and Suppliers also could not confirm that any BVI standing timber has been so harvested. The ability of the Company to exercise its preferential option to lease such land for replanting is premised on the harvesting thereof.

Further, the IC Advisors have seen no evidence of SF exercising this right in respect of BVI standing timber holdings.

(f) Attachments

The Entrusted Sale Agreements do not include a schedule of attachments and therefore, provide no insight as to what underlying documents if any SF produces to the AI when the sale transactions occur. A number of AIs indicated that they did their own diligence investigations but the nature and extent of that investigation was not detailed; others have indicated that when the AIs purchase the timber, they usually review the purchase contracts between SF and the Suppliers.

16. Summary of AI Interviews

The IC Advisors conducted interviews with four of five selected AIs (AI #2, AI #4, AI #3 and AI #1). Summaries and detailed notes in respect of each visit are also available to the Board for its confidential review.

All of the AIs indicated in the interviews that they did business at arm's length with the Company and that there were no common employees between them and the Company. However, several AIs confirmed that they had personnel that were former SF employees. Further, several AIs admitted to having or to have had connections with Suppliers but denied that these connections affect the arm's length nature of transactions with SF. These connections are discussed in detail below at Section VI.B.

The AIs indicated that they bought standing timber from SF and sold it to their own customers. As noted above, they do not act under the direction of SF and are not in essence "agents". Accordingly, they are not paid any commission or agency fees.

The AIs generally confirmed the levels of business activity reported by the Company but none produced any documentation of fund transfers to the Company or its Suppliers. Common reasons cited for declining to produce documents was sensitivity towards the issues raised by MW and tax.

Like with the Suppliers, AI interviews suggested that the due diligence process undertaken by AIs is likely less rigorous than those of the Company. All AIs indicated that they only traded in standing timber and therefore did not rely on Plantation Rights Certificates. AIs reported that they instructed their personnel to perform site visits and inspect timber offered by SF and review contracts between SF and earlier suppliers but without keeping copies of such documents. It was not clear if any AIs visited forestry bureaus to make inquiries.

Most AIs indicated that they did not harvest any timber and were not aware if their customers applied for harvesting permits.

17. AI Site Visits

In addition to the AI interviews, the IC instructed the IC Advisors to conduct unannounced site visits for a small sample of these companies to verify their existence at the addresses recorded in

their SAIC filings, or at an address taken from the Company's records. Certain of these visits are described in more detail in Schedule V.C.11.

A selection of AIs was identified that would enable the IC Advisors, where applicable, to combine this manner of testing in conjunction with travel to various locations for planned AI visits, or to visit locations within a travel radius of two hours or less of an IC Advisor's office.

During the period from October 18, 2011 to October 20, 2011, the IC Advisors performed site visits to the following AIs offices based on addresses provided by SF and company information included in SAIC filings:

- AI #2 has been an AI customer to BVIs from 2007 through to 2011. Three locations were identified in the Guangzhou area. AI #2 was found at one of the three sites, but had changed its name. Brochures at the location displayed the English name of Shareholder #10, a shareholder of the WFOE Supplier, Supplier #19.
- AI #3 has been an AI customer to BVIs from 2008 through to 2011. Two locations were identified in the Shanghai area. The company had recently vacated one site and could not be located at the other.
- AI #4 has been an AI customer to BVIs from 2008 through to 2011. One location was identified in the Shanghai area. The company could not be located at the site.

Results of these site visits have been summarized in Schedule V.C.11.

Representatives of AI #2 and AI #4 were included in the AIs interviewed. Those interviews took place at the offices of AI Conglomerate #1 ("AI Conglomerate #1"), an entity identified by Management as the conglomerate parent of these companies. The offices of AI Conglomerate #1 suggest the existence of a substantial business.

Representatives of AI #3 were included in the AIs interviewed. Those interviews took place at the offices of AI Conglomerate #2, an entity identified by Management as the conglomerate parent of this company. The offices of AI Conglomerate #2 suggest the existence of a substantial business.

18. AI General Observations

(a) Scale of Transactions with AIs

From the first fiscal quarter of 2006 to the first fiscal quarter of 2011, SF has dealt with approximately 14 different AIs, with no AI having dealings with SF spanning more than 4 years. Of those 14, 3 have been deregistered as of the date of this report, namely AI #8, AI #11 and AI #5. The total volume of transactions with the 14 AIs from the first fiscal quarter of 2006 to the first fiscal quarter of 2011 is approximately RMB 27 billion.

The volume of transactions with individual AIs can vary. The annual transaction sales volume with each AI from 2002-2011 is set on Schedule III.C. The five current AIs as at the first fiscal quarter of 2011 are AI #4, AI #1, AI #2, AI #6 and AI #3. From the first fiscal quarter of 2006 to

the first fiscal quarter of 2011, they have had a combined approximately RMB 16.9 billion of transactions with SF.

(b) AIs as Project Companies

On August 19, 2011, Mr. Allen Chan provided an organizational diagram setting out the relationships between the five current AIs as at the first fiscal quarter of 2011 and their relationships with their holding companies (“Holdcos”¹⁵). He explained that the AIs were project companies which would change periodically but that the Holdcos remained the same. The diagram shows that AI #2 and AI #4 both fit under the one Holdco called AI Conglomerate #1 (or “AI Holdco”) while the other 3 current AIs each have their own Holdcos. The SAIC filings received by the IC however did not indicate any relationship between these Holdcos and the 5 AIs.

This organizational diagram was presented to Mr. Albert Zhao during his interview on August 24, 2011. Mr. Zhao explained that during his tenure with SF, where he was in charge of liaising with AIs in relation to sales, he had only ever dealt with 5 AIs. He clarified that the individuals within the AIs with whom he liaises remain constant despite changes in the company with which they worked over time. Mr Zhao further indicated that the 5 AIs presented to him on the organizational chart were current as at the first fiscal quarter of 2011 and were comprised of the same main individuals as all other AIs he has dealt with.

D. WFOEs Contracts and Assets

1. Review Process Undertaken on WFOE Plantation Contracts and Assets

The primary focus of the asset verification has been the BVI standing timber assets. However, as the time frame and the difficulty of that process evolved, it was determined to also focus efforts on gathering, cataloguing and reviewing WFOE documentation. With respect to the WFOE timber assets, such documentation is not centralized and involved travelling to a number of offices and steps by the Company to centralize documentation within China. As in the case of the BVI assets, the review involved reviewing copies and originals of purchase contracts and land lease agreements, forestry bureau confirmations in the case of certain SP transactions and, in the case of SW and to a lesser extent SP, reviewing Plantation Rights Certificates.

Management has advised that WFOE standing timber assets as at December 31, 2010 represented approximately \$298.6 million of book value (97,038 Ha.), \$74 million in revenue and \$10 million of Income for such year before allocation of corporate overhead; and that, SW and SP WFOE planted plantations represented approximately \$103.8 million in book value as at December 31, 2010, but have not yet contributed materially to revenue.

¹⁵ “Holdcos” refers to groupings which may not be legal groupings with cross shareholdings in the Western sense but rather groups of companies under common control or influence.

2. Review of Sino-Wood WFOE Plantation Assets

(a) Contract Review Results

All timber assets under SW are plantation land leases classified as planted plantations in the Company's public disclosure. The IC assembled and reviewed a total of 623 SW plantation land lease contracts (19 originals and 604 copies) covering 51,700 Ha. of planted plantations as at December 31, 2010. This is compared to the Company's disclosed total of 52,663 Ha. of planted plantations under SW as at December 31, 2010. Given its small size, the IC did not investigate this discrepancy. The plantation area of a typical SW plantation land lease contract is small compared to that of the BVI timber purchase contracts.

The IC Advisors selected and reviewed in more detail a sample of 19 original plantation land lease contracts covering the largest plantations of the four WFOEs under SW, representing approximately 8.89% of SW's total timber assets. Many more original plantation land lease contracts were made available for review at various SF offices in China but were not further inspected. This was due to the IC Advisors having previously reviewed copies of these and to the availability of Plantation Rights Certificates under SW for asset verification.

In contrast to the relative uniformity of BVI timber purchase contracts, the SW plantation land lease contracts are not in one standard form. SW contracts adopt a variety of forms and terminology, including land lease, land use right transfer, land contracting and plantation right/profit sharing structures. However, they generally involve the transfer of plantation land use rights, timber ownership and timber use rights at the same time. Plantation right/profit sharing structures refers to the arrangement whereby the villagers holding the plantation land ownership receive a percentage of the profits generated by the plantation in return for accepting reduced land lease fees from SF.

(b) Plantation Rights Certificates Reviewed

To the knowledge of the IC, the SW division does not ever purchase standing timber on a standalone basis and has not had a policy of seeking forestry bureau confirmations.

The IC Advisors reviewed a total of 418 copies of Plantation Rights Certificates provided by the Company representing approximately 42,979 Ha. of planted plantations held under the SW division.

The IC then reviewed 287 original Plantation Rights Certificates covering a total plantation area of 31,121 Ha. The details of this and a brief explanation regarding the Plantation Rights Certificates that were not available for review are set out below.

The IC inspected original Plantation Rights Certificates of (i) Gaoyao Jiayao Forestry Development Co., Ltd. in an office of Gaoyao Jiayao Forestry Development Co., Ltd. located in Zhaoqing city on October 18, 2011, (ii) Sino-Forest (Heyuan) Co., Ltd. and Zhangzhou Jiamin Forestry Development Co., Ltd. in an office of Sino-Forest (Heyuan) Co., Ltd. located in Heyuan city on October 19 and 20, 2011, and (iii) Guangxi Guijia Forestry Co., Ltd. in an office of Guangxi Guijia Forestry Co., Ltd. located in Nanning city on October 21, 2011, as arranged by SF.

The Company has advised that amongst the 418 copies of Plantation Rights Certificates which the IC Advisors initially reviewed, some had been superseded while others had been cancelled and reissued. Reasons for certain Plantation Rights Certificates being superseded or cancelled and reissued included that there were recalculations conducted for the area covered by the Plantation Rights Certificates. As a result, not all of the 287 original Plantation Rights Certificates later reviewed by the IC Advisors correspond exactly to copies amongst the 418 Plantation Rights Certificates that were initially reviewed.

Further, Management advised that a total of 136 Plantation Rights Certificates have been mortgaged as security for Plantation Rights Certificate loans and were therefore not available for review. Please refer to notes 5 and 8 of Schedule V.D.2.(f) for details. The IC Advisors reviewed a small sample of the mortgages.

Finally, certain SW WFOEs share their rights over the plantations with other parties on a 7:3 ratio and this is reflected in their Plantation Rights Certificates. A total of 54 Plantation Rights Certificates fall into this category. The Company has included 100% of the area covered by these 54 Plantation Rights Certificates in its calculations of proven ownership to the IC, covering 2,554 Ha., whereas the IC Advisors have only included 70% of the area for these assets in their calculations—a minor difference of 765 Ha. Please refer to notes 6, 9 and 10 of Schedule V.D.2(f) for details.

The IC has not visited any forestry bureaus to attempt to confirm the original Plantation Rights Certificates against registries, if any, maintained by such forestry bureaus.

3. Review of Sino Panel Timber Assets

(a) Contract Review Results

Unlike SW, SP does engage in the purchase and sale of standing timber as well as leasing plantation land so contracts reviewed for SP comprised of both timber purchase contracts and plantation land lease contracts. Accordingly, SP's standing timber and plantation land lease assets are divided into and respectively classified as purchased plantations and planted plantations.

The IC assembled and reviewed a total of 358 copies of SP WFOE contracts covering 173,424 Ha. as at December 31, 2010. These are comprised of 107 standing timber purchase contracts covering 96,169 Ha. of purchased plantations and 251 plantation land lease contracts covering 77,254 Ha. of planted plantations.

(b) Reconciliation of Surplus

The figures obtained from the IC's review of contracts are higher than the Company's recorded figures as at December 31, 2010 of 122,136 Ha., comprised of 97,038 Ha. of purchased plantations and 25,098 Ha. of planted plantations as shown in the asset reconciliation provided by Management to the IC and the OSC. Management has provided a reconciliation and explanation of this surplus of approximately 51,000 Ha. as well as the minor difference in its WFOE purchased plantation Ha. figure. The core of Management's reconciliation to disclosed figures as at December 31, 2010 was that such figures are lower primarily because they excluded

bare land that had been leased but on which timber had not been replanted whereas the IC's contract review totals did include this bare land. The IC accepted this reconciliation and explanation and made no further investigations into this surplus.

(c) Plantation Rights Certificates Reviewed

(i) Purchased Plantations

The IC has reviewed a total of 383 original Plantation Rights Certificates which account for a total plantation area of 27,715 Ha. This Plantation Rights Certificate coverage amounts to a total of approximately 15.98% of SP's total timber assets of 173,424 Ha. based on contracts reviewed. These Plantation Rights Certificates are comprised of 301 Plantation Rights Certificates for 16,026 Ha. of standing timber and 82 Plantation Rights Certificates for 11,689 Ha. of plantation land leases.

The IC reviewed a total of 301 Plantation Rights Certificates for standing timber held under the SP division. Of these, 10 are in the name of SF covering 2,329 Ha. while 291 are in the name of Suppliers covering 13,697 Ha.

Regarding the 10 Plantation Rights Certificates in the name of SF, it is normally not possible to have Plantation Rights Certificates issued for standing timber only transactions. The Company explained that the standing timber purchase contracts corresponding to these 10 Plantation Rights Certificates were signed by Sino-Panel (China) but that the Plantation Rights Certificates were issued to Sino-Panel (Yunnan) Forest Management Co., Ltd. with the understanding that Sino-Panel (Yunnan) Forest Management Co., Ltd. would then purchase a lease over the same plantation land and would be assigned the rights over the standing timber from Sino-Panel (China). It was also explained that the Supplier in question agreed to delay the signing of the lease until after the issuance of the Plantation Rights Certificates and supported the application for those Plantation Rights Certificates. However, as at the date of this report, that lease is yet to be signed. Additionally, no documentation evidencing an assignment of the standing timber to Sino-Panel (Yunnan) Forest Management Co., Ltd. has been received. Nevertheless, for the purposes of this report, the IC has included these 2,392.2 Ha. of standing timber as being supported by original Plantation Rights Certificates.

Regarding the 291 Plantation Rights Certificates issued in the name of Suppliers, these are Plantation Rights Certificates issued to Suppliers that have sold the standing timber the subject of those Plantation Rights Certificates to SF WFOEs. As a form of security, these Suppliers allow the SF WFOEs to take possession of these Plantation Rights Certificates for the duration of the timber purchase contract, whose termination is usually deemed to occur when the timber is sold by SF or harvested. The SF WFOEs only have a contractual relationship with the Suppliers who remain the registered holders of the rights stipulated on the Plantation Rights Certificates. Nevertheless, in light of the contractual relationship between SF WFOEs and such Suppliers, and SF's possession of such Plantation Rights Certificates, for the purposes of this report, the IC has identified these 13,697 Ha. of standing timber as being supported by demonstrable chain of title to the original Plantation Rights Certificates.

(ii) Planted Plantations

The IC has reviewed a total of 82 Plantation Rights Certificates covering a total of 11,689 Ha. All of these 82 Plantation Rights Certificates are issued under SF's name.

The IC has not visited any forestry bureaus to attempt to confirm the original SP Plantation Rights Certificates against registries, if any, maintained by such forestry bureaus for purchased or planted plantations.

(d) Forestry Bureau Confirmations Reviewed

The IC has reviewed a total of 103 original forestry bureau confirmations covering a total of 138,914 Ha. which in turn represents approximately 80.1% of SP's total timber assets of 173,424 Ha. based on contracts reviewed. Of these, 42 confirmations covering 88,684 Ha. relate to standing timber while another 61 confirmations covering leases covering 50,230 Ha. relate to plantation land leases.

(e) Overlap between Plantation Rights Certificates and Forestry Bureau Confirmations

For the reasons outlined above, SP WFOEs sometimes have Plantation Rights Certificates and forestry bureau confirmations for the same plantation and therefore create an overlap between the totals of Plantation Rights Certificates and forestry bureau confirmations. The total amount of overlap between Plantation Rights Certificates and forestry bureau confirmations for SP is 26,333 Ha. which is comprised of overlaps of 15,264 Ha. for standing timber and 11,069 Ha. for plantation land leases. In some instances the forestry bureau confirmations were issued after the Plantation Rights Certificate had already been issued.¹⁶

(i) Purchased Plantations

Of the 96,169 Ha. of purchased plantations, approximately 88,684 Ha. are covered by forestry bureau confirmations. At the same time, approximately 16,026 Ha. are also covered by original Plantation Rights Certificates (13,697 Ha. in Suppliers' names and 2,329 Ha. in SF's name). Of the 16,026 Ha. covered by original Plantation Rights Certificates, only 762 Ha. (which originate from 2 transactions) are not concurrently covered by forestry bureau confirmations. Therefore, the overlap between forestry bureau confirmations and Plantation Rights Certificates is 15,264 Ha.

¹⁶ Examples of forestry bureau confirmations being issued after the issuance of a PRC include those relating to SP plantation land lease contract JUW-RES-REN-002-07, whereby the PRC was issued under SF's name on November 27, 2007 while the confirmation was issued on July 28, 2008. Another example is the uncoded SP plantation land lease contract dated December 2, 2007 for 13,126.70 Mu (875.11 Ha) in the jurisdiction of Hunan FB#1 whereby two corresponding PRCs were issued on October 17 and November 6, 2007 while the confirmation was issued on August 8, 2008.

(ii) Planted Plantations

Of the 77,254 Ha. of planted plantations, approximately 50,230 Ha. are covered by forestry bureau confirmations. At the same time, approximately 11,689 Ha. are covered by original Plantation Rights Certificates in SF's name. Of these 11,689 covered by Plantation Rights Certificates, only 620 Ha. (which originate from 1 transaction) are not concurrently covered by forestry bureau confirmations. Therefore, the overlap between forestry bureau confirmation is 11,069 Ha.

(f) Forestry Bureau Visits

In conjunction with its visits to forestry bureaus to obtain BVI standing timber confirmations, the IC concurrently sought to acknowledge the issuance of old confirmations or to obtain new confirmations in respect of SP WFOE properties within the jurisdiction of the same forestry bureaus. A total of 15,980 Ha. of purchased plantation holdings and 10,904 Ha. of planted plantation holdings as at December 31, 2010 were so acknowledged or confirmed.

In respect of acknowledging the issuance of old confirmations, the Guangxi FB#1 confirmed that it had issued SP-related confirmations covering a total of 10,773 Ha. of purchased plantations and 9,518 Ha. of planted plantation holdings.

The person whom the IC Advisors met at the Hunan FB#1 acknowledged that it had issued SP-related confirmations covering a total of 476 Ha. of purchased plantations and 1,386 Ha. of planted plantations. This acknowledgment was given by the previous vice-chief, who had been appointed as a consultant to the Company.

The Hunan Forestry Entity #1 issued a new confirmation covering a total of 2,374 Ha.

The Yunnan FB#2 issued a new confirmation covering a total of 2,357 Ha. of SP purchased plantations.

See section V.C.9 for a further description of the various forestry bureau visits.

(g) SP Supplier Interviews

All of the Suppliers that were interviewed by the IC Advisors had contracts to supply timber to SP WFOEs. A summary of the IC's findings in respect of them is set out above under Part VI.

4. Review of Mandra Holdings

(a) Mandra - Executive Summary

The Company first became a shareholder of the Mandra group of companies in April 2005 with a 15% investment and completed the full acquisition of all of the Mandra group of companies in 2010.

The Company provided a chart of Mandra properties at the corporate subsidiary level that contained book values and hectare amounts that tied into the 2010 Financial Statements. It

indicated a total of 147,144 Ha. held by Mandra subsidiaries which included 93,689 Ha. of plantations, 1,231 Ha. of bare land and 52,224 Ha. subject to long-term lease prepayments. The book value for the latter hectare amount was not included in timber holdings line item in the balance sheet included in 2010 Financial Statements but rather under the line item "Other Assets".

Approximately 853 contracts entered into by Mandra subsidiaries of the Company (as the buyer) covering plantation lands of 141,719 Ha. were reviewed. Management provided a reconciliation of the difference between that number and the publicly disclosed number of 147,144 Ha. held at December 31, 2010. Some 1,196 copies of Plantation Rights Certificates covering 95,420 Ha. were reviewed covering approximately 64.73% of the publicly disclosed total Ha. for Mandra and 1,115 original Plantation Rights Certificates related to Mandra assets have been sighted by the IC. These cover approximately 85,664 Ha. or 58.2% of the publicly disclosed total land holdings in the Mandra group of subsidiaries. Management explained that the balance of the properties were either subject to Plantation Rights Certificates under mortgage, under review for harvesting licensing or were properties for which Plantation Rights Certificates were in the process of being sought.

Underlying documentation relating to the purchases was also reviewed. As a general matter, documentation for Mandra properties was systematically more comprehensive than in other Company groups.

(b) Brief Mandra History Overview

The Company first made an investment by way of loan subscription to Mandra in April 2005. According to the minutes of the Company reviewed, Mandra became operational in 2006 prior to the issuance of bonds in a related public offering. There was extensive discussion in the Board minutes with respect to the Mandra investment throughout the period of time the Company held its investment, including recognition of a deteriorating financial condition. The Mandra bonds were publicly rated and Moody's issued a number of press releases concerning Mandra's financial status from 2006 through 2010, including a default situation in 2009 so Mandra cash flow situation was notorious. The Company took effective control of Mandra through a series of share acquisitions and bonds as addressed elsewhere in this report. The Globe made a series of accusations suggesting that the Company had bought Mandra while in a financially weakened state implying that Mandra's state was not public information. This is demonstrably wrong. A detailed review of the Globe report is set out in Schedule V.D.4.(b).

The IC reviewed Mandra diligence reports prepared in respect of legal matters pertaining to the Mandra companies at the time of its acquisition and a diligence report with respect to Plantation Rights Certificates held by its domestic subsidiaries.

(c) Mandra Review Process

(i) Number of contracts and Plantation Rights Certificates reviewed:

- A. Approximately 853 copies of contracts have been assembled. The large majority of these transactions involve both purchasing timber

and leasing underlying plantation land at the same time. The 853 contracts cover plantation land of 141,719 Ha.

- B. The IC Advisors visited and inspected original Plantation Rights Certificates of Mandra in offices of Anqing Mandra Forestry Co., Ltd and Mandra Forestry (Jiangxi) Co., Ltd located in Anqing city and Nanchang city respectively as arranged by SF.
- C. A total of 1,196 copies of Plantation Rights Certificates of Mandra have been reviewed covering plantation land of 95,240 Ha. representing 64.73% of the publicly disclosed total for Mandra of which 1,115 original Plantation Rights Certificates have been verified covering plantation land of 85,664 Ha. or 58.20% of the publicly disclosed totals for Mandra.
- D. 17 original plantation land disposal contracts, under which all the 1,810 Ha. plantation of Huanggang Mandra Forestry Co., Ltd. and Wuhu Mandra Forestry Co., Ltd were disposed, have been reviewed.
- E. The IC has reviewed two original mortgage certificates covering 6,982 Ha. plantation being mortgaged. The balance of the mortgaged Plantation Rights Certificates were not reviewed

(ii) Types of contracts – Planted Plantations

There were four primary types of contracts:

- Timber purchase with plantation land lease contract – Anqing Mandra Forestry Limited's contracts with total contract area of 95,535 Ha. are substantially of this type. The WFOE purchases standing timber and leases underneath plantation land at the same time. The WFOE is entitled to harvest the existing timber and replant trees thereafter. The consideration for the purchase of timber and for the annual plantation land rental are calculated separately at a fixed rate according to the reserves of timber (in cubic meters) and area of plantation land (in mu). A map indicating the boundaries of the plantation, Plantation Rights Certificates of the villagers, villagers' resolution and the WFOEs' internal survey report are usually attached to the contracts.
- Timber and plantation land contracting right transfer contract – the overwhelming majority of Xuancheng Mandra Forestry Limited's contracts with total contract area of 6,700 Ha. are of this type. The contracting rights of the timber and underlying plantation rights are transferred to the WFOE from the previous contracting party and consent is obtained from the plantation land owner. The consideration for the purchase of timber and plantation land is usually calculated together at a fixed rate per mu for the whole contracting term.

- Forestry resources transfer contract – the overwhelming majority of Mandra Forestry (Jiangxi) Limited, Yihuang Mandra Forestry Limited and Zixi Mandra Forestry Limited contracts with total contract area of 37,674 Ha. are of this type. Timber and underlying plantation land use rights are transferred together to the WFOE and consideration for timber and plantation land are usually calculated together at a fixed rate per mu.
- Plantation land use right transfer contract – The contracts for Wuhu Mandra Forestry Limited are of this type. Only the plantation land use right is transferred to the WFOE and the transferor is obliged to clear the timber thereon.

The IC has not visited any forestry bureaus to attempt to confirm the original Mandra Plantation Rights Certificates against registries, if any, maintained by such forestry bureaus.

(d) MW-HSBC Letter Timing and Issues

In reviewing the incorporation applications in the SAIC files of four Mandra entities, MW retrieved a letter from The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) dated February 1, 2005. The letter (which is a poor-quality copy) has a re. line referring to a Mandra company, but in fact comments on HSBC’s banking relationship with “Sino-Wood Partners [sic.]” (“the Company”), noting, for example, that it considers “the Company” “good” for “normal business engagement”. MW characterizes the letter as “suspicious”. The MW Report includes a photograph of the letter, the appearance of which could suggest that it has been tampered with (see Schedule V.D.4.(d).1).

The IC Advisors retrieved the HSBC letter in question from SAIC filings in connection with applications regarding the formation of three Mandra entities, Anqing Mandra Forestry Limited, Xuancheng Mandra Forestry Limited and Wuhu Mandra Forestry Limited. These three companies were formed on March 14, 2005, prior to the date SF initially became a shareholder of Mandra. The IC Advisors also found a Chinese version of the HSBC letter (see Schedule V.D.4.(d).3) in the SAIC filings of Anqing Mandra Forestry Limited. It is also dated February 1, 2005, and generally appears to be identical to the English version of the letter that appeared in the MW Report, speaking only to Mandra Forestry Anhui Limited without mention of Sino-Wood.

Management denied knowledge of the HSBC letter in its response to the MW Report, stating that, on the date of the letter, SF was not a shareholder of Mandra. BJ has retrieved an email subsequent to the MW Report attaching what the author, Ringo Yip, Senior Manager - Corporate Planning, SF, characterizes as “the true HSBC bank reference letter” (see Schedule V.D.4.(d).2). This letter, which is also dated February 1, 2005, generally appears to be identical to the letter in the MW Report, except that the subject and copy line properly refers to Sino-Wood, not Mandra Forestry Anhui Limited.

The IC’s Chinese advisors have observed that, according to the Implementation Rules of Law of Wholly Foreign Owned Enterprises, a foreign investor is required to include evidence of credit in its application for forming a WFOE. Such evidence is normally issued by a bank in which the foreign investor maintains an active account, to certify to the regulatory authority that the foreign investor is of good credit and able to conduct business through the proposed WFOE. If this was

the purpose of the HSBC letter, the letter should address Mandra Forestry Anhui Limited, a major investor in WFOEs, not Sino-Wood, which was not an investor in WFOEs at the time.

Management explained that they do not have any record of the forged version of the letter and do not know who forged such letter.

VI. RELATIONSHIPS

VI. RELATIONSHIPS

The MW report made a number of allegations regarding the relationships of the Company with AIs and Suppliers and between AIs and Suppliers, particularly with respect to Yuda Wood. The IC Advisors, in the course of their review, identified a number of possible relationships which warranted explanation. These are outlined below in this Part VI. Management has very recently provided to the IC information regarding AIs and Suppliers and relationships among the Company and such parties. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board. Some of such information and analysis may not be capable of independent verification.

The objectives of the IC's examination of the Company's relationship with its AIs and Suppliers were to determine, in light of the MW allegations, if such relationships are arm's length and to obtain, if possible, independent verification of the cash flows underlying the set-off transactions described in Section II.A. That the Company's relationships with its AIs and Suppliers be arms length is relevant to SF's ability under GAAP to:

- book its timber assets at cost in its 2010 and prior years' audited financial statements; and
- recognize revenue from standing timber sales as currently reflected in its 2010 and prior years' audited financial statements.

A. Yuda Wood

1. Muddy Waters' Allegations

- (a) In the MW Report, Muddy Waters alleged that Yuda Wood, a major Supplier based in Hunan Province, was a significant "undisclosed subsidiary" of SF, which has been receiving "massive amounts of money" from SF subsidiaries and which is "the nerve center for [SF's] illicit activities".
- (b) In addition to the allegations in the MW Report, Muddy Waters published a short follow-up report on June 20, 2011, that focused on SF's relationship with Hong Kong's Sonic Jita, the holding company of Yuda Wood, which specifically alleged that:
 - (i) when Hong Kong Sonic Jita was owned by SF executives and SF itself, SF engaged in a major undisclosed related party transaction with Hong Kong Sonic Jita (in 1997); and
 - (ii) while Hong Kong Sonic Jita is currently nominally owned by parties unrelated to SF, SF and Hong Kong Sonic Jita shared "at least one key executive" (identified by the Chinese name of Albert Ip), who in 2005 entered into a contract with Hong Jiang City, Hunan Province on behalf of Hong Kong Sonic Jita.

- (c) However, Hong Kong Companies Registry filings show a change of control and ownership of Hong Kong Sonic Jita on July 28, 1997 and July 28, 1998 respectively, prior to the occurrence of the alleged related party transactions cited in the MW Report. In particular, those filings show that:
 - (i) from November 13, 1993 to July 28, 1997, the directors of Hong Kong Sonic Jita were SF executives and associated parties, and that from November 13, 1993 to July 28, 1998, the shareholders of Hong Kong Sonic Jita were parties associated with SF.
 - (ii) parties associated with SF were replaced as directors and shareholders of Hong Kong Sonic Jita on July 28, 1997 and July 28, 1998, respectively by Jin Juemin and Li Haibao, who appear to have been associated with Beijing Sonic Jita, a forestry engineering contractor to SF's factories within China, and who renamed the company as "Sonic Jita Engineering Ltd." from August 1, 1997.
- (d) In his statutory declaration dated August 15, 2011 (see Section VI.A.2(d) below), Allen Chan stated that up to July 28, 1998, SF did not engage in any transactions with Hong Kong Sonic Jita, and that, up until this date, the Company (under all its registered names) had not engaged in any business and remained a dormant company, and that after this date, Hong Kong Sonic Jita was no longer a related party to SF.
- (e) Nevertheless, in the course of the IC Advisors' Yuda Wood review, they identified information that suggested that SF had a close relationship with Yuda Wood, may have been involved in its establishment and exercised an influence over certain of its RMB bank accounts, funding and tax payments.

2. Review Conducted

(a) Evidence Brief

To address the MW allegations, and to gain a better understanding of the connections between SF and Yuda Wood, the IC Advisors prepared an interim evidence brief plan (draft dated August 23, 2011) that included an electronic data review as described above in Schedule IV, relationship mapping and meetings with Management and with E&Y. Relationship mapping findings are set out in Schedule VI.A.2(a).

(b) BJ's Interviews with Management

The IC Advisors attended interviews conducted by BJ with Management between July 26 to August 11, 2011. Information concerning the Yuda Wood relationship was presented to members of Management. The members of Management interviewed were Allen Chan, KK Poon, Alfred Hung, Albert Zhao, George Ho and Chen Hua.

(c) Review for Associated Parties

- (i) During the IC Advisors' review of the SAIC filings for Yuda Wood and other companies identified during the process, a document was found within the Yuda Wood SAIC search results which linked Simon Yeung to the purchase of a manufacturing facility in Hunan in Yuda Wood's name prior to when Yuda Wood had yet to be officially incorporated. Mr. Yeung's Chinese signature appeared on an offer, and ultimately an executed purchase contract, for Yuda Wood to acquire the factory facility.
- (ii) This document was presented to Mr. Yeung for an explanation at his interview by the IC Advisors. On August 25, 2011, Mr. Yeung responded that he was performing a favour for Mr. Huang Ran as he was absent from the region at the time the facility became available for sale and that he did not act on behalf of Yuda Wood in any capacity.

(d) Statutory Declarations

The issues of SF's relationship with Yuda Wood were still being examined by the IC Advisors in the middle of August, 2011, at a time when the Company's quarterly report for the period ending June 30, 2011 ("Q2s") were being prepared. To address certain issues relating to Yuda Wood pending completion of the IC's review, statutory declarations were obtained by the IC and the Audit Committee from the following members of Management at the IC's request:

- Allen Chan;
- Albert Ip; and
- Chen Jun.

The declarations were prepared with assistance from the Company's counsel and were sworn on August 15, 2011.

In his statutory declaration, Allen Chan declared that:

- (i) he did not hold a direct or indirect or beneficial shareholding interest in Yuda Wood, Beijing Sonic Jita or Hong Kong Sonic Jita or their affiliates, and was not involved in their operations and that he did not have other personal arrangements with or entitlements from these entities; and
- (ii) to his knowledge, no officer, director or employee of SF held a direct or indirect or beneficial shareholding interest in Yuda Wood, Beijing Sonic Jita or Hong Kong Sonic Jita or their affiliates or was involved in their operations, and that to his knowledge, no other officer, director or employee of SF had any other personal arrangements with or entitlements from these entities.

In his statutory declaration, Albert Ip:

- (i) denied having ever been an executive of Hong Kong Sonic Jita, held himself out to be a representative of Hong Kong Sonic Jita or entered into a contract in 2005 with Hong Jiang City, Hunan Province, on behalf of Hong Kong Sonic Jita; and
- (ii) further declared that Zhan Xiaokun and Chen Jun did not become employees of SF until after resigning as directors from, and selling their shares in, Hong Kong Sonic Jita.

However, searches at Hong Kong's Companies Registry in August 2011 indicated that Chen Jun remained a director and shareholder of Hong Kong Sonic Jita since joining SF in July 2010. In response to this finding, SF counsel arranged for Chen Jun to make a statutory declaration in which he declared that he had been only a nominee shareholder in Hong Kong Sonic Jita, and had submitted a letter to the other shareholder and director of Hong Kong Sonic Jita, Huang Ran, on June 26, 2010, tendering his resignation as director and asking to transfer his shares to Huang Ran. Huang Ran appears, from the documents exhibited to Chen Jun's statutory declaration, to have only filed documents implementing such requests with Hong Kong's Companies Registry and Stamp Duty office one year later, on June 10, 2011. Those documents were dated July 30, 2010, and included minutes of a shareholders' meeting allegedly held in Hong Kong on July 30, 2010, and attended by Chen Jun, at which his resignation as director and sale of his shares was approved. Chen Jun stated in his declaration that he did not attend any such meeting.

(e) IC Advisors' Interviews with Management

As the IC Advisors' Yuda Wood review proceeded subsequent to the release of the Q2s, they identified additional information relevant to SF's relationship to Yuda Wood.

The IC Advisors presented to the IC on August 23, 2011 a draft Yuda Wood interim evidence brief memo which set out certain matters of concern that warranted further investigation. (This memo was subsequently presented to the Board on August 23, 2011, and delivered to the OSC under summons.)

The IC Advisors recommended that certain members of Management be interviewed about the subject matter raised in certain emails identified by the IC Advisors, and about the Yuda Wood relationship generally; these emails suggested a close relationship between SF, its past and current employees, and past and current shareholders of Yuda Wood and/or its holding company.

The interviews conducted by the IC Advisors took place in Hong Kong from August 24, 2011 to August 26, 2011 and were also attended by BJ who occasionally participated. The members of Management interviewed were: Allen Chan, Albert Ip, George Ho, Eric Chan, Alfred Hung, Simon Yeung, Albert Zhao,

Chen Hua and KK Poon. The IC Advisors have delivered completed notes of such interviews to the IC, which delivered them to E&Y and to the OSC under summons. The IC authorized Osler to provide such notes to BJ so it could provide copies of the relevant interview notes to each interviewee and his or her respective counsel.

Following their respective interviews, Mr. Martin put Messrs. Ho, Hung and Yeung on administrative leave and Mr. Ip on limited duties.

The IC Advisors subsequently conducted interviews on September 8, 2011 with Messrs. Chen Jun, and Zhan Xiaokun. Both are current employees of SF and both are former 50% shareholders of Hong Kong Sonic Jita, the holding company of Yuda Wood.

(f) Interviews and Meetings with Yuda Wood

Further to the steps set out in their Yuda Wood evidence brief plan, the IC Advisors requested a meeting with Yuda Wood for the purposes of interviewing Yuda Wood's sole shareholder, Huang Ran.

On September 1, 2011 a meeting was held in Shenzhen. The nature of the meeting was a "meet and greet" between Huang Ran and SF's new Chief Executive Officer, Judson Martin. Huang Ran was accompanied by Supporter #2 who appears to be a shareholder and supervisor of Jiangxi Tianyao which is also a supplier to SF and Supporter #1. BJ and JH were also present. The IC Advisors were told by Management and BJ not to take any notes or ask any questions during the meeting as a condition of participation.

The key items noted during the September 1, 2011 meeting with Huang Ran are as follows:

- Huang Ran stated that he was in charge of running Yuda Wood's daily business. He denied that Yuda Wood is obligated by SF's instructions and stated that no one from SF has any interest in Yuda Wood.
- Huang Ran declined to disclose the names of the supporters behind Yuda Wood.
- Huang Ran stated that the only company to which Yuda Wood sold standing timber was SF.
- Huang Ran advised that he owns three other companies in China, namely Supplier #26, Supplier #9 and Supplier #25, which also act as Suppliers to SF. The SAIC filings indicate that Huang Ran holds a majority shareholding interest in those companies.

Following the meeting in Shenzhen, the IC Advisors were advised by BJ that Huang Ran would meet them again the next day in Chongqing, a five hour

journey from Hong Kong and Shenzhen. The IC Advisors were also told that such meeting the next day would be another “meet and greet”, and that it was unlikely that they would be able to review any documentation.

The second meeting with Huang Ran took place in Chongqing on September 2 2011. The meeting was conducted in accordance with the Interview Protocol for Suppliers and AIs prepared by the IC Advisors and sent to Allen Chan, Judson Martin and BJ on August 4, 2011. (See Schedule VI.A.2.(f).)

The key items noted during the second meeting with Huang Ran are as follows:

- The meeting was a “meet and greet” and consisted of a meeting over lunch and a subsequent meeting at Huang Ran’s premises.
- Huang Ran confirmed he is the legal representative of Yuda Wood.
- Huang Ran declined to talk about any companies he is associated with other than Yuda Wood.
- Huang Ran advised that transactions with SF account for over 50% of Yuda Wood’s business.
- Huang Ran advised that Yuda Wood acquires plantations from aggregators, not directly from farmers.
- Huang Ran advised that Yuda Wood obtains confirmations from forestry bureaus at the request of SF; the forestry bureaus have no obligation to issue them.
- Huang Ran advised that Yuda Wood sometimes directs payments to it from AIs to other parties, so there may be no evidence of Yuda Wood having received funds.
- Huang Ran agreed to try to collect documents for the IC Advisors’ review.

A third meeting with Huang Ran was scheduled and took place at SP’s Guangzhou office on September 28, 2011.

The key items noted during the third meeting with Huang Ran are as follows:

- Huang Ran was cooperative and gave responses to all questions.
- The IC Advisors were shown copies of four contracts with two farmers’ resolutions attached, and two contracts between Yuda Wood and its suppliers. With the exception of one contract for approximately 4,000 Ha., matched on the basis of the city and county of the plantation alone, the sample contracts provided between Yuda Wood and its suppliers could not be directly reconciled with transactions selected for review by the IC

Advisors, as specific location data was not available. No copies of these documents were allowed to be made.

- Huang Ran stated that Yuda Wood's business is trading and planting plantations and that SF represents approximately 40% - 50% of Yuda Wood's business.
- Huang Ran advised that in cases where SF directs a third party AI to settle its transactions with Yuda Wood (i.e. all BVIs transactions), Yuda Wood would always nominate a fourth party (which may in turn nominate a fifth or sixth party) to receive the payment "for tax reasons".
- Huang Ran declined to discuss tax related matters and when asked if Yuda Wood has ever issued VAT receipts to SF, he stated he was uncertain if that was the case, but if so, Yuda Wood should have records of any VAT receipts issued to SF.
- During the interview, Huang Ran was shown two emails by Rebecca Huang of BJ, which she identified as being the two emails resulting from the email review that were of concern to E&Y.
- In response to the two emails, Huang Ran denied that SF controlled Yuda Wood. He acknowledged that SF, through George Ho, Vice-President, Finance, monitored and was a joint operator of one of Yuda Wood's bank accounts (each of Yuda Wood and SF had knowledge of one of two passwords which were jointly required to release funds from the account).
- When shown the lists of SF Suppliers/AIs provided to the OSC and companies identified through relationship mapping or SAIC filings, Huang Ran acknowledged only that he has an interest in Supplier #9. When asked about other companies, he declined to discuss them. He did state that Yuda Wood "may have done one or two transactions" with Supplier #3 a few years ago.
- According to SF's records, the total volume of transactions between SF and Yuda Wood from 2007-2010 was RMB 4.56 billion. The IC Advisors were not provided access to the Yuda Wood books and records in order to confirm this volume during any of the three meetings.

(g) Management Responses

The IC Advisors completed additional electronic review for Yuda Wood related emails and the IC and E&Y requested a response from Management. The final version of such response was delivered to the IC, the audit committee and E&Y on October 22, 2011. The IC Advisors provided comment to the IC on Management's response to the emails in that such response was determined to be incomplete.

3. Findings Relating to Yuda Wood

- (a) The IC is satisfied that Mr. Huang Ran is not currently an employee of the Company and that Yuda Wood is not a subsidiary of the Company. However, there is evidence suggesting close cooperation (including possible payment of capital at the time of establishment, joint control of certain of Yuda Wood's bank accounts and the numerous emails indicating coordination of funding, and other business activities). Management has advised, based on its own inquiries, that they believe that no such payment of capital has occurred. Management explanations of a number of Yuda Wood-related emails and answers to E&Y's questions are being reviewed by the IC but may not be capable of independent verification.
- (b) Considerations Relevant to Yuda Wood Review:
 - (i) The meetings with Huang Ran occurred at a location related to a separate project company that Huang Ran is associated with and the second meeting occurred at the Guangzhou offices of SP.
 - (ii) The IC Advisors were not given access to certain of Yuda Wood's books and records in order to trace the flow of funds related to a selected sample of transactions (which sample was provided to Yuda Wood in advance).
 - (iii) Huang Ran declined to provide the names of other individuals or companies that control or have an interest in Yuda Wood.

Please see Schedule V.C.11 for a summary of Supplier site visits.

B. Other Relationships

1. Relationships Identified in Preparation for Suppliers/AIs Interviews

In preparation for the Supplier and AI interviews the IC Advisors performed reviews of SAIC filings for the Suppliers and AIs and identified numerous potential relationships between AIs and BVI Suppliers. Relationships identified to date for the key Suppliers and AIs are summarised in Schedule VI.B.1.1. In light of the potential relationships identified, the IC Advisors further reviewed BVI timber purchase contracts, Entrusted Sale Agreements and summary charts of BVI transactions. As a result of this review, the IC Advisors identified transactions which require explanations.

Observations included that SF's top Supplier from 2007-2010, Supplier #1, had no transactions with any SF BVIs in the Company's first and second fiscal quarters of 2011. In this same period, three new Suppliers, owned partly by recently departed SF employees, appeared and conducted several billions of RMB of business in the Company's first and second fiscal quarters of 2011.

Other observations included a number of payments to Suppliers in 2011 being made by an offshore customer that appears to be related to AI Conglomerate #1 / Supplier #3, suggesting that

there may be funds held offshore on behalf of SF BVIs or offshore payment obligations owed to SF BVIs.

Further observations included set-off arrangements between AIs and Suppliers with potential relationships as well as the sale of BVI standing timber to AIs that are potentially connected to the Suppliers that supplied the same standing timber.

These observations are summarized below. Some of these observations were raised with Mr. Judson Martin via email on October 19, 2011. A copy of the correspondence to Mr. Martin is attached as Schedule VI.B.1.2. As noted above, very recently, Management provided to the IC information regarding AIs and Suppliers and relationships among the Company and such parties. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board.

(a) Suppliers with Former SF Employees

In addition to Yuda Wood, to date, the IC Advisors have identified 13 Suppliers where former SF employees, consultants or secondees are or have been directors, officers and/or shareholders. Including Yuda Wood, these suppliers account for 43% of SF plantation purchases between 2006 and the first quarter of 2011. Very recently, in Management's explanation of relationships, a number of additional relationships were identified. These have not yet been reviewed by the IC Advisors.

(i) Supplier #2

Supplier #2 was established in 2010 and acts as a major Supplier to BVIs, taking up much of the slack in supply of timber left by the absence of Supplier #1 as a Supplier in 2011. It appears to be partly owned by an individual who was a SF employee from 2007 to 2010.

According to SAIC search results, Supplier #2 was incorporated on May 27, 2010, and has 2 shareholders. The first is Shareholder #11, who holds 80% of the shares and contributed RMB 800,000 of the registered capital. The second is Shareholder #12, who holds 20% of the shares and contributed RMB 200,000 of the registered capital. The total registered capital is just RMB 1 million.

According to the first SF employee lists obtained through electronic data searches, Shareholder #12 was an employee of the SF WFOE Hunan Jiayu Wood Products Co., Ltd. from March 1, 2007 to March 1, 2008, as a manager in the resources department. He was also employed at Sino-Panel (Luzhai) Co., Ltd. from March 1, 2007 to March 31, 2010, as a manager in the operations department. These positions appear to be intermediate positions.

In the third and fourth quarters of 2010 Supplier #2 had over RMB 1.8 billion worth of standing timber transactions with the BVI companies. In

the first quarter of 2011 Supplier #2 had over RMB 1.76 billion worth of standing timber transactions with BVI Companies.

According to a scan of his Chinese ID card found in the SAIC filings, Shareholder #11, the 80% shareholder of Supplier #2, was born on June 9, 1987. This means that he was 23 years old when Supplier #2 engaged in transactions worth RMB 3.56 billion with SF from the third quarter of 2010 to the first quarter of 2011.

(ii) Supplier #21

Supplier #21 has been acting as a Supplier to BVIs since the Company's second fiscal quarter of 2011. According to SAIC search results, Supplier #21 was incorporated on March 11, 2011. It has registered capital of RMB 5 million and its legal representative is the previously mentioned Shareholder #12, the former employee of SF until March 31, 2010, and the 20% shareholder of Supplier #2. Shareholder #12 holds 70% of the shares while Shareholder #13 holds the other 30%.

An email located in the Company's records suggested that senior management personnel knew of Shareholder #12 using proceeds paid from Sino-Panel Luzhai and Jianghua WFOEs to Supplier #2 for timber purchases to pay the registered capital of Supplier #21.

In the second fiscal quarter of 2011, Supplier #21 had over RMB 1 billion in transactions with the SF BVIs. The first such transaction was for RMB 432 million and was dated April 7, 2011.

(iii) Supplier #7

Supplier #7 has been acting as a Supplier to BVIs - since the first fiscal quarter of 2009. In 2009, Supplier #7 had over RMB 1.8 billion of standing timber transactions with the BVIs. In all of 2010 and the first fiscal quarter of 2011 it had no transactions with the BVIs. In the second fiscal quarter of 2011 it had over RMB 435 million of transactions with the BVIs.

According to SAIC search results, it was registered on January 20, 2009, with a registered capital of RMB 500,000. Its 60% shareholder is Shareholder #14, who was an employee of the SF Jiamu WFOE from May 1, 2007 to October 31, 2007, as a project assistant in the logistics department. He was also employed by the SF Hezhou WFOE from November 1, 2007 to October 31, 2008, as a manager in the projects department. During his interview, Mr. Allen Chan described Shareholder #14 having been a junior employee and the IC's findings appear to confirm this.

(iv) Other Suppliers and AIs with Former SF Personnel

Other observations regarding SF Suppliers with former SF personnel as summarised in the table below. A more detailed discussion of these Suppliers is contained in Schedule VI.B.1.1.

Name of Company	Role	Transaction With SF (RMB)	Date of Registration	Registered Capital (RMB)	Former SF Personnel, position holding or role and SF employment date
Supplier #2	BVI and WFOE Supplier	3.59 billion (BVI) (Aug 2010 to Mar 2011) 72 million (WFOE) (Oct 2010)	May 27, 2010	1 million	Shareholder #12 (20%) (SF Mar 1, 2007 to Mar 31, 2010)
Supplier #21	BVI Supplier	1 billion (Q2 2011)	Mar 11, 2011	5 million	Shareholder #12 (70%) (SF Mar 1, 2007 to Mar 31, 2010)
Supplier #7	BVI and WFOE Supplier	1.8 billion (BVI) (Jan to Dec 2009), 205 million (WFOE) (Aug 2010), 435 million (Q2 2011)	Jan 20, 2009	500,000	Shareholder #14 (60%) (SF May 1, 2007 to Oct 31, 2008)
Supplier #22	WFOE Supplier	39 million (Mar 2011)	Dec 10, 2010	2 million	Shareholder #14 (30%) (SF May 1, 2007 to Oct 31, 2008) Shareholder #19 (70%) (SF Sep 24, 2007 to Aug 6, 2010)
Supplier #18	BVI Supplier	49 million (Dec 20, 2007)	Sep 12, 2006	500,000	Shareholder #14 (director and GM Aug 2007 to Apr 2008) (SF May 1, 2007 to Oct 31, 2008) Officer #1 (supervisor Aug 2007 to Apr 2008) (SF 2005 to present)
Supplier #12	BVI and WFOE Supplier	837.6 million (BVI) (Q3 and 4 2009) 31 million (WFOE) (10 Jan 2010)	Aug 7, 2009	500,000	Shareholder #14 (shareholder Aug 7, 2009 to Oct 15, 2009) (SF May 1, 2007 to Oct 31, 2008)
Supplier #23	WFOE Supplier	3.3 million (Oct 3, 2007)	Jun 15, 2005 (deregistered Mar 5, 2008)	500,000	Shareholder #20 (70%) (SF April 1, 2004 to present)
Supplier #24	WFOE Supplier	182 million (Oct 2009)	Apr 28, 2008	20 million	Shareholder #1 (39%)
Supplier #25	WFOE Supplier	99 million (Oct 2007 to Apr 2010)	Oct 31, 2005	500,000	Shareholder #1 (100%)
Supplier #9	WFOE Supplier	1.1 billion (Apr 10 to Mar 11)	Aug 19, 2009	2 million	Shareholder #1 (80%)
Supplier #26	WFOE Supplier	170 million (Aug 21, 2010)	Jan 5, 2010	2 million	Shareholder #1 (80%) Shareholder #21 (20%) (SF Luzhai Jan 1, 2008 to Mar 31, 2010, Gaoyao Jiayao left May 30, 2003, join date unknown)
Supplier #20	WFOE Supplier and customer	61 million (sale to SF) (2010) 65 million (purchase from SF) (2009)	Dec 2, 2008	1 million	Shareholder #21 (70%) (SF Luzhai Jan 1, 2008 to Mar 31, 2010, Gaoyao Jiayao May 30, 2003 to present) Shareholder #17 (30%) (SF 2000 to 2008)
Supplier #19	WFOE Supplier	478 million (Mar to Nov 2009)	Jan 28, 2008	USD 5 million	Shareholder #9 (SF 2001 to 2007)

(b) AIs with Former SF Employees

(i) AI #2

AI #2 is a current AI that was registered on February 15, 2002 with a registered capital of RMB 500,000. From the third quarter of 2007 to the first quarter of 2011, it purchased approximately RMB 4.093 billion of standing timber from BVIs.

During the interview with AI #2, the IC Advisors were introduced to Officer #3 as the person in charge. Officer #3 was an employee of the Company from 2004 to 2007.¹⁷

(c) Potential Relationships between AIs and Suppliers

(i) Supplier #13 and Supplier #1

Supplier #13 is a supplier to BVIs WFOEs. It was registered on June 5, 2009, with registered capital of RMB 5 million. In September 2010 it sold approximately RMB 796 million of timber to the BVIs over two transactions. From October to December 2009 it completed approximately RMB 179 million of transactions with the WFOEs.

According to SAIC filings, the 60% shareholder is Shareholder #15 while the 40% shareholder is Supporter #2. On September 1, 2011, Supporter #2 was introduced to Mr. Judson Martin in the presence of Mr. Robert Staley and Ms Rebecca Huang of BJ as a supporter behind Yuda Wood.

(ii) Supplier #4, Supplier #5 and AI #6.

There are two Suppliers and an AI that have a common person as their "supervisor". The practical role of "supervisor" varies within different Chinese companies and it is not known what the role of this person is within each of these companies.

Supplier #4 is a supplier to BVIs that was registered on December 15, 2005, with a registered capital of RMB 500,000 and was deregistered on July 16, 2009. Its 100% shareholder was Shareholder #16. Its supervisor is Officer #2. From 2006 to 2009, it sold RMB 3.28 billion of standing timber to the BVIs.

Supplier #4 is a supplier to BVIs that was registered on April 16, 2009, with a registered capital of RMB 300,000. Its 100% shareholder was the

¹⁷ According to SAIC search results, Officer #3 is not listed as a shareholder or officer of AI #2. Similarly, the SAIC search results do not indicate any shareholding by AI Conglomerate #1. However, during the interview with AI Conglomerate #1, its chief Shareholder #5 introduced Officer #3 as the person in charge of AI #2 and stated that AI #2 was his investment. For details of the interview, please refer to Schedule V.C.11.

same Shareholder #16. Its supervisor is the same Officer #2. From 2009 to the first quarter of 2011, it sold RMB 2.64 billion of standing timber to the BVIs.

AI #6 is an AI that was registered on January 13, 2010 with a registered capital of RMB 200,000. From 2010 to the first quarter of 2011 it purchased RMB 2.15 billion of standing timber from the BVIs. According to SAIC filings, its supervisor is the same Officer #2. From January to November its 100% shareholder was Shareholder #18.

(d) Payments for BVI Standing Timber Purchases Made by Companies that are Not AIs

(i) Trading Co. #1

According to emails located in the Company's records, Trading Co. #1 is incorporated in the BVI and is owned by Shareholder #4, the brother of Shareholder #3 of Supplier #3. That email was sent to SF personnel and also contains the Hong Kong HSBC bank details of the company. A search seeking the identity of shareholders of Trading Co. #1 was denied (shareholding information in the BVI is only available with the consent of the shareholder).

According to the SAIC search results, and confirmed at the AI interview with AI #4 and AI #2, Shareholder #4 is a former shareholder of AI Conglomerate #1, the Holdco of these two AIs.

In the first fiscal quarter of 2011, in four different BVI standing timber purchases with Supplier #2, payment was made partially by Trading Co #1. This is unusual as payments for BVI standing timber purchases are normally made by SF's AIs as set-offs against SF's standing timber sales to those AIs. It is not clear on what basis Trading Co. #1 owed money to SF and made those payments to Supplier #2. The SAIC search results for Supplier #2 do not indicate that Shareholder #4 is involved in Supplier #2.

These payment records suggest that there may be funds held offshore by Trading Co. #1 (or others) on behalf of SF, or accounts payable to SF BVIs by Trading Co. #1 (or others).

Management advises that Trading Co. #1 is owned by Shareholder #4 and is a customer of both SP and SW Trading that purchases imported logs from the Company. Supplier #2 is a supplier of plantations that Shareholder #4 is not involved with. The Company sold imported logs to Trading Co. #1 and by the end of 2010, Trading Co. #1 owed the Company \$39 million. The Company had purchased plantations from Supplier #2 and owed it for these purchases. The Company's finance department pressured Trading Co. #1 to pay its account after year end, but it did not have the U.S. dollars to pay the amounts owing. Trading Co. #1

was directed to pay its liability using RMB and it was directed to pay it to Supplier #2 in partial settlement of the plantation purchases. Management very recently provided the IC with information regarding AIs and Suppliers and relationships among the Company and such parties. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board.

(ii) Other Set-off Arrangements Involving Non-AI Companies

The IC Advisors have also identified other instances where Suppliers of BVI standing timber purchases have received payment from companies other than AIs. The companies identified appear to be domestic import/export companies.

Payments by these companies in RMB to Suppliers of the BVIs in China may suggest that they have accounts payable to the BVIs. If this is the case, BVI funds outside China (or accounts receivable offshore in foreign exchange) are being transferred by way of set-off into China for purchase of standing timber that become part of the BVI assets in China.

Specific examples include payments in 2010, where Supplier #3 received payment from non-AI companies, including Trading Co. #2 and Trading Co. #3. Similarly, in 2010 the Supplier #5 received payment from Trading Co. #4.

It is again unclear on what basis these non-AI companies are making set-off payments on behalf of SF.

(e) Payments to Potentially Connected Suppliers

(i) AIs AI #4 and AI #2 Paying Potentially Connected Supplier #3

SF charts of BVI purchase and sale transactions indicate that from 2009 to 2011, the AIs AI #4 and AI #2 made over RMB 604 million in set-off payments on behalf of SF for BVI timber purchases from the Supplier.

At the Supplier #3 supplier interview in Schedule V.C.11, Shareholder #3, the chief of Supplier #3, confirmed that he founded AI Conglomerate #1, the holding company which owns AI #4.

Based on the SAIC search results, it appears that 40% of the shares of AI Conglomerate #1 are held by a Hong Kong company called Shareholder #22 that is 100% owned by a company called Shareholder #23, which is a BVI company. Emails located in the Company records indicate that Shareholder #23 is controlled by Shareholder #3 and that it is through this BVI structure that Shareholder #3 maintains his shareholding in AI Conglomerate #1 and therefore the two AIs. A search seeking the identity of shareholders of Shareholder #23 was denied (shareholding information

in the BVI is only available with the consent of the shareholder). The most current SAIC search results show that Shareholder #3 is currently the vice chairman of AI Conglomerate #1. During the interview with Shareholder #5, the IC Advisors were told that the information was out of date and that Shareholder #3 had transferred his shares to Shareholder #5 and his brother Shareholder #6 in 2009. However, SAIC search results showed that Shareholder #3 participated in a board resolution of AI Conglomerate #1 in 2010. The holding structure is illustrated in a chart attached to such emails.

- (ii) AIs AI #6 and AI #5 Paying Potentially Connected Suppliers Supplier #4 and Supplier #5.

SF charts of BVI purchase and sale transactions indicate that in 2010, the AI AI #6 made over RMB 313 million in set-off payments on behalf of SF for BVI timber purchases from the Supplier #5 both of whom have a common supervisor as noted above. In 2009, AI #5, which is an AI identified by Management as also controlled by the same entity which controls AI #6, made over RMB 170 million in set-off payments on behalf of SF for BVI timber purchases from the Supplier #5. From 2007 to 2008, AI #5 made over RMB 499 million in set-off payments on behalf of SF for BVI timber purchases from Supplier #4. The IC intends to assess the implications of these potential relationships.

- (f) Sale of Standing Timber to AI Potentially Connected to Supplier of that Timber

- (i) Timber Bought from Supplier #3 and Sold to AI #4 and AI #2.

SF charts of BVI purchase and sale transactions indicate that from October 2008 to March 2011, SF sold a total of approximately RMB 145 million of standing timber to the AIs AI #2 and AI #4 that was purchased from Supplier #3. During the interview with Shareholder #5, the IC Advisors were told that the information was out of date and that Shareholder #3 had transferred his shares to Shareholder #5 and his brother Shareholder #6 in 2009. For further details about the relationship between AI #2, AI #4 and Supplier #3, please refer to Schedule VI.B.1.1.

- (ii) Timber Bought from Supplier #8 and Sold to AI #3

SF charts of BVI purchase and sale transactions indicate that from July 2006 to December 2009, SF sold a total of approximately RMB 456 million of standing timber to AI #3 that was purchased from the connected Supplier #8. For details about the relationship between AI #3 and Supplier #8, please refer to Schedule VI.B.1.1.

(g) Lam Hon Chiu – Jiangxi Zhonggan

Certain of the related-party allegations in the MW Report concerned Lam Hon Chiu, who was characterized in the MW Report as an “executive” of the Company. The MW Report alleged, among other things, that Lam Hon Chiu was also the manager of two of the Company’s “agents” (which agents were unnamed), as well as the legal representative and President of Supplier Jiangxi Zhonggan.

Management responded that Lam Hon Chiu, also known as Marco Lam, had once held the position of Vice-President, Business Development and Logistics, with the Company, but left Sino-Forest on July 22, 2007.

Management provided the IC with a letter of Sino-Panel (Asia) Inc. dated July 17, 2007, confirming the termination of Lam Hon Chiu’s employment, effective July 23, 2007. The letter was acknowledged by Lam Hon Chiu on July 17, 2007. In addition, Management provided a copy of an Employee Termination Checklist dated July 22, 2007, acknowledged by Lam Hon Chiu on July 17, 2007, and an MPF Member Termination Statement for Employer in respect of Lam Hon Chiu issued by HSBC Life (International) Limited on November 7, 2007. These materials are attached as Schedule VI.B.1(g).

During the interview with Supplier Jiangxi Zhonggan on September 22, 2011 Lam Hon Chiu confirmed his previous employment with the Company. He further stated that Jiangxi Zhonggan, the Supplier of which he is legal representative, did not have any transactions with Sino-Forest until after his employment with it had ended.

(h) Relationship Mapping

The IC Advisors identified other possible relationships between SF, its parent and current employees and AIs and Suppliers.

To date numerous interrelationships and linkages between SF’s current/former employees, and AIs, Suppliers, forestry bureaus and their current/former employees have been identified and further potential relationships continue to be identified as enquiries continue.

On the instructions of the IC, the IC Advisors have passed the details of possible relationships identified to date to Management for further follow up and explanation. As noted above, very recently, Management provided information regarding AIs and Suppliers and relationships among the Company and such parties. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board.

2. E&Y Directors

Muddy Waters alleged that the Board appears to be a retirement plan for partners of E&Y. In particular, Muddy Waters suggested that there are currently five retired E&Y partners on the Board.

In fact, there are only two current directors of the Company who were formerly partners of E&Y, Mr. James Hyde and Mr. Garry West. Mr. Hyde left E&Y in 2002 to take a position in industry, and became a director of the Company in 2004. Mr. West retired from E&Y in June 2007 and became a director of the Company in February 2011. No other persons on the current Board have been E&Y partners.

It would appear that Muddy Waters confused Mr. Jamie Bowland, a recently departed director with a long career at BMO Capital Markets, with a "James Boland" - an American who sits on a public company board. While Mr. Jamie Bowland had advised that he worked briefly for a predecessor to E&Y in the 1970s, he was not a partner thereof.

Muddy Waters may also have confused Mr. W. Judson Martin, the Chief Executive Officer, with a "J. W. Martin" - a former E&Y partner who is not associated with the Company. Mr. W. Judson Martin has never been an E&Y partner or employee.

Finally, the Company has been advised by E&Y that Mr. Peter D.W. Wang has a similar name to an E&Y partner, although he, too, has not been an E&Y partner.

C. Globe and Mail Allegations re: Homix and Chen Hua

Homix is currently an indirect wholly owned subsidiary of the Company. Dayang is currently a wholly owned subsidiary of Homix. The Globe, in a story printed September 3, 2011, claimed that SAIC corporate filings for Dayang indicate Chen Hua, a Vice-President of SF, was also a shareholder in Dayang at the time of the sale of Homix to SF in 2010 for \$7.1 million. The Globe characterized Dayang as a "unit of Homix" and stated that SF closed the purchase of Homix in June 2010. Muddy Waters says that SF paid Ms. Chen \$7 million (without relating such payment to any particular transaction). Based on SF public disclosures at the time, the transaction was closed in January 2010.

Based on the Dayang SAIC filings that have been reviewed by the IC Advisors, the IC was able confirm that the SAIC filings do not show Chen Hua as holding an interest or a position in Dayang after January 28, 2008. The Homix sale is recorded in the SAIC filing and disclosed by SF as occurring on January 4, 2010. The SAIC searches show Chen Hua was a 30% shareholder (and Chair) from August 2003 to November 2004. She was again shown as a 30% shareholder for three days in January 2008. BJ advised the IC Advisors that Ms. Chen has stated to them that she was a nominee holder who held for the owner who was a friend. She further indicated to BJ that she acted as Chair in the initial stages as she had good relationships that were relevant to the business.

VII. OTHER MUDDY WATER ITEMS

VII. OTHER MUDDY WATERS ITEMS

The IC has not attempted to address every allegation made by MW but rather has focussed its review as previously described. Set out below are two additional of allegations of MW, which the IC also believes warrant comment.

A. Logging Versus Sale of Trees

One of the allegations in the MW Report was that, given logistics and operational realities, SF's Yunnan Province timber sales are largely fabricated. For example, Muddy Waters noted that Yunnan is a remote, rugged, mountainous province, making the prospect of harvesting any sizeable quantity of logs, even by hand, daunting. Moreover, even if the Company were able to harvest the logs claimed, the roads through the mountains are dangerous, with switchbacks and steep precipices. Roads leading into the agricultural areas are of an even lower quality and often unpaved. During the rainy season (from May to October), travel by road would be further complicated by mud and occasional landslides. According to the MW Report, the value of purchases made under the Yunnan MFA was overstated by approximately \$800 million.

In response to these allegations, Management explained that, in fact, its revenue from Yunnan Province was solely the result of the sale of standing timber. No cutting or transport was involved, as the trees were sold as living trees and not harvested as logs.

The IC Advisors reviewed the Company's 2010 MD&A, the MD&A for the three months ended March 31, 2011, and the Q2s, and determined that this particular element did not require further investigation, as the Company's public disclosure supported Management's assertion that the revenue generated by the Company in Yunnan Province resulted from the sale of standing timber. For example, the 2010 MD&A stated that the revenue from broadleaf in Yunnan accounted for approximately 45.5% of standing timber revenue in the year ended December 31, 2010. The MD&A for the three months ended March 31, 2011 disclosed that during the three months ended March 31, 2011, the Company sold approximately 9,868 Ha. of plantations which were acquired under MFAs, mainly in the provinces of Guangxi, Yunnan and Hunan. Finally, the Q2s indicated that in the six months ended June 30, 2010, 92.9% of standing timber sales were of broadleaf from Yunnan Province.

B. Capital Hole

The MW report raises an allegation it refers to as the "Capital Hole". The essence of this allegation is that there is a gap between the capital available to SF in China which it could access through equity injections, debt and asset dispositions, and the capital SF reports to have spent in China on acquisitions.

Management was asked to address this allegation in its overall response to the MW allegations. Management's primary response is as follows:

"MW's premise is that SF's business generated \$3.5 billion of cash flow (after change in working capital components and changes in short term borrowings) but that SF purchased \$5.0 billion worth of trees, thereby SF has a cash shortfall of \$1.5 billion. Since Chinese government records only show between \$0.7

billion and \$1.2 billion of investment by SF into the PRC, SF in China must be short of cash of between \$0.3 billion and \$0.8 billion. MW then argued that SF must not have been acquiring all of the trees that SF publicly discussed. In reality, the alleged cash short fall has been made up by fund raising exercises undertaken at the parent level outside of China. And not all of this cash raised has gone into China to fund trees acquisitions. In fact, the operating cash flow figures that MW used are taken from our financial statements and include expenses in the income statement and investments in working capital assets in Hong Kong that have been funded by capital raised at the parent level and kept in Hong Kong. The expenses have not been funded by operating cash flow in China. The expenses made in Hong Kong should not be included as deduction against the operating cash flow in China. For example, SF's selling, general and administrative expense and Interest for the period of time referred to the MW Report has been in excess of \$0.7 billion. This amount has been wrongly deducted by MW from the China operating cash flow to arrive at the incorrect operating cash flow used in the MW report. This \$0.7 billion has been funded by cash raised at the parent level and paid outside of China, and therefore this amount needs to be added back to the operating cash flow within China. The remaining of the alleged excess/shortfall in the MW Report is caused by MW wrongly lumping together the change in working capital components. Some of the change relates to onshore WFOE's and is funded by their operating cash flow in China, some of the change is related to the BVI plantation purchases and is funded by this model and some of the change is related to Hong Kong log trading business which is funded off shore by capital raised by the parent. For example, SF funded the Imported log trading business in Hong Kong (the investment in this business is included in the change in non-cash working capital components when determining operating cash flow) to the extent of \$220 million. This amount needs to be added back to the operating cash flow. When one adjusts for these two amounts and includes the actual investment in China, one arrives at an excess funding scenario – there is no cash hole as MW so sensationally alleged.”

The IC did not ask the IC Advisors to examine the capital hole allegation in favour of focusing on the primary issues described in Part I above.

VIII. VALUATION

Key allegations in the MW Report relate to the valuation of SF's standing timber holdings being overstated. The MW Report suggests that Poyry, the company retained by SF to provide certain valuation services, had been provided manipulated data and had its scope of work restricted by SF. The MW Report also suggests that timber holdings are overstated by way of alleging purchase transactions are fabricated.

Initially, the IC instructed the IC Advisors to focus on verifying existence and ownership of the assets, with a subsequent step being the valuation of those assets. The IC determined in August 2011 that the valuation exercise would need to run concurrently with the other efforts.

At the request of the IC, the IC Advisors pursued the engagement of an independent valuator with appropriate forestry expertise in China. The scoping of this project with a prospective valuator was completed. However, through the course of its own review, the IC determined it had material concerns with respect to such valuator's independence and did not proceed with it further. At the same time, SF was giving consideration to a course of action which would require a valuation of its own and, in order to avoid duplication of costs and effort, the IC determined it would combine its needs with those of the Company and proceed with a new process.

A key concern identified by the IC Advisors was the information from SF that longitude/latitude coordinates of standing timber plantations cannot be obtained from the Surveyor Reports. Such reports show GPS coordinates for the village/general area rather than detailed coordinates that would facilitate specific identification and a site-walk/examination.

The IC and Management are currently negotiating an engagement letter with an independent valuator pursuant to which it would conduct a valuation process in respect of a sample of SF's standing timber.

IX. OSC

On June 8, 2011, the OSC announced it was investigating matters related to SF. A discussion of the OSC's investigation and the work of the IC in that regard is attached as Schedule IX, which is privileged and confidential.

X. E&Y

As auditor, E&Y is entitled to inspect the books and records of the Company. The IC agreed and instructed the IC Advisors to keep E&Y informed as to the status of the IC's review process and have addressed questions of particular interest to E&Y in relation to the scope and progress of the review.

At the outset the IC provided E&Y with the first draft of the proposed work plan of PwC as submitted to the IC. The IC has continued to discuss the work plan with E&Y as it has developed. The IC also has given E&Y access to the Sino-Forest data captured by PwC on behalf of the IC.

A particular area of interest for the IC and E&Y has been Sino-Forest's relationships with AIs and Suppliers, particularly, the Hong Kong Sonic Jita and Yuda Wood relationships.

The IC has briefed E&Y regularly on the nature and progress of the IC's review in relation to the following topics:

- Cash;
- Fact Gathering;
- Management Response;
- Revenue Mapping;
- Relationship Mapping;
- Alleged Non-Arm's Length Relationships;
- Forestry Bureau Visits and Confirmations;
- Customer/Supplier Visits;
- Current Activities/Next Steps; and
- Timing.

XI. ROYAL CANADIAN MOUNTED POLICE (IMET)

XI. ROYAL CANADIAN MOUNTED POLICE (IMET)

The RCMP has advised the IC that it has commenced a preliminary investigation into the allegations of fraud asserted in the MW Report. Particulars of the IC's discussion with the RCMP to date are set out in Schedule XI, which is privileged and confidential.

XII. CASH

As reported in the IC's First Interim Report, as a precautionary measure, the IC requested that PwC confirm SF's cash balances. PwC did this as of June 13, 2011 for both PRC accounts and "offshore" accounts. A total of 293 accounts controlled by SF in Hong Kong were confirmed, representing 100% of the expected cash position. There are a very significant number of accounts held by SF in China and the logistics and requirements of in person/in branch verification in that country led the IC to confirm only a portion of the China accounts (28 accounts, representing approximately 81% of the expected China cash position). The IC was satisfied that SF's expected cash position existed as at the date of the confirmation. The Board should be aware that SF only updates the details of its own cash position quarterly, so the confirmation results must be considered in this context. The IC has instituted certain additional controls over cash movements in excess of \$1 million held in SF Hong Kong bank accounts in order to provide the IC with some precautionary comfort during the examination process.

XIII. NEXT STEPS

Subject to the direction of the Board, the IC expects to complete its review prior to the end of 2011 and intends to:

- (a) review the information and analysis recently received from Management relating to certain relationship issues;
- (b) in cooperation with Management, engage an independent valuator to conduct a valuation process with a scope and parameters acceptable to the IC;
- (c) such other steps as the IC, in its judgement, deems advisable in the discharge of its mandate; and
- (d) submit its final report and recommendations to the Board.

The IC expects to be able to deliver its final report to the Board prior to the end of 2011.

GLOSSARY

“\$” means, unless otherwise specified, U.S. dollars;

“**2010 Acquisition**” means the Company’s acquisition of substantially all of the outstanding common shares of Mandra (not already owned by the Company) on February 5, 2010;

“**2010 AIF**” or “**AIF**” means the Company’s annual information form for the year ending December 31, 2010;

“**2010 Annual Report**” means the Company’s annual report for the 2010 calendar year;

“**2010 Financial Statements**” means the Company’s audited consolidated financial statements and the notes thereto as at and for the year ended December 31, 2010;

“**2010 MD&A**” means the Company’s management discussion and analysis for the year ending December 31, 2010;

“**AI**” means an authorized intermediary, an entity through which a BVI conducts its sales;

“**AIC**” or “**SAIC**” means China’s State Administration for Industry and Commerce, the national authority responsible for administering industry and commerce;

“**AI HoldCo**” or “**AI Conglomerate #1**” means AI Conglomerate #1, a holding company that controls several AIs;

“**Audit Committee**” means the Audit Committee of the Board;

“**BJ**” means Bennett Jones LLP, Canadian counsel to the Company;

“**Board**” means the Board of Directors of SF;

“**BVI**” means a subsidiary of the Company incorporated in the British Virgin Islands;

“**Chart**” means the corporate structure chart provided to the IC Advisors by the Company and attached as Schedule II.C;

“**China**” means The People’s Republic of China;

“**Chop**” means the seal typically used in place of signatures in China;

“**Company**” or “**SF**” or “**Sino-Forest**” means Sino-Forest Corporation and, where the context requires, its consolidated subsidiaries;

“**Counterparty**” means a party to an agreement with SF that is not a subsidiary of the Company;

“**CTO**” means the cease trade order of the OSC dated August 26, 2010;

“**Dayang**” means Jiango Dayang Timber Co. Ltd., a wholly-owned subsidiary of Homix;

- “**E&Y**” means Ernst & Young LLP, the auditor of the Company;
- “**Entrusted Sale Agreements**” has the meaning set forth in Section V.C.15;
- “**forestry bureau confirmations**” or “**confirmations**” means documents issued to the WFOEs and BVIs on letterheads with forestry bureau names and featuring Chops (the seal typically used in place of signatures) that indicate that they had been issued by the corresponding forestry bureau, but does not include new confirmations;
- “**FTI**” means FTI Consulting, a consulting firm advising the Company;
- “**GAAP**” means the Generally Accepted Accounting Principles;
- “**Gengma Dai**” means Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd., an agent through which the Company purchases timber assets in the Yunnan region of China;
- “**Globe**” means *The Globe and Mail*, a Canadian national newspaper;
- “**Ha.**” means hectares, which is equivalent to 15 mu (statements of Ha. herein are approximate, given the rounding associated with the conversion of mu to Ha.);
- “**Homix**” means Homix Limited, a company acquired by SF in June 2010;
- “**Hong Kong Sonic Jita**” means Sonic Jita Engineering Co. Ltd., the Hong Kong incorporated parent company of Yuda Wood;
- “**Hunan Forestry Entity #1 Confirmation**” means the new forestry bureau confirmation issued by Hunan Forestry Entity #1 (see Section V.C.9);
- “**IC**” means the Independent Committee to the Board;
- “**IC Advisors**” means one or more of PwC, Osler, Malleons and JH;
- “**IMET**” means an Integrated Market Enforcement Team of the RCMP;
- “**Income**” means income from continuing operations-before interest, other income, exchange losses and changes in fair value of financial instruments;
- “**JH**” or “**Chinese counsel to the IC**” means Jun He Law Offices, independent Chinese IC counsel;
- “**Jiangxi Zhonggan**” means Jiangxi Zhonggan Industrial Development Company Ltd.;
- “**Malleons**” means Malleons Stephen Jaques, independent Hong Kong counsel to the IC;
- “**Management**” means, at any time, the management of SF at that time;
- “**Mandra**” means Mandra Forestry Holdings Limited, a wholly-owned subsidiary of SF;

“**Mandra Bonds**” means aggregate principal amount of \$194,470,000 of 12% Guaranteed Senior Notes due May 2013 issued by Mandra Finance;

“**Mandra Finance**” means Mandra Forestry Finance Limited;

“**MD&A**” means management discussion and analysis;

“**MFAs**” means master framework agreements between various BVIs or WFOEs, on the one hand, and various Chinese entities, on the other, which establish a framework for the supply of standing timber to the Company in specified areas;

“**MOFCOM**” means China’s Ministry of Commerce;

“**mu**” means a Chinese unit of measure for area, which is equivalent to 0.067 Ha;

“**Muddy Waters**” or “**MW**” means Muddy Waters, L.L.C.;

“**MW Report**” means the initial “research report” issued by Muddy Waters dated June 2, 2011;

“**OSC**” means Ontario Securities Commission;

“**Osler**” means Osler, Hoskin & Harcourt LLP, independent Canadian counsel to the IC;

“**Plantation Rights Certificate**” means a governmental registered certification of ownership issued by a forestry bureau in China to evidence certain forestry-related rights;

“**PwC**” means PricewaterhouseCoopers LLP, forensic accounting advisors to the IC;

“**Q2s**” means, collectively, the financial statements of the Company for the six months ended June 30, 2011 and the related MD&A;

“**RCMP**” means Royal Canadian Mounted Police;

“**RMB**” means Renminbi, the official currency of China;

“**SAFE**” means China’s State Administration for Foreign Exchange;

“**SAIC**” means China’s State Administration for Industry and Commerce, the national authority responsible for administering industry and commerce;

“**Sino-Panel (China)**” means Sino-Panel (China) Investments Ltd., a WFOE;

“**SP**” or “**Sino-Panel**” means Sino-Panel (Asia) Inc. (BVI), a BVI;

“**Staff**” means Staff of the OSC;

“**Subsidiary BVIs**” means, as of the date hereof, all BVIs, other than Greenheart Resources Holdings Limited;

“Supplier” means a supplier to the Company of plantation assets, either rights to standing timber or plantation/land use rights or both;

“Survey Company #1” means Survey Company #1, a survey company engaged by SF to provide it with surveyor services in connection with its plantation assets;

“Survey Report” means a Forest Resource Survey Report that accompanies BVI timber purchase contracts;

“SW” or “Sino-Wood” means Sino-Wood Partners, Limited, a Hong Kong incorporated subsidiary of SF;

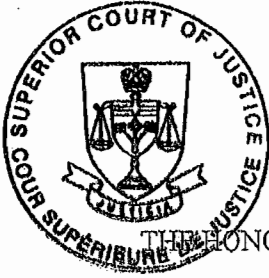
“TSX” means Toronto Stock Exchange;

“VAT” means valued-added tax;

“WFOE” means a subsidiary of the Company incorporated in China as a “Wholly Foreign Owned Enterprise”;

“WFOE MFAs” means the four MFAs entered into between WFOEs and vendor Counterparties from 2009 to 2011, described further in Section V.B; and

“Yuda Wood” means Huaihua City Yuda Wood Co. Ltd, a Supplier.



Court File No CV-12-9667-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.
JUSTICE MORAWETZ

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FRIDAY, THE 30th
DAY OF MARCH, 2012

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

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

INITIAL ORDER

THIS APPLICATION, made by Sino-Forest Corporation (the "Applicant"), pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of W. Judson Martin sworn March 30, 2012 and the Exhibits thereto (the "Martin Affidavit") and the Pre-Filing Report of the Proposed Monitor, FTI Consulting Canada Inc. ("FTI") (the "Monitor's Pre-Filing Report"), and on being advised that there are no secured creditors who are likely to be affected by the charges created herein, and on hearing the submissions of counsel for the Applicant, the Applicant's directors, FTI, the *ad hoc* committee of holders of notes issued by the Applicant (the "Ad Hoc Noteholders"), and no one else appearing for any other party, and on reading the consent of FTI to act as the Monitor,

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Application, the Application Record and the Monitor's Pre-Filing Report is hereby abridged and validated so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. THIS COURT ORDERS AND DECLARBS that the Applicant is a company to which the CCAA applies.

PLAN OF ARRANGEMENT

3. THIS COURT ORDERS that the Applicant shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "Plan").

4. THIS COURT ORDERS that the Applicant shall be entitled to seek any ancillary or other relief from this Court in respect of any of its subsidiaries in connection with the Plan or otherwise in respect of these proceedings.

POSSESSION OF PROPERTY AND OPERATIONS

5. THIS COURT ORDERS that the Applicant shall remain in possession and control of its current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "Property"). Subject to further Order of this Court, the Applicant shall continue to carry on business in a manner consistent with the preservation of its business (the "Business") and Property. The Applicant shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "Assistants") currently retained or employed by it, with liberty to retain such further Assistants as it deems reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

6. THIS COURT ORDERS that the Applicant shall be entitled but not required to pay the following expenses, whether incurred prior to or after this Order:

- (a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay and expenses payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements;
- (b) the fees and disbursements of any Assistants retained or employed by the Applicant in respect of these proceedings, at their standard rates and charges;
- (c) the fees and disbursements of the directors and counsel to the directors, at their standard rates and charges; and
- (d) such other amounts as are set out in the March 29 Forecast (as defined in the Monitor's Pre-Filing Report and attached as Exhibit "DD" to the Martin Affidavit).

7. THIS COURT ORDERS that, except as otherwise provided to the contrary herein, the Applicant shall be entitled but not required to pay all reasonable expenses incurred by the Applicant in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services; and
- (b) payment for goods or services actually supplied to the Applicant following the date of this Order.

8. THIS COURT ORDERS that the Applicant shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;

- (b) all goods and services or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the Applicant in connection with the sale of goods and services by the Applicant, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order; and
- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Applicant.

9. THIS COURT ORDERS that until a real property lease is disclaimed or resiliated in accordance with the CCAA, the Applicant shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the Applicant and the landlord from time to time ("Rent"), for the period commencing from and including the date of this Order, twice-monthly in equal payments on the first and fifteenth day of each month, in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including the date of this Order shall also be paid.

10. THIS COURT ORDERS that, except as specifically permitted herein, the Applicant is hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicant to any of its creditors as of this date; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of its Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

RESTRUCTURING

11. THIS COURT ORDERS that the Applicant shall, subject to such requirements as are imposed by the CCAA and such covenants as may be contained in the Support Agreement (as defined below), have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of its business or operations, and to dispose of redundant or non-material assets not exceeding US\$500,000 in any one transaction or US\$1,000,000 in the aggregate;
- (b) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate; and
- (c) pursue all avenues of refinancing of its Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing

all of the foregoing to permit the Applicant to proceed with an orderly restructuring of the Business.

12. THIS COURT ORDERS that the Applicant shall provide each of the relevant landlords with notice of the Applicant's intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Applicant's entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the Applicant, or by further Order of this Court upon application by the Applicant on at least two (2) days notice to such landlord and any such secured creditors. If the Applicant disclaims or resiliates the lease governing such leased premises in accordance with Section 32 of the CCAA, it shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer or resiliation of the lease shall be without prejudice to the Applicant's claim to the fixtures in dispute.

13. THIS COURT ORDERS that if a notice of disclaimer or resiliation is delivered pursuant to Section 32 of the CCAA, then (a) during the notice period prior to the effective time of the

disclaimer or resiliation, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicant and the Monitor 24 hours' prior written notice, and (b) at the effective time of the disclaimer or resiliation, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicant in respect of such lease or leased premises and such landlord shall be entitled to notify the Applicant of the basis on which it is taking possession and to gain possession of and re-lease such leased premises to any third party or parties on such terms as such landlord considers advisable, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

RESTRUCTURING SUPPORT AGREEMENT

14. THIS COURT ORDERS that the Applicant and the Monitor are authorized and directed to engage in the following procedures to notify noteholders of the restructuring support agreement dated as of March 30, 2012 (the "Support Agreement") between, among others, the Applicant and certain noteholders (the "Initial Consenting Noteholders"), appended as Exhibit "B" to the Martin Affidavit, to enable any additional noteholders to execute a Joinder Agreement in the form attached as Schedule "C" to the Support Agreement and to become bound thereby as Consenting Noteholders (as defined in the Support Agreement):

- (a) the Monitor shall without delay post a copy of the Support Agreement on its website at <http://cfcanada.fticonsulting.com/sfc> (the "Monitor's Website"); and
- (b) the notice to be published by the Monitor pursuant to paragraph 51 of this Order shall include a statement in form and substance acceptable to the Applicant, the Monitor and counsel to the Ad Hoc Noteholders, each acting reasonably, notifying noteholders of the Support Agreement and of the deadline of 5:00 p.m. (Toronto time) on May 15, 2012 (the "Consent Date") by which any noteholder (other than an Initial Consenting Noteholder) who wishes to become entitled to the Early Consent Consideration pursuant to the Support Agreement (if such Early Consent Consideration becomes payable pursuant to the terms thereof) must execute and return the Joinder Agreement to the Applicant, and shall direct noteholders to the Monitor's Website where a copy of the Support Agreement (including the Joinder Agreement) can be obtained.

15. THIS COURT ORDERS that any noteholder (other than an Initial Consenting Noteholder) who wishes to become a Consenting Noteholder and become entitled to the Early Consent Consideration (if such Early Consent Consideration becomes payable pursuant to the terms thereof, and subject to such noteholder demonstrating its holdings to the Monitor in accordance with the Support Agreement) must execute a Joinder Agreement and return it to the Applicant and the Noteholder Advisors (as defined below) in accordance with the instructions set out in the Support Agreement such that it is received by the Applicant and the Noteholder Advisors prior to the Consent Deadline and, upon so doing, such noteholder shall become a Consenting Noteholder and shall be bound by the terms of the Support Agreement.

16. THIS COURT ORDERS that as soon as practicable after the Consent Deadline, the Applicant shall provide to the Monitor copies of all executed Joinder Agreements received from noteholders prior to the Consent Deadline.

NO PROCEEDINGS AGAINST THE APPLICANT OR THE PROPERTY

17. THIS COURT ORDERS that until and including April 29, 2012, or such later date as this Court may order (the "Stay Period"), no proceeding or enforcement process in any court or tribunal (each, a "Proceeding") shall be commenced or continued against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicant and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Applicant or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

18. THIS COURT ORDERS that until and including the Stay Period, no Proceeding shall be commenced or continued by any noteholder, indenture trustee or security trustee (each in respect of the notes issued by the Applicant, collectively, the "Noteholders") against or in respect of any of the Applicant's subsidiaries listed on Schedule "A" (each a "Subsidiary Guarantor", and collectively, the "Subsidiary Guarantors"), except with the written consent of the Applicant and the Monitor, or with leave of this Court, and any and all Proceedings currently under way by a Noteholder against or in respect of any Subsidiary Guarantors are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

19. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended and shall not be commenced, proceeded with or continued, except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, (iv) prevent the registration of a claim for lien, or (v) prevent the exercise of any termination rights of the Consenting Noteholders under the Support Agreement.

20. THIS COURT ORDERS that during the Stay Period, all rights and remedies of the Noteholders against or in respect of the Subsidiary Guarantors are hereby stayed and suspended and shall not be commenced, proceeded with or continued, except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower any Subsidiary Guarantor to carry on any business which such Subsidiary Guarantor is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

21. THIS COURT ORDERS that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicant, except with the written consent of the Applicant and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

22. THIS COURT ORDERS that during the Stay Period, all Persons having oral or written agreements with the Applicant or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Business or the Applicant, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicant or exercising any other remedy provided under such agreement or arrangements, and that the Applicant shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Applicant in accordance with normal payment practices of the Applicant or such other practices as may be agreed upon by the supplier or service provider and each of the Applicant and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

23. THIS COURT ORDERS that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of lease or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the Applicant. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

24. THIS COURT ORDERS that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicant with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicant whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such

obligations, until a compromise or arrangement in respect of the Applicant, if one is filed, is sanctioned by this Court or is refused by the affected creditors of the Applicant or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

25. THIS COURT ORDERS that the Applicant shall (i) indemnify its directors and officers against obligations and liabilities that they may incur as directors or officers of the Applicant after the commencement of the within proceedings, and (ii) make payments of amounts for which its directors and officers may be liable as obligations they may incur as directors or officers of the Applicant after the commencement of the within proceedings, except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

26. THIS COURT ORDERS that the directors and officers of the Applicant shall be entitled to the benefit of and are hereby granted a charge (the "Directors' Charge") on the Property (other than the Applicant's assets which are subject to the Personal Property Security Act registrations on Schedule "B" hereto (the "Excluded Property")), which charge shall not exceed an aggregate amount of \$3,200,000, as security for the indemnity provided in paragraph 25 of this Order. The Directors' Charge shall have the priority set out in paragraphs 38 and 40 herein.

27. THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicant's directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 25 of this Order.

APPOINTMENT OF MONITOR

28. THIS COURT ORDERS that FTI is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Applicant with the powers and obligations set out in the CCAA or set forth herein and that the Applicant and its shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicant pursuant to this Order, and shall co-operate fully with the Monitor

in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

29. THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Applicant's receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;
- (c) advise the Applicant in its preparation of the Applicant's cash flow statements, as required from time to time;
- (d) advise the Applicant in its development of the Plan and any amendments to the Plan;
- (e) assist the Applicant, to the extent required by the Applicant, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan, as applicable;
- (f) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Applicant to the extent that is necessary to adequately assess the Applicant's business and financial affairs or to perform its duties arising under this Order;
- (g) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;
- (h) carry out and fulfill its obligations under the Support Agreement in accordance with its terms; and
- (i) perform such other duties as are required by this Order or by this Court from time to time.

30. THIS COURT ORDERS that without limiting paragraph 29 above, in carrying out its rights and obligations in connection with this Order, the Monitor shall be entitled to take such reasonable steps and use such services as it deems necessary in discharging its powers and obligations, including, without limitation, utilizing the services of FTI Consulting (Hong Kong) Limited ("FTI HK").

31. THIS COURT ORDERS that the Monitor shall not take possession of the Property (or any property or assets of the Applicant's subsidiaries) and shall take no part whatsoever in the management or supervision of the management of the Business (or any business of the Applicant's subsidiaries) and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof (or of any business, property or assets, or any part thereof, of any subsidiary of the Applicant).

32. THIS COURT ORDERS that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property (or any property of any subsidiary of the Applicant) that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "Environmental Legislation"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property (or of any property of any subsidiary of the Applicant) within the meaning of any Environmental Legislation, unless it is actually in possession.

33. THIS COURT ORDERS that the Monitor shall provide any creditor of the Applicant with information provided by the Applicant in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any

responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicant is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicant may agree.

34. THIS COURT ORDERS that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

35. THIS COURT ORDERS that the Monitor, counsel to the Monitor, counsel to the Applicant, counsel to the directors, Houlihan Lokey Capital Inc. (the "Financial Advisor"), FTI HK, counsel to the Ad Hoc Noteholders and the financial advisor to the Ad Hoc Noteholders (together with counsel to the Ad Hoc Noteholders, the "Noteholder Advisors") shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Applicant, whether incurred prior to or subsequent to the date of this Order, as part of the costs of these proceedings. The Applicant is hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor, counsel for the Applicant, counsel to the directors, the Financial Advisor, FTI HK, and the Noteholder Advisors on a weekly basis or otherwise in accordance with the terms of their engagement letters.

36. THIS COURT ORDERS that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

37. THIS COURT ORDERS that the Monitor, counsel to the Monitor, the Applicant's counsel, counsel to the directors, the Financial Advisor, FTI HK, and the Noteholder Advisors shall be entitled to the benefit of and are hereby granted a charge (the "Administration Charge") on the Property (other than the Excluded Property), which charge shall not exceed an aggregate amount of \$15,000,000 as security for their professional fees and disbursements incurred at their respective standard rates and charges in respect of such services, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 38 and 40 hereof.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

38. THIS COURT ORDERS that the priorities of the Directors' Charge and the Administration Charge, as between them, shall be as follows:

First – Administration Charge (to the maximum amount of \$15,000,000); and

Second – Directors' Charge (to the maximum amount of \$3,200,000).

39. THIS COURT ORDERS that the filing, registration or perfection of the Directors' Charge or the Administration Charge (collectively, the "Charges") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

40. THIS COURT ORDERS that each of the Charges shall constitute a charge on the Property (other than the Excluded Property) and shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "Encumbrances") in favour of any Person.

41. THIS COURT ORDERS that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicant shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Charges, unless the Applicant also obtains the prior written consent of the Monitor, the beneficiaries of the Directors' Charge and the beneficiaries of the Administration Charge, or further Order of this Court.

42. THIS COURT ORDERS that the Charges shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "Chargees"), shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or

other agreement (collectively, an "Agreement") which binds the Applicant, and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of any documents in respect thereof shall create or be deemed to constitute a breach by the Applicant of any Agreement to which it is a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the creation of the Charges; and
- (c) the payments made by the Applicant pursuant to this Order and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

43. THIS COURT ORDERS that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Applicant's interest in such real property leases.

APPROVAL OF FINANCIAL ADVISOR AGREEMENT

44. THIS COURT ORDERS that the letter agreement dated as of December 22, 2012 with respect to the Financial Advisor in the form attached as Exhibit "CC" to the Martin Affidavit (the "Financial Advisor Agreement") and the retention of the Financial Advisor under the terms thereof, including the payments to be made to the Financial Advisor thereunder, are hereby approved.

45. THIS COURT ORDERS that the Applicant is authorized and directed to make the payments contemplated in the Financial Advisor Agreement in accordance with the terms and conditions thereof.

POSTPONEMENT OF ANNUAL GENERAL MEETING

46. THIS COURT ORDERS that the Applicant be and is hereby relieved of any obligation to call and hold an annual meeting of its shareholders until further Order of this Court.

FOREIGN PROCEEDINGS

47. THIS COURT ORDERS that the Monitor is hereby authorized and empowered to act as the foreign representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside of Canada.

48. THIS COURT ORDERS that the Monitor is hereby authorized, as the foreign representative of the Applicant and of the within proceedings, to apply for foreign recognition of these proceedings, as necessary, in any jurisdiction outside of Canada, including as "Foreign Main Proceedings" in the United States pursuant to Chapter 15 of the *U.S. Bankruptcy Code*.

49. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada, the United States, Barbados, the British Virgin Islands, Cayman Islands, Hong Kong, the People's Republic of China or in any other foreign jurisdiction, to give effect to this Order and to assist the Applicant, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicant and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicant and the Monitor and their respective agents in carrying out the terms of this Order.

50. THIS COURT ORDERS that each of the Applicant and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order and any other Order issued in these proceedings.

SERVICE AND NOTICE

51. THIS COURT ORDERS that the Monitor shall (i) without delay, publish in the Globe and Mail and the Wall Street Journal a notice containing the information prescribed under the CCAA, (ii) within seven days after the date of this Order, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Applicant of more than \$1,000, and (C) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

52. THIS COURT ORDERS that each of the Applicant and the Monitor be at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery, facsimile transmission or email to the Applicant's creditors or other interested parties at their respective addresses as last shown on the records of the Applicant and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

53. THIS COURT ORDERS that the Applicant, the Monitor, and any party who has filed a Notice of Appearance may serve any court materials in these proceedings by e-mailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, and the Monitor may post a copy of any or all such materials on the Monitor's Website.

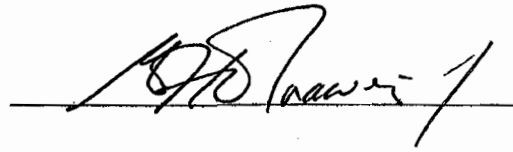
GENERAL

54. THIS COURT ORDERS that the Applicant or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

55. THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicant, the Business or the Property.

56. THIS COURT ORDERS that any interested party (including the Applicant and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

57. THIS COURT ORDERS that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

A handwritten signature in black ink, appearing to read "A. J. Rawlinson", is written over a horizontal line.

ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

APR 2 - 2012

Handwritten initials, possibly "NM", in black ink.

Schedule "A"

1. Sino-Panel Holdings Limited (BVI)
2. Sino-Global Holdings Inc. (BVI)
3. Sino-Wood Partners, Limited (HK)
4. Grandeur Winway Limited (BVI)
5. Sinowin Investments Limited (BVI)
6. Snowood Limited (Cayman Islands)
7. Sino-Forest Bio-Science Limited (BVI)
8. Sino-Forest Resources Inc. (BVI)
9. Sino-Plantation Limited (HK)
10. Suri-Wood Inc. (BVI)
11. Sino-Forest Investments Limited (BVI)
12. Sino-Wood (Guangxi) Limited (HK)
13. Sino-Wood (Jiangxi) Limited (HK)
14. Sino-Wood (Guangdong) Limited (HK)
15. Sino-Wood (Fujian) Limited (HK)
16. Sino-Panel (Asia) Inc. (BVI)
17. Sino-Panel (Guangxi) Limited (BVI)
18. Sino-Panel (Yunnan) Limited (BVI)
19. Sino-Panel (North East China) Limited (BVI)
20. Sino-Panel [Xiangxi] Limited (BVI)
21. Sino-Panel [Hunan] Limited (BVI)
22. SFR (China) Inc. (BVI)
23. Sino-Panel [Suzhou] Limited (BVI)
24. Sino-Panel (Gaoyao) Ltd. (BVI)
25. Sino-Panel (Guangzhou) Limited (BVI)
26. Sino-Panel (North Sea) Limited (BVI)
27. Sino-Panel (Guizhou) Limited (BVI)
28. Sino-Panel (Huailua) Limited (BVI)
29. Sino-Panel (Qinzhou) Limited (BVI)
30. Sino-Panel (Yongzhou) Limited (BVI)
31. Sino-Panel (Fujian) Limited (BVI)
32. Sino-Panel (Shaoyang) Limited (BVI)
33. Amplemax Worldwide Limited (BVI)
34. Ace Supreme International Limited (BVI)
35. Express Point Holdings Limited (BVI)
36. Glory Billion International Limited (BVI)
37. Smart Sure Enterprises Limited (BVI)
38. Expert Bonus Investment Limited (BVI)
39. Dynamic Profit Holdings Limited (BVI)
40. Alliance Max Limited (BVI)
41. Brain Force Limited (BVI)
42. General Excel Limited (BVI)
43. Poly Market Limited (BVI)
44. Prime Kinetic Limited (BVI)
45. Trillion Edge Limited (BVI)
46. Sino-Panel (China) Nursery Limited (BVI)

47. Sino-Wood Trading Limited (BVI)
48. Homix Limited (BVI)
49. Sino-Panel Trading Limited (BVI)
50. Sino-Panel (Russia) Limited (BVI)
51. Sino-Global Management Consulting Inc. (BVI)
52. Value quest International Limited (BVI)
53. Well Keen Worldwide Limited (BVI)
54. Harvest Wonder Worldwide Limited (BVI)
55. Cheer Gold Worldwide Limited (BVI)
56. Regal Win Capital Limited (BVI)
57. Rich Choice Worldwide Limited (BVI)
58. Sino-Forest International (Barbados) Corporation
59. Mandra Forestry Holdings Limited (BVI)
60. Mandra Forestry Finance Limited (BVI)
61. Mandra Forestry Anhui Limited (BVI)
62. Mandra Forestry Hubel Limited (BVI)
63. Sino-Capital Global Inc. (BVI)
64. Elite Legacy Limited (BVI)

Schedule "B"

PERSONAL PROPERTY SECURITY REGISTRATION SYSTEM
SEARCH RESULTS

Date Search Conducted: 3/29/2012
File Currency Date: 03/28/2012
Family(ies): 6
Page(s): 8

SEARCH : Business Debtor : SINO-FOREST CORPORATION

The attached report has been created based on the data received by Cyberbahn, a Thomson Reuters business from the Province of Ontario, Ministry of Government Services. No liability is assumed by Cyberbahn regarding its correctness, timeliness, completeness or the interpretation and use of the report. Use of the Cyberbahn service, including this report is subject to the terms and conditions of Cyberbahn's subscription agreement.

PERSONAL PROPERTY SECURITY REGISTRATION SYSTEM
SEARCH RESULTS

Date Search Conducted: 3/29/2012
File Currency Date: 03/28/2012
Family(ies): 6
Page(s): 8

SEARCH : Business Debtor : SINO-FOREST CORPORATION

FAMILY : 1 OF 6 ENQUIRY PAGE : 1 OF 8
SEARCH : BD : SINO-FOREST CORPORATION

00 FILE NUMBER : 609324408 EXPIRY DATE : 27SEP 2015 STATUS :
01 CAUTION FILING : PAGE : 001 OF 1 MV SCHEDULE ATTACHED :
REG NUM : 20040927 1631 1793 0430 REG TYP: P PPSA REG PERIOD: 10
02 IND DOB : IND NAME:
03 BUS NAME: SINO-FOREST CORPORATION

OCN :
04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208
CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3
05 IND DOB : IND NAME:
06 BUS NAME:

OCN :
07 ADDRESS :
CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :
LAW DEBENTURE TRUST COMPANY OF NEW YORK

09 ADDRESS : 767 THIRD AVENUE, 31ST FLOOR
CITY : NEW YORK PROV: NY POSTAL CODE: 10017
CONS. MV DATE OF OR NO FIXED
GOODS INVTRY. EQUIP ACCTS OTHER INCL AMOUNT MATURITY MAT DATE
10 X X
YEAR MAKE MODEL V.I.N.

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GENERAL COLLATERAL DESCRIPTION

13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR PURSUANT TO
14 A PLEDGE AGREEMENT AND SHARE CHARGE.

15

16 AGENT: AIRD & BERLIS LLP #2

17 ADDRESS : 181 BAY STREET, SUITE 1800
CITY : TORONTO PROV: ON POSTAL CODE: M5J2T9

FAMILY : 1 OF 6
SEARCH : BD : SINO-FOREST CORPORATION

ENQUIRY PAGE : 2 OF 8

FILE NUMBER 609324408

PAGE TOT REGISTRATION NUM REG TYPE
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21 REFERENCE FILE NUMBER : 609324408
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23 REFERENCE DEBTOR/ IND NAME:
24 TRANSFEROR: BUS NAME: SINO-FOREST CORPORATION

25 OTHER CHANGE:
26 REASON: TO AMEND SECURED PARTY ADDRESS AND TO AMEND GENERAL COLLATERAL
27 /DESCR: DESCRIPTION TO DELETE THE WORDS "PURSUANT TO A PLEDGE AGREEMENT AND
28 : SHARE CHARGE"
02/05 IND/TRANSFEREE:
03/06 BUS NAME/TRFEE:

OCN:

04/07 ADDRESS:
CITY: PROV: POSTAL CODE:
29 ASSIGNOR:

08 SECURED PARTY/LIEN CLAIMANT/ASSIGNEE :
LAW DEBENTURE TRUST COMPANY OF NEW YORK
09 ADDRESS : 400 MADISON AVENUE, 4TH FLOOR
CITY : NEW YORK PROV : NY POSTAL CODE : 10017
CONS. MV DATE OF NO FIXED
GOODS INVTRY EQUIP ACCTS OTHER INCL AMOUNT MATURITY OR MAT DATE

10

11

12

13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR

14

15

16 NAME : AIRD & BERLIS LLP

17 ADDRESS : 181 BAY STREET, SUITE 1800, BOX# 754

CITY : TORONTO PROV : ON POSTAL CODE : M5J2T9

FAMILY : 1 OF 6
SEARCH : BD : SINO-FOREST CORPORATION

ENQUIRY PAGE : 3 OF 8

FILE NUMBER 609324408

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24 TRANSFEROR: BUS NAME: SINO-FOREST CORPORATION

25 OTHER CHANGE:
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27 /DESCR:
28 :

02/05 IND/TRANSFEE:
03/06 BUS NAME/TRFEE:

OCN:

04/07 ADDRESS:
CITY: PROV: POSTAL CODE:
29 ASSIGNOR:

08 SECURED PARTY/LIEN CLAIMANT/ASSIGNEE :

09 ADDRESS :
CITY : PROV : POSTAL CODE :
CONS. MV DATE OF NO FIXED
GOODS INVTRY EQUIP ACCTS OTHER INCL AMOUNT MATURITY OR MAT DATE

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16 NAME : AIRD & BERLIS LLP
17 ADDRESS : 181 BAY STREET, SUITE 1800, BOX# 754
CITY : TORONTO PROV : ON POSTAL CODE : M5J2T9

FAMILY : 2 OF 6

ENQUIRY PAGE : 4 OF 8

SEARCH : BD : SINO-FOREST CORPORATION

00 FILE NUMBER : 650314305 EXPIRY DATE : 03DEC 2013 STATUS :
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OCN :

04 ADDRESS : 1208-90 BURNHAMTHORPE RD W
CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3
05 IND DOB : IND NAME:
06 BUS NAME:

OCN :

07 ADDRESS :
CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :
XEROX CANADA LTD

09 ADDRESS : 33 BLOOR ST. E. 3RD FLOOR
CITY : TORONTO PROV: ON POSTAL CODE: M4W3H1
CONS. MV DATE OF OR NO FIXED
GOODS INVTRY. EQUIP ACCTS OTHER INCL AMOUNT MATURITY MAT DATE
10 X X
YEAR MAKE MODEL V.I.N.

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12

GENERAL COLLATERAL DESCRIPTION

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14
15

16 AGENT: XEROX CANADA LTD
17 ADDRESS : 33 BLOOR ST. E. 3RD FLOOR
CITY : TORONTO PROV: ON POSTAL CODE: M4W3H1

FAMILY : 3 OF 6
SEARCH : BD : SINO-FOREST CORPORATION

ENQUIRY PAGE : 5 OF 8

00 FILE NUMBER : 655022304 EXPIRY DATE : 20JUL 2015 STATUS :
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03 BUS NAME: SINO-FOREST CORPORATION

OCN :
04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208
CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3
05 IND DOB : IND NAME:
06 BUS NAME:

OCN :
07 ADDRESS :
CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :
LAW DEBENTURE TRUST COMPANY OF NEW YORK

09 ADDRESS : 400 MADISON AVENUE, 4TH FLOOR
CITY : NEW YORK PROV: NY POSTAL CODE: 10017
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GENERAL COLLATERAL DESCRIPTION

13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR

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16 AGENT: AIRD & BERLIS LLP - SUSAN PAK

17 ADDRESS : 181 BAY STREET, SUITE 1800
CITY : TORONTO PROV: ON POSTAL CODE: M5J2T9

FAMILY : 4 OF 6
SEARCH : BD : SINO-FOREST CORPORATION

ENQUIRY PAGE : 6 OF 8

00 FILE NUMBER : 659079036 EXPIRY DATE : 03FEB 2016 STATUS :
01 CAUTION FILING : PAGE : 001 OF 1 MV SCHEDULE ATTACHED :
REG NUM : 20100203 1535 1793 2023 REG TYP: P PPSA REG PERIOD: 6
02 IND DOB : IND NAME:
03 BUS NAME: SINO-FOREST CORPORATION

OCN :

04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208
CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3
05 IND DOB : IND NAME:
06 BUS NAME:

OCN :

07 ADDRESS :
CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :

LAW DEBENTURE TRUST COMPANY OF NEW YORK

09 ADDRESS : 400 MADISON AVENUE, 4TH FLOOR

CITY : NEW YORK PROV: NY POSTAL CODE: 10017

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GENERAL COLLATERAL DESCRIPTION

13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR

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16 AGENT: AIRD & BERLIS LLP (SPAK - 102288)

17 ADDRESS : 181 BAY STREET, SUITE 1800

CITY : TORONTO PROV: ON POSTAL CODE: M5J2T9

FAMILY : 5 OF 6
SEARCH : BD : SINO-FOREST CORPORATION

ENQUIRY PAGE : 7 OF 8

00 FILE NUMBER : 665186985 EXPIRY DATE : 15OCT 2020 STATUS :
01 CAUTION FILING : PAGE : 001 OF 1 MV SCHEDULE ATTACHED :
REG NUM : 20101015 1215 1793 1245 REG TYP: P PPSA REG PERIOD: 10
02 IND DOB : IND NAME:
03 BUS NAME: SINO-FOREST CORPORATION

OCN :

04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208
CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3
05 IND DOB : IND NAME:
06 BUS NAME:

OCN :

07 ADDRESS :
CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :
LAW DEBENTURE TRUST COMPANY OF NEW YORK

09 ADDRESS : 400 MADISON AVENUE, 4TH FLOOR
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GENERAL COLLATERAL DESCRIPTION

13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR.

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16 AGENT: AIRD & BERLIS LLP (RMK-106760)

17 ADDRESS : 181 BAY STREET, SUITE 1800
CITY : TORONTO PROV: ON POSTAL CODE: M5J2T9

FAMILY : 6 OF 6
SEARCH : BD : SINO-FOREST CORPORATION

ENQUIRY PAGE : 8 OF 8

00 FILE NUMBER : 665928963 EXPIRY DATE : 17NOV 2016 STATUS :
01 CAUTION FILING : PAGE : 01 OF 001 MV SCHEDULE ATTACHED :
REG NUM : 20101117 1007 1462 0113 REG TYP: P PPSA REG PERIOD: 6
02 IND DOB : IND NAME:
03 BUS NAME: SINO-FOREST CORPORATION

OCN :

04 ADDRESS : 1208-90 BURNHAMTHORPE RD W
CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3
05 IND DOB : IND NAME:
06 BUS NAME:

OCN :

07 ADDRESS :
CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :
XEROX CANADA LTD

09 ADDRESS : 33 BLOOR ST. E. 3RD FLOOR
CITY : TORONTO PROV: ON POSTAL CODE: M4W3H1
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GENERAL COLLATERAL DESCRIPTION

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16 AGENT: PPSA CANADA INC. - (3992)

17 ADDRESS : 110 SHEPPARD AVE EAST, SUITE 303
CITY : TORONTO PROV: ON POSTAL CODE: M2N6Y8

Schedule "A"

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

Court File No.

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceedings commenced in Toronto

INITIAL ORDER

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Lawyers for the Applicant

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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

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

AFFIDAVIT OF DANIEL E. H. BACH

I, Daniel E. H. Bach, of the City of Toronto, in the Province of Ontario, MAKE OATH
AND SAY:

1. I am a lawyer in the class actions department of Siskinds LLP ("Siskinds"), co-counsel for the plaintiffs (the "Plaintiffs") in the class proceeding styled *Trustees of the Labourers' Pension Fund of Central and Eastern Canada v Sino-Forest Corporation et al.*, bearing (Toronto) Court File No. CV-11-431153-00CP (the "Ontario Class Action").
2. As such, I have knowledge of the matters to which I hereinafter depose. Where that knowledge is based on information obtained from others, I have so indicated and believe that information to be true.
3. I swear this affidavit in support of the Plaintiffs' motion for an order, *inter alia*, terminating these proceedings under the *Companies' Creditors Arrangement Act* ("CCAA") and appointing a receiver of the assets, undertakings and properties of Sino-

Forest Corporation ("Sino"). No portion of this affidavit is meant to waive, nor should it be construed as a waiver of, solicitor-client, litigation or any other privilege.

CLASS ACTION LITIGATION INVOLVING SINO

The Ontario Class Action

Overview of the Ontario Class Action

4. On July 20, 2011, the Trustees of the Labourers' Pension Fund and the Trustees of the International Union of Operating Engineers commenced the Ontario Class Action by way of a notice of action. In addition to Sino, the action names 25 defendants, including Sino's former auditors, various underwriters and a forestry valuation company.
5. By way of a notice of action issued on November 14, 2011, Messers. Grant and Wong commenced an action (the "Grant-Wong Action"), arising out of the same facts, against Sino and certain of the other individual and corporate defendants.
6. On December 13, 2011, the plaintiffs in the Grant-Wong Action filed a statement of claim.
7. On January 6, 2012, the Honourable Justice Perell granted the Plaintiffs carriage of the Ontario Class Action, and consolidated the Ontario Class Action and the Grant-Wong Action.
8. On direction from court staff, the Plaintiffs filed an amended notice of action and a statement of claim on January 26, 2012 (the "Claim"). A copy of the Claim is attached and marked as Exhibit "Y" to the affidavit of Judson Martin, sworn March 30, 2012, which Sino has filed in this proceeding (the "Martin Affidavit").

9. Following the filing of the Claim on January 26, 2012, we undertook to Justice Perell, the case management judge assigned to the Ontario Class Action, to serve and file by no later than April 2, 2012 our clients' motions for certification (the "Certification Motion") under the *Class Proceedings Act, 1992* (the "CPA") and for leave to assert the statutory cause of action for secondary market misrepresentation (the "Leave Motion") under Part XXIII.1 of the Ontario *Securities Act* (the "OSA"). The Plaintiffs brought a motion seeking to have the Certification Motion and Leave Motions heard in late August 2012. This motion was scheduled for March 22, 2012.
10. However, on February 16, 2012, the Ontario Court of Appeal issued its decision in *Sharma v Timminco Limited*, 2012 ONCA 107 (CanLII). In that decision, the Court held, in essence, that the limitation period under Part XXIII.1 of the *OSA* was not tolled in that action by the filing of a pleading wherein the plaintiff declared an intention to seek leave to assert the Part XXIII.1 cause of action (as the Plaintiffs have done from the outset of the Ontario Class Action).
11. Immediately following the issuance of the *Timminco* decision, out of an abundance of caution, Dimitri Lascaris of Siskinds LLP wrote to counsel to those of the defendants in the Ontario Class Action against whom a Part XXIII.1 claim is sought to be asserted (the "Leave Defendants"), and requested that they enter into a tolling agreement, failing which the Plaintiffs would seek to have the Leave Motion heard on March 22, 2012.
12. On March 2, 2012, by which time none of the Leave Defendants had agreed to toll the Part XXIII.1 limitation period, we served upon counsel to the Leave Defendants the Plaintiffs' motion record in support of the Leave Motion. Pursuant to Part XXIII.1 of the *OSA*, a copy of that motion record was also served upon the Ontario Securities

Commission (the "OSC"). Attached and marked as **Exhibit "A"** is a disk containing an electronic copy of the motion record filed by the Plaintiffs in support of the Leave Motion.

13. On March 6, 2012, the Leave Defendants entered into a tolling agreement with the Plaintiffs. Pursuant to the tolling agreement, the parties agreed that the running of time for the purpose of asserting Part XXIII.1 claims was to be suspended as of March 6, 2012 until February 28, 2013. On that basis, the Plaintiffs agreed to postpone the hearing of the Leave Motion and Certification Motion until a date in the summer or fall of 2012 so that the defendants would have time to prepare responding materials and allow for full preparation.
14. The expiration date of February 28, 2013 was carefully crafted by the parties in the Ontario Class Action with the assistance of the Honourable Justice Perell in order for the Leave Motion to be prepared and heard, and for a decision to be rendered by him, before the expiration of the tolling agreement. As such, any interruption or delay to the timetable will have a pass-on effect, with the result being that the decision on the Leave Motion might not be released before February 28, 2013. This puts the Class Members at risk of having some or all of their claims extinguished as a result of the potential expiry of a limitation period.
15. In support of their Leave Motion, the Plaintiffs filed a proposed Fresh as Amended Statement of Claim (the "Amended Claim"). The Amended Claim, which will be filed with the Court in accordance with the reasons of Justice Perell, is different from the Claim. Among other things, the Amended Claim incorporates information revealed to the public for the first time by the special committee established by Sino's Board to

investigate the Muddy Waters allegations (the "SC"). It also incorporates information obtained through our own, ongoing, investigation and analysis, which was aided by various experts, and which was also aided by investigators based in Hong Kong. A copy of the Amended Claim is marked and attached as **Exhibit "B"**.

16. The Amended Claim alleges that Sino, certain of its officers and directors, its auditors, and its underwriters made material misrepresentations regarding the operations, revenues, net income and assets of Sino. The Claim seeks an aggregate of \$9.2 billion in damages and is brought on behalf of:

all persons and entities, wherever they may reside who acquired Sino-Forest's Securities during the Class Period by distribution in Canada or on the Toronto Stock Exchange or other secondary market in Canada, which includes securities acquired over-the-counter, and all persons and entities who acquired Sino-Forest's Securities during the Class Period who are resident of Canada or were resident of Canada at the time of acquisition and who acquired Sino's Securities outside of Canada, except the Excluded Persons (the "Class" or "Class Members")

17. The Amended Claim defines "Excluded Persons" as the Defendants, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any individual who is a member of the immediate family of an individual defendant.
18. The Amended Claim defines the Class Period as "the period from and including March 19, 2007 to and including June 2, 2011."

The Evidence Supporting the Leave Motion

19. The Part XXIII.1 cause of action which the Plaintiffs principally seek to assert is set forth in s. 138.3(1) of the *OSA*, which states in part:

138.3(1) Where a responsible issuer or a person or company with actual, implied or apparent authority to act on behalf of a responsible issuer releases a document that contains a misrepresentation, a person or company who acquires or disposes of the issuer's security during the period between the time when the document was released and the time when the misrepresentation contained in the document was publicly corrected has, without regard to whether the person or company relied on the misrepresentation, a right of action for damages against,

- (a) the responsible issuer;
- (b) each director of the responsible issuer at the time the document was released;
- (c) each officer of the responsible issuer who authorized, permitted or acquiesced in the release of the document;

[...]

- (e) each expert where,
 - (i) the misrepresentation is also contained in a report, statement or opinion made by the expert,
 - (ii) the document includes, summarizes or quotes from the report, statement or opinion of the expert, and
 - (iii) if the document was released by a person or company other than the expert, the expert consented in writing to the use of the report, statement or opinion in the document.

20. Under s. 138.8(1) of the *OSA*, an action may be commenced under Part XXIII.1 only with leave of the Court, which shall be granted if (1) the plaintiff is acting in good faith; and (2) there is a reasonable possibility that the action will be resolved at trial in favour of the plaintiff. Section 138.8 (2) of the *OSA* stipulates that, in an application for leave, the plaintiff and each defendant shall serve and file one or more affidavits setting forth the material facts upon which each intends to rely.

21. In support of the Leave Motion, the Plaintiffs have filed the following affidavits, all of which were served on counsel to Mr. Martin approximately four weeks before he swore the Martin Affidavit:

- (a) One affidavit from each of the five plaintiffs;
- (b) An affidavit sworn by me, to which is attached, among other things, a large number of Sino disclosure documents, and which also touches upon other matters, including Sino's historical results as compared to the results of its peers;
- (c) An affidavit from Steven Chandler, a former senior law enforcement official from Hong Kong (the "Chandler Affidavit");
- (d) An affidavit of Alan Mak, an expert in forensic accounting from the Toronto-based firm of Rosen & Associates;
- (e) An affidavit of Dennis Deng, a lawyer qualified to practice in the PRC, and a partner in a law firm that is one of Beijing's leading law firms and is also one of China's largest law firms (the "Deng Affidavit"); and
- (f) An affidavit of Carol-Ann Tjon-Pian-Gi, a lawyer qualified to practice in the Republic of Suriname (the "Tjon-Pian-Gi Affidavit").

22. Below I summarize the four affidavits on which the Plaintiffs principally rely to establish the merits of their proposed Part XXIII.1 claims.

The Chandler Affidavit

23. Among other things, Mr. Chandler examined various business records that had been filed with the Administration of Industry and Commerce of the PRC (the "AIC"), as well as certain filings with the Courts of Hong Kong. Based in part upon that examination, Mr. Chandler found, *inter alia*, that:

- (a) A company from which Sino had claimed to have generated substantial sales was in fact a shell and never did any business from the time of its establishment;
- (b) Neither Sino nor any of its subsidiaries appeared to have an interest in a Shanghai-based company of which Sino claimed to be part-owner;
- (c) Sino failed to disclose that one of its officers was a major shareholder of a subsidiary of Homix Limited (a company discussed in the Martin Affidavit) at the time that Homix was acquired by Sino; and

- (d) Contrary to statements made in the Final Report of the SC, maps are in fact allowed and have been widely used in the PRC for at least the last three years.

The Tjon-Pian-Gi Affidavit

24. Ms. Tjon-Pian-Gi opines on Sino's assertion that one of its subsidiaries, The Greenheart Group ("Greenheart"), was granted well in excess of 150,000 hectare of forestry concessions in the Republic of Suriname. Ms. Tjon-Pian-Gi's opinion undermines this assertion or, at a minimum, constitutes evidence that Greenheart's concessions may not be compliant with the laws of Suriname. In particular, the *Forest Management Act* of the Republic of Suriname prohibits a person or legal entity, or various legal entities in which a person or legal entity has a majority interest, from being granted more than 150,000 hectares of forestry concessions.

The Deng Affidavit

25. In essence, Mr. Deng opines, *inter alia*, that:
- (a) It is unlawful in the PRC, and potentially punishable with severe criminal penalties, for forestry companies or their representatives to give gifts to employees of forestry bureaus (the SC disclosed that "there are indications in emails and in interviews with [Sino] Suppliers that gifts and cash payments are made to forestry bureaus and forestry bureau officials");
 - (b) Sino's BVI subsidiaries are likely engaging in "business activities" in the PRC in violation of PRC law, and the unauthorized conduct of "business activities" in the PRC is potentially punishable with severe penalties;
 - (c) It is likely that certain of Sino's authorized intermediaries and suppliers refused to produce requested documentation to the SC because that documentation may demonstrate that they were engaging in illegal tax evasion; and
 - (d) In the PRC, standing timber may not be purchased without purchasing land use rights, and because foreign forestry companies are not allowed to purchase land use rights, the standing timber purchase contracts entered into by Sino's BVI subsidiaries are void and unenforceable under PRC law.

The Mak Affidavit

26. Essentially, Mr. Mak opines, *inter alia*, that:

- (a) From an accounting and financial reporting perspective, and based on publicly available information (including the SC's reports), sufficient appropriate evidence does not exist to justify Sino's reporting of timber assets and revenues for the vast majority of Sino's standing timber activities in 2006 to 2010;
- (b) The annual audited financial statements of Sino for much or all of the period 2005-2010 should not have been issued to the public;
- (c) The legal ownership and occurrence of *bona fide* economic transactions have not been established by Sino or by the investigation of the SC;
- (d) Given the 'closed circuit' nature of Sino's standing timber business model, a serious possibility (if not high probability) is that Sino's entire standing timber business is an accounting fiction;
- (e) Sino's timber assets, revenues and profits from at least 2006 to 2010 were grossly overstated;
- (f) In direct contravention of Canadian GAAP, Sino grossly overstated its "cash flows from operating activities," a figure that is extensively relied upon by financial analysts to compute valuations of the company; and
- (g) Ernst & Young and BDO failed to conduct their audits in accordance with Generally Accepted Auditing Standards, and failed to detect material misstatements in Sino's financial statements.

The Proposed Representative Plaintiffs in the Ontario Class Action

27. The trustees of the Labourer's Pension Fund of Central and Eastern Canada ("Labourers") are proposed representative plaintiffs in the Ontario Class Action. Labourers' is a multi-employer pension plan providing benefits for employees working in the construction industry. The fund is a union-negotiated, collectively-bargained defined benefit pension plan established on February 23, 1972 and currently has approximately \$2 billion in

assets, over 39,000 members, over 13,000 pensioners and beneficiaries and approximately 2,000 participating employers. A board of trustees representing members of the plan governs the fund. The plan is registered under the *Pension Benefits Act*, RSO 1990, c P.8 and the *Income Tax Act*, RSC 1985, 5th Supp, c.1. Labourers' purchased Sino's common shares over the TSX during the Class Period and continued to hold shares at the end of the Class Period. In addition, Labourers purchased Sino's common shares pursuant to a prospectus and in the distribution to which that prospectus related.

28. The trustees of the International Union of Operating Engineers ("Operating Engineers") are proposed representative plaintiffs in this action. Operating Engineers is a multi-employer pension plan providing pension benefits for operating engineers in Ontario. The pension plan is a union-negotiated, collectively-bargained defined benefit pension plan established on November 1, 1973 and currently has approximately \$1.5 billion in assets, over 9,000 members and pensioners and beneficiaries. The fund is governed by a board of trustees representing members of the plan. The plan is registered under the *Pension Benefits Act*, RSO 1990, c P.8 and the *Income Tax Act*, RSC 1985, 5th Supp, c.1. Operating Engineers purchased Sino's common shares over the TSX during the Class Period, and continued to hold shares at the end of the Class Period.
29. Sjunde AP-Fonden ("AP7") is the Swedish National Pension Fund. As of June 30, 2011, AP7 had approximately \$15.3 billion in assets under management. Funds managed by AP7 purchased Sino's common shares over the TSX during the Class Period and continued to hold those common shares at the end of the Class Period.
30. David Grant is an individual resident in Calgary, Alberta. During the Class Period, he purchased 100 of the Sino 6.25% Guaranteed Senior Notes due 2017 pursuant to an

offering memorandum. Mr. Grant continued to hold those Notes at the end of the Class Period.

31. Robert Wong is an individual residing in Kincardine, Ontario. During the Class Period, he purchased Sino's common shares over the TSX and continued to hold some or all of such shares at the end of the Class Period. In addition, Mr. Wong purchased Sino common shares pursuant to a prospectus and continued to own those shares at the end of the Class Period.
32. Collectively, the Plaintiffs held in excess of 1.1 million Sino shares and 100 Sino notes at the end of the class period (on June 2, 2011).

Other Class Members' Involvement in the Ontario Class Action.

33. Our firm was recently retained by U.S.-based Davis Selected Advisors L.P ("Davis") in connection with, among other matters, the Ontario Class Action and this proceeding. Davis held approximately 31 Sino million shares, or 12.6% of Sino's outstanding shares, as of April 29, 2011, as well as various notes of Sino-Forest. I understand that that Davis is currently Sino's second largest shareholder.
34. Davis has instructed us to advise this Honourable Court that it completely supports the granting of the relief sought in this motion.
35. In addition, on April 10, 2012, I spoke to Richard Edlin of Greenberg Traurig, counsel to U.S.-based Paulson & Co. ("Paulson"). I understand that Paulson held approximately 34 million Sino shares, or 14.1% of Sino's outstanding shares, as of April 29, 2011, but that Paulson sold its Sino stake in June 2011, after publication of the initial Muddy Waters

report. Mr. Edlin advised me that Paulson completely supports the granting of the relief sought in this motion.

36. Finally as of April 11, 2012 Siskinds and Siskinds Desmeules had been contacted by 311 putative class members, and Koskie Minsky had been contacted by 204 putative class members.

The Defendants

37. Sino purports to be a commercial forest plantation operator in the People's Republic of China and elsewhere. Sino is a corporation formed under the *CBCA*. At material times relevant to the Ontario Class Action, Sino was a reporting issuer in all provinces of Canada, and had its registered office located in Mississauga, Ontario. At the material times, Sino's shares were listed for trading on the TSX under the ticker symbol "TRE," on the Berlin exchange as "SFJ GR," on the over-the-counter market in the United States as "SNOFF" and on the Tradedgate market as "SFJ TH." Sino securities were also listed on alternative trading venues in Canada and elsewhere including, without limitation, AlphaToronto and PureTrading. Sino's shares also traded over-the-counter in the United States. Sino has various debt instruments, derivatives and other securities that are traded in Canada and elsewhere.
38. Allen Chan is a co-founder of Sino, and was the Chairman, Chief Executive Officer and a director of the company from 1994 until his resignation from those positions on or about August 25, 2011.
39. David Horsley is Sino's Chief Financial Officer, and has held this position since October 2005. Mr. Horsley resides in Ontario.

40. Kai Kit Poon is a co-founder of Sino, and has been the President of the company since 1994. He was a director of Sino from 1994 to May 2009, and he continues to serve as Sino's President. Mr. Poon resides in Hong Kong, China.
41. Peter Wang is a director of Sino, and has held this position since August 2007. Mr. Wang resides in Hong Kong, China.
42. Judson Martin has been a director of Sino since 2006, and was appointed vice-chairman in 2010. On or about August 25, 2011, Mr. Martin replaced Allen Chan as Chief Executive Officer of Sino. Mr. Martin was a member of Sino's audit committee prior to early 2011. He resides in Hong Kong, China.
43. Edmund Mak is a director of Sino and has held this position since 1994. Mr. Mak was a member of Sino's audit committee prior to early 2011. Mr. Mak resides in British Columbia.
44. Simon Murray is a director of Sino and has held this position since 1999. Mr. Murray resides in Hong Kong, China.
45. James M.E. Hyde is a director of Sino, and has held this position since 2004. Mr. Hyde was previously a partner of the defendant, Ernst & Young. He is the chairman of Sino's Audit Committee and a member of the Compensation and Nominating Committee. Mr. Hyde resides in Ontario.
46. William E. Ardell is a director of Sino, and has held this position since January 2010. Mr. Ardell is a member of Sino's audit committee. He resides in Ontario.

47. James P. Bowland was a director of Sino from February 2011 until his resignation from the Board of Sino in November 2011. While on Sino's Board, Mr. Bowland was a member of Sino's Audit Committee. He was formerly an employee of a predecessor to Ernst & Young. Mr. Bowland resides in Ontario.
48. Mr. Bowland was initially a member of the SC. However, on November 4, 2011, in the middle of the SC's investigation into the Muddy Waters allegations, Sino issued a press release announcing that Mr. Bowland had resigned as a director of Sino. No reasons were given in that press release for his resignation. Attached and marked as **Exhibit "C"** is a copy of the November 4, 2011 press release.
49. Garry J. West is a director of Sino, and has held this position since February 2011. Mr. West was previously a partner at the defendant, Ernst & Young. Mr. West is a member of Sino's Audit Committee. He resides in Ontario.
50. Ernst & Young was engaged as Sino's auditor from August 13, 2007 to April 4, 2012. Ernst & Young was also engaged as Sino's auditor from Sino's creation through February 19, 1999, when Ernst & Young resigned during audit season and was replaced by the now-defunct Arthur Andersen LLP. Ernst & Young was also Sino's auditor from 2000 to 2004, when it was replaced by BDO Limited.
51. BDO Limited is the successor of BDO McCabe Lo Limited, the Hong Kong, China based auditing firm that was engaged as Sino's auditor during the period of March 21, 2005 through August 12, 2007, when they resigned at Sino's request, and were replaced by Ernst & Young.

52. Pöyry (Beijing) Consulting Company Limited is an international forestry consulting firm which purported to provide certain forestry consultation services to Sino.
53. A number of underwriters are also named as defendants in the Amended Claim. These underwriters include Banc of America Corporation, Cannacord Financial Ltd., CIBC World Markets Inc., Credit Suisse Securities (Canada) Inc., Credit Suisse (USA) LLC, Dundee Securities Corp., Maison Placements Canada Inc., Merrill Lynch Canada Inc., RBC Dominion Securities Inc., Scotia Capital Inc., and TD Securities Inc.
54. The various defendants are represented in the Ontario Class Action by the following firms:
 - (a) Bennett Jones LLP – Sino, Edmund Mak, Simon Murray, Judson Martin, Kai Kit Poon, Peter Wang;
 - (b) Wardle Daley Bernstein LLP – David Horsley;
 - (c) Miller Thomson – Allen Chan;
 - (d) Osler, Hoskin & Harcourt LLP – William Ardell, James Bowland, James Hyde, Garry West;
 - (e) Lenczner Slaght Royce Smith Griffin LLP – Ernst & Young LLP;
 - (f) Affleck Greene McMurtry LLP – BDO Limited;
 - (g) Baker & McKenzie LLP – Pöyry (Beijing) Consulting Company Limited; and
 - (h) Torys LLP – all Underwriters.

Other Class Proceedings

Parallel Ontario Actions

55. On June 6, 2011, the law firm of Rochon Genova LLP commenced an action (the "Smith Action") against Sino and certain other defendants arising out of the same set of allegations as those advanced in this action.
56. On September 26, 2011, the law firm of Kim Orr Barristers commenced an action (the "Northwest Action") against Sino and certain other defendants arising out of the same set of allegations as those advanced in this action.
57. By an order dated January 6, 2012, Justice Perell stayed the Smith Action and the Northwest Action, and carriage of the action was granted to the Plaintiffs. A copy of those reasons are marked and attached as **Exhibit "D"**.

Parallel Quebec Action

58. On June 9, 2011, Siskinds Desmeules, a Quebec City law firm affiliated with Siskinds, filed a petition for an order authorizing the bringing of a class action and granting the status of representative in the Quebec Superior Court (the "Quebec Proceeding"). The petition in the Quebec Proceeding defines the proposed Class as:

all persons or entities domiciled in Quebec (other than the Defendants, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any individual who is an immediate member of the families of the individual named defendants) who purchased or otherwise acquired, whether in the secondary market, or under a prospectus or other offering document in the primary market, equity, debt or other securities of or relating to Sino-Forest Corporation, from and including March 19, 2007 to and including June 2, 2011.

59. I am advised by Simon Hebert, the lawyer at Siskinds Desmeules with carriage of the Quebec Proceeding, that he anticipates that, prior to the hearing of the Quebec Proceeding, the class definition will be revised so that it is limited to Quebec residents eligible to participate in a class proceeding under the Quebec *Code of Civil Procedure*, which expressly excludes entities employing more than 50 persons from participating in a class proceeding.
60. By virtue of our relationship with Siskinds Desmeules, we believe we can coordinate the progress of the Quebec Proceeding and the Ontario Class Action in a complimentary and efficient manner.

Parallel United States Action

61. On January 27, 2012, the Washington, DC-based law firm of Cohen Milstein Sellers & Toll PLLC commenced a proposed class action against Sino and certain other defendants in the New York Supreme Court (the "U.S. Action"). The U.S. Action defines the proposed class as:

(i) all persons or entities who, from March 19, 2007 through August 26, 2011 (the "Class Period") purchased the common stock of Sino-Forest on the Over-the-Counter ("OTC") market and who were damaged thereby; and (ii) all persons or entities who, during the Class Period, purchased debt securities issued by Sino-Forest other than in Canada and who were damaged thereby.

62. I am not aware of any material steps having been taken by the plaintiff in the U.S. Action to advance that action.
63. To my knowledge, Sino has no offices or operations in the United States.

Parallel Saskatchewan Action

64. On December 1, 2011 the Merchant Law Group LLP commenced a proposed class action against Sino and certain other defendants in the Saskatchewan Court of Queen's Bench styled as *Haigh v Sino-Forest Corporation* (the "Saskatchewan Action"). The proposed class in the Saskatchewan Action is defined as:

All persons and entities wherever they may reside who acquired securities of Sino during the Class Period either by primary distribution in Canada or an acquisition on the TSX or other secondary market in Canada, other than the Defendants, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any individual who is an immediate family member of an Individual Defendant.

65. I am not aware of any material steps having been taken by the plaintiff in the Saskatchewan Action to advance that action.

66. To my knowledge, Sino has no offices or operations in the Province of Saskatchewan.

67. I am not aware of any other civil actions having been commenced in Canada or elsewhere against any of the Defendants in relation to the facts pleaded in the Claim.

The Status of the Ontario Class Action

Motions Relating to the Ontario Class Action

68. There are currently four motions scheduled to be heard in the Ontario Class Action.

These are:

- (a) The Plaintiffs' motion for certification for the purpose of settlement only as against the defendant, Pöyry (Beijing) Consulting Company Limited ("Pöyry"). The Plaintiffs have reached a settlement with Pöyry, and the motion for

certification is brought on consent. The motion is scheduled to be heard on April 17, 2012. In order for this settlement to be effected, it will also have to be approved by way of motion by the Quebec Superior Court. Attached and marked as **Exhibit "E"** is a disk containing an electronic copy of the motion record filed by the plaintiffs in support of the motion for certification for the purpose of settlement. .

(b) The Plaintiffs' motion for approval of a litigation funding agreement reached between the Plaintiffs and Claims Funding International, PLC ("CFI"). In the motion, the Plaintiffs also seek an order that all communications between CFI, class counsel and the Plaintiffs are confidential, that CFI provide security for costs, and that class counsel and the Plaintiffs may provide documents to CFI on the condition that CFI and its staff are subject to the deemed undertaking pursuant to Rule 30.1.03 of the *Rules of Civil Procedure*. The motion is also scheduled to be heard on April 17, 2012. Attached and marked as **Exhibit "F"** is a disk containing an electronic copy of the motion record filed by the plaintiffs in support of the litigation funding motion.

(c) The Leave Motion and the Certification Motion, the latter of which was served on the defendants on April 2, 2012. These motions are scheduled to be heard from November 21 to 30, 2012.

Timetable of Pending Motions

69. On March 22, 2012, the Honourable Justice Perell heard a contested motion regarding the date on which the Leave and Certification Motions would be heard. All of the defendants

made submissions and opposed the scheduling of the certification motion for November 2012.

70. In reasons dated March 26, 2012, the Honourable Justice Perell ordered that any Leave Defendant who elects to file an affidavit in opposition to the Leave Motion would be required to serve a Statement of Defence. The defendants in the Ontario Class Action had opposed an order requiring them to serve a defence before adjudication of the Leave and Certification Motions.

71. In his March 26, 2012 reasons, Justice Perell also set a timetable for the Plaintiffs' motion for funding approval, Leave Motion, and Certification Motion. The reasons for decision are marked and attached as **Exhibit "G"**.

72. The timetable, as set out at paragraph 93 of those reasons, is as follows:

Funding Approval Motion

March 9, 2012: Plaintiffs to deliver motion record (completed)

March 30, 2012: Defendants to deliver responding records, if any

April 6, 2012: Plaintiffs to deliver factum

April 13, 2012: Defendants to deliver factum

April 17, 2012: Hearing of the motion

Leave and Certification Motion

April 10, 2012: Plaintiffs to deliver motion record

June 11, 2012: Defendants to deliver responding records

July 3, 2012: Plaintiffs to deliver reply records, if any

September 14, 2012: Cross-examinations to be completed

October 19, 2012: Plaintiffs to deliver factum

November 9, 2012: Defendants to deliver factum

November 21-30, 2012: Hearing of the motion

Osler's Dual Roles in the SC's Investigation and in the Ontario Class Action

73. Osler, Hoskin & Harcourt LLP ("Osler") is counsel to the defendants William Ardell, James Bowland, James Hyde, and Garry West in the Ontario Class Action. Each of these individuals was a director of Sino during the Class Period.
74. On June 3, 2011, Sino-Forest issued a press release announcing the creation of the SC, which initially consisted of the defendants, William Ardell, James Bowland, and James Hyde. The mandate of the SC was said to be to "thoroughly examine and review the allegations contained in Muddy Waters' report". The SC appointed Osler as its legal counsel. A copy of the June 3, 2011 press release is marked and attached as **Exhibit "H"**.
75. On January 31, 2012, the SC released its final report to Sino's board of directors. The SC concluded that although there remain outstanding issues that have not been fully answered, the SC had reached the point of diminishing returns. Attached and marked as **Exhibit "I"** is a copy of the final report.
76. In an article dated February 13, 2012, William Ardell disclosed that Sino had then spent approximately \$50 million on its internal investigation. Attached and marked as **Exhibit "J"** is a copy of that article.

Sino's Performance from its Listing on the TSX to 2012

77. From 1994, when Sino became a TSX-listed company, to 2010, Sino's reported annual revenues increased from US\$20.5 million to US\$1.9 billion, or 9,291%, and its year-over-year reported revenues decreased only once, in 2000. During that same period, Sino's reported net income increased from US\$3.0 million to US\$395.4 million, or

13,037%, and its year-over-year reported net annual income decreased only twice, in 2000 and 2001. Finally, from 1994 to 2010, Sino's reported total assets as at year-end increased from US\$30.6 million to US\$5.7 billion, or 18,616%. During that period, Sino's year-over-year reported assets never decreased.

78. For none of the sixty quarters comprising the years 1996 to 2010 did Sino report a net loss; rather, for 100% of all such quarters, Sino reported significant net income.
79. From the commencement of 1996 to the current time, Sino's first and only quarter in respect of which it reported a net loss was for the quarter ended March 31, 2011. For that quarter, Sino reported a net loss of \$22.1 million on revenue of \$338.9 million. However, for the subsequent quarter ended June 30, 2011, Sino reported a net profit of \$447.1 million on revenue of \$317.4 million.¹
80. According to Sino's audited annual financial statements for the year ended December 31, 2010, Sino's revenues and net income for each of 2008, 2009 and 2010 were as follows:

Year	Revenue	Net Income
2008	\$901,295,000	\$228,593,000
2009	\$1,238,185,000	\$286,370,000
2010	\$1,923,536,000	\$395,426,000
TOTAL	\$4,063,016,000	\$910,389,000

81. Thus, for the period commencing on January 1, 2008 and ending on June 30, 2011, Sino reported total revenues of approximately \$4.7 billion and total net income of approximately \$1.3 billion.

¹ Sino has filed no interim or annual financial statements on SEDAR for periods ending after June 30, 2011.

CLAIMS AGAINST THE MEMBERS OF SINO'S BOARD AND CERTAIN MEMBERS OF SINO'S MANAGEMENT

82. The following chart sets out the claims being asserted in the Ontario Class Action against the members of Sino's Board and certain members of Sino's senior management:

	OSA s. 130 (prospectus)	OSA s. 138.3 (offering memorandum)	Negligent Misrepresentation (secondary market)	Negligent Misrepresentation (prospectus/offering memo)	Negligence	Unjust Enrichment	CBCA Oppression	Conspiracy
Chan	X	X	X	X	X	X	X	X
Horsley	X	X	X	X	X	X	X	X
Poon	X	X	X	X	X	X	X	X
Wang	X	X	X	X	X		X	
Martin	X	X	X	X	X	X	X	
Mak	X	X	X	X	X	X	X	
Murray	X	X	X	X	X	X	X	
Hyde	X	X	X	X	X		X	
Ardell		X	X				X	
Bowland		X	X				X	
West		X	X				X	

Resignation of Sino-Forest's Auditor

83. On April 5, 2012, Sino issued a press release announcing that Ernst & Young had resigned as the company's auditors effective April 4, 2012. In its resignation letter to Sino, Ernst & Young noted that the company had not prepared December 31, 2011 consolidated financial statements for that audit. It also noted that in Sino's March 30, 2012 filing under the *CCAA*, Sino said that it remained unable to satisfactorily address outstanding issues in relation to its 2011 annual financial statements. Attached and marked as **Exhibit "K"** is a copy of the April 5, 2012 press release.

Actions of the Ontario Securities Commission Relating to Sino-Forest

84. On June 8, 2011 Sino announced that the OSC had commenced an investigation into the company. A copy of the June 8, 2011 press release is marked and attached as **Exhibit "L"**.
85. On August 26, 2011, the OSC issued temporary cease trade order against Sino's securities and in respect of certain members of Sino's management, including the defendant Allen Chan. In recitals to the temporary cease-trade order, the OSC stated that "Sino-Forest, through its subsidiaries, appears to have engaged in significant non-arm's length transactions which may have been contrary to Ontario securities law and the public interest", that "Sino-Forest and certain of its officers and directors appear to have misrepresented some of its revenue and/or exaggerated some of its timber holdings by providing information to the public in documents required to be filed or furnished under Ontario securities laws and which may have been false or misleading in a material respect contrary to section 122 or 126.2 of the [Ontario Securities] Act and contrary to the public

interest” and that “Sino-Forest and certain of its officers and directors including Chan appear to be engaging or participating in acts, practices, or a course of conduct related to its securities which it and/or they know or reasonably ought to know perpetuate a fraud on any person or company contrary to section 126.1 of the Act and contrary to the public interest.” Attached and marked as **Exhibit “M”** is a copy of the OSC temporary cease trade order.

86. The temporary cease trade order made on August 26, 2011 was later extended and continues in force. On April 5, 2012, Sino received an Enforcement Notice from the OSC staff. Enforcement Notices were also received that day by Allen Chan, David Horsley, Alfred Hung, and George Ho, among others.
87. The Enforcement Notice against Sino alleges conduct contrary to ss.122 and 126.1 of the OSA. Section 126.1 prohibits activities resulting in an artificial price of a security, or which perpetuate a fraud on any person or company. Section 122 provides for a quasi-criminal offence and penalties on conviction of up to \$5 million and imprisonment for a term of up to five years less a day.
88. Enforcement Notices are notices issued by OSC staff that usually identify issues revealed in an investigation, and advise that staff intend to commence a formal proceeding relating to those issues. Recipients of the notices are given the opportunity to make submissions before OSC staff make a final decision to commence formal proceedings.
89. I have reviewed the website of the OSC. It states that the OSC pursues cases in court under s. 122 “in order to seek sanctions and penalties that send a strong message of deterrence to those who try to exploit investors.”

90. According to Sino's website, which I viewed on April 11, 2012:
- (a) Allen Chan currently holds the position of Founding Chairman Emeritus;
 - (b) David Horsley currently holds the position of Senior Vice President and Chief Financial Officer;
 - (c) Alfred Hung currently holds the position of Vice President, Corporate Planning and Banking; and
 - (d) George Ho currently holds the position of Vice President, Finance (China).

Attached and marked as **Exhibit "N"** is a printout from Sino's website which describes these individuals and their positions.

MEDIA COVERAGE OF SINO-FOREST'S CCAA PROCEEDING

91. Attached and marked as **Exhibit "O"** is an article recently published by Reuters regarding Sino's CCAA proceeding.

THE DEFENDANTS' ABILITY TO PAY

92. The Plaintiffs understand that, given the financial position of Sino and the serious doubts as to the legitimacy of its business and, in particular, as to its title to its claimed assets, they are unlikely to obtain any significant recovery from Sino.
93. It appears, however, that all of the remaining defendants (with the possible exception of Pöyry) have the ability to pay significant damages arising out of the Ontario Class Action.

94. The objective of our clients, including Davis, is to pursue their claims against the individual defendants, the underwriter and Sino's former auditors.

Directors and Officers

95. According to Sino's proxy circular of May 30, 2011 (the last proxy circular that Sino filed on SEDAR):

In 2010, the Corporation purchased, at its expense, directors' and officers' liability insurance in the aggregate amount of \$60,000,000 for the protection of its directors and officers against liability incurred by them in their capacities as directors and officers of the Corporation and its subsidiaries. For the financial year ended December 31, 2010, the Corporation paid a premium of \$230,823 (inclusive of applicable taxes) in respect of such insurance.

Auditors and Underwriters

96. The defendants, other than Sino and its directors and officers, are, or are controlled by, large business organizations each having hundreds of millions to billions of dollars in annual revenues:

- (a) Ernst & Young reported US\$22.9 billion in global revenue for the year ended June 30, 2011. Attached and marked as **Exhibit "P"** is a copy of Ernst & Young's Global Review 2011.
- (b) Banc of America Corporation and Merrill Lynch Canada Inc are wholly owned subsidiaries of Bank of America Corporation. In 2011, Bank of America reported revenue of US\$94.4 billion and net income (excluding goodwill impairment charges) of US\$4.6 billion. Attached and marked as **Exhibit "Q"** is an excerpt from Bank of America's 2011 annual report.

- (c) Canaccord Financial Ltd. (now Canaccord Genuity) is a subsidiary of Canaccord Financial Inc. In 2011, Canaccord Financial Inc. reported revenue of CAD\$803 million and net income of CAD\$98 million. Attached and marked as **Exhibit "R"** is an excerpt from Canaccord Financial Inc.'s 2011 annual report.
- (d) CIBC World Markets Inc. is a subsidiary of CIBC. In 2011, CIBC reported revenue of CAD\$12.25 billion and net income of CAD\$3 billion. Attached and marked as **Exhibit "S"** is an excerpt from CIBC's 2011 annual report.
- (e) Credit Suisse Securities (Canada) Inc. and Credit Suisse (USA) LLC are subsidiaries of Credit Suisse Group. In 2011, Credit Suisse Group reported revenue of CHF26.2 billion and net income of CHF 2.79 billion. One CHF is equal to approximately CAD 1.088. Attached and marked as **Exhibit "T"** is an excerpt from Credit Suisse Group's 2011 annual report.
- (f) Dundee Securities Corp. (now DWM Securities Inc.) is a subsidiary of DundeeWealth Inc. On March 9, 2011, DundeeWealth Inc. became a wholly owned subsidiary of ScotiaBank. In 2010, DundeeWealth Inc. reported revenue of CAD\$1.04 billion and net income of CAD\$118.7 million. Attached and marked as **Exhibit "U"** is an excerpt from DundeeWealth Inc.'s 2010 financial statements.
- (g) RBC Dominion Securities Inc. is a principal subsidiary of the Royal Bank of Canada. In 2011, the Royal Bank of Canada reported revenue of CAD\$27.4 billion and net income of CAD\$4.8 billion. Attached and marked as **Exhibit "V"** is an excerpt from Royal Bank of Canada's 2011 annual report.

(h) Scotia Capital Inc. is a principal subsidiary of Scotia Bank. In 2011, ScotiaBank reported revenue of CAD\$17.3 billion and net income of CAD\$5.26 billion. Attached and marked as **Exhibit "W"** is an excerpt from ScotiaBank's 2011 annual report.

(i) TD Securities Inc. is a principal subsidiary of the Toronto-Dominion Bank. In 2011, Toronto-Dominion Bank reported revenue of CAD\$21.5 billion and net income of CAD\$5.9 billion. Attached and marked as **Exhibit "X"** is an excerpt from Toronto-Dominion Bank's 2011 financial statements.

97. Attached and marked as **Exhibit "Y"** is a chart that sets out the claims against each of the defendants in the Ontario Class Action other than the individual defendants.

Pöyry

98. As indicated above, the plaintiffs have entered into a settlement agreement with Pöyry, which is to be reviewed by Justice Perell on April 17, 2012. The settlement agreement essentially provides that Pöyry will provide information and cooperation to the plaintiffs for the purposes of prosecuting the Ontario Class Action against the remaining defendants.

99. In exchange for information and cooperation, there would be a release of claims against Pöyry and a bar order preventing claims for contribution, indemnity and other claims over in respect of the released claims. If it is later determined that the non-settling defendants have such rights of contribution, indemnity, or claim over against Pöyry, then the class members would not be entitled to claim or recover from the non-settling

defendants the proportion of any judgment that the Ontario court would have apportioned to Pöyry.

100. The settlement agreement provides that the parties shall consent to certification for the purpose of settlement and that Pöyry will pay the first \$100,000 of the costs of providing notice of certification and fairness hearing and half of any such costs over \$100,000. A copy of the settlement agreement is marked and attached as **Exhibit "Z"**

Compensation and Proceeds of Stock Sales of Certain Individual Defendants

101. Over the course of their involvement with Sino, the defendants Allen Chan, Kai Kit Poon, and David Horsley received substantial compensation from Sino. The following information regarding these defendants' salary and bonus from Sino was compiled from the Management Information Circulars from 2007 to 2010, which are marked and attached as **Exhibits "AA" to "DD"**. Information regarding the net proceeds of these defendants' sale of Sino's securities was compiled from insider transaction detail reports retrieved from the System for Electronic Disclosure by Insiders ("SEDI"), which are marked and attached as **Exhibits "EE" to "GG"**

102. According to these documents, Allen Chan received
 - (a) \$1,047,947 in net proceeds from his sale of Sino securities; and
 - (b) \$22,698,775 in salary and bonuses between 2007 and 2010.
103. According to these documents, Kai Kit Poon received
 - (a) \$48,522,642 in net proceeds from his sale of Sino securities; and

**ONTARIO
SUPERIOR COURT OF JUSTICE**

BETWEEN:

**THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN
CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING
ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN
ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG**

Plaintiffs

- and -

**SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly known
as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN, KAI
KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND,
JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY
J. WEST, PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT
SUISSE SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE
SECURITIES CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA
CAPITAL INC., CIBC WORLD MARKETS INC., MERRILL LYNCH CANADA
INC., CANACCORD FINANCIAL LTD., MAISON PLACEMENTS CANADA INC.,
CREDIT SUISSE SECURITIES (USA) LLC, and BANC OF AMERICA SECURITIES
LLC**

Defendants

Proceeding under the Class Proceedings Act, 1992

AFFIDAVIT OF DENNIS DENG

I, Dennis Deng, of the city of Beijing, in the People's Republic of China (the
"PRC"), MAKE OATH AND SAY:

1. I am a senior partner in Dacheng Law Offices (“Dacheng”), a law firm based in Beijing in the PRC.
2. I swear this affidavit in support of the Plaintiffs’ motion seeking an order granting leave to the Plaintiffs to pursue the causes of action available under Part XXIII.1 of the Ontario *Securities Act*, RSO 1990, c S 5, and, if necessary, under the equivalent provisions of the Securities Acts of the other Canadian Provinces. I swear this affidavit for no improper purpose.

I. INTRODUCTION AND SUMMARY OF OPINIONS

3. On June 3, 2011, Dacheng was retained by Siskinds LLP and Koskie Minsky LLP, co-counsel for the Plaintiffs herein (“Class Counsel”), to provide advice and assistance as to matters of PRC law in regard to various allegations made by Muddy Waters LLC against Sino-Forest Corporation (“Sino-Forest”).
4. I have been requested by Class Counsel to provide opinions with respect to the questions set forth below.

II. BACKGROUND OF DACHENG

5. Founded in 1992, Dacheng is one of the first and largest law partnerships in China. On January 1, 1994, China’s *Legal Daily* reported that Dacheng had become the largest law office in China. In 2005, Dacheng was rated as Outstanding Law Firm of Beijing. In 2008, Dacheng was selected as “National Model Law Firm” of 2005-2007 by the All-China Lawyers Association.
6. Dacheng has established an extensive global legal service network, covering most of the major cities and regions in the world. Apart from its headquarters in Beijing, Dacheng

also has 34 local offices located in, among other cities in the PRC, Shanghai, Wuhan, Chongqing, Tianjin, Harbin, Zhengzhou, Hangzhou, Guangzhou, Xi'an, Nanjing, Nanning, Changzhou and Zhoushan. Dacheng also has offices in Paris, Los Angeles, Singapore, New York, Hong Kong and Taiwan.

7. There are currently over 2,600 lawyers and staff working for Dacheng, and its lawyers have expertise in areas including international trade, finance, construction, business administration, accounting, and taxation. At present, the firm's primary practice areas include corporate law, foreign direct investment, capital markets, mergers & acquisitions, finance, intellectual property, litigation, criminal defense and international trade.

III. MY QUALIFICATIONS AND COMPENSATION

8. I have been a partner of Dacheng since 2008. I have been called to practice law in the PRC since 2005, and I am a member in good standing of the bar of Beijing City. I was awarded a Masters of Law degree from Beijing University in 2003.
9. Attached hereto and marked as **Exhibit "A"** is a copy of my curriculum vitae.
10. Dacheng's compensation in this matter is based on the number of hours spent in the course of our retainer and the hourly rates of the lawyers who have rendered advice and assistance to Class Counsel. My hourly rate is \$475.

IV. MATERIALS REVIEWED

11. Prior to rendering the opinions below, I reviewed the following materials:
 - ✓ Notice of Annual and Special Meeting and Information Circular Respecting Acquisition of Sino-Wood Partners, Ltd. and Amalgamation with 1028412 Ontario Inc. to form Sino-Forest Corporation,

- 4 -

- ✓ Final Report of the "Independent Committee" of the Board of Directors of Sino-Forest Corporation (the "IC"),
- ✓ The Statement of Claim in this matter,
- ✓ Second Interim Report of the IC (the "Second Interim Report"),
- ✓ Schedules to the Second Interim Report,
- ✓ The First Report issued by Muddy Waters, and
- ✓ Company information on Shanghai Jin Xiang Wholesale Market Management Co., Ltd. ("SJXTM").

V. QUESTIONS POSED AND OPINIONS

12. Below I set forth each of the questions in respect of which Class Counsel have asked me to render an opinion, as well as the opinion that I have provided in response thereto.

Question 1: *Under PRC law, is it lawful for forestry companies to make cash payments or to give gifts to employees of forestry bureaus? If not, what penalties are applicable under PRC law to forestry bureau employees who accept cash or gifts from such companies, and to companies who pay such cash or give such gifts?*

13. In the Second Interim Report, on p. 42, it is stated that

There are indications in emails and in interviews with Suppliers that gifts or cash payments are made to forestry bureaus and forestry bureau officials. The reasons are not clear although two Suppliers noted benefits were provided for the issuance of confirmations.

14. Under PRC law, it is unlawful for forestry companies or their representatives to make cash payments or to give "gifts" to employees of forestry bureaus. The applicable penalties vary primarily depending on the value of the payments and gifts, the recipient

of the "gift," and the offeror. *See* The Criminal Law of the People's Republic of China, chap. 8 ("Criminal Law").

15. A government employee who accepts a "gift" worth more than RMB 5,000 may face criminal bribery charge punishable by criminal detention from 1 to 6 months, imprisonment from 6 months to life, or death penalty,¹ depending on the value of the "gift." *See Id.* at §§ 383, 385, 386;² *also see* The Standards for Prosecuting Crimes by the

¹ Criminal detention is executed by the public security near where the criminal resides and its term is between 1 month to 6 months; imprisonment is incarceration in a prison for a term varying from 6 months to 20 years. *See* The Criminal Law of the People's Republic of China, §§ 42, 43, 45, 46.

² Criminal Law:

Article 385 Any State functionary who, by taking advantage of his position, extorts money or property from another person, or illegally accepts another person's money or property in return for securing benefits for the person shall be guilty of acceptance of bribes.

Any State functionary who, in economic activities, violates State regulations by accepting rebates or service charges of various descriptions and taking them into his own possession shall be regarded as guilty of acceptance of bribes and punished for it.

Article 386 Whoever has committed the crime of acceptance of bribes shall, on the basis of the amount of money or property accepted and the seriousness of the circumstances, be punished in accordance with the provisions of Article 383 of this Law. Whoever extorts bribes from another person shall be given a heavier punishment.

Article 383 Persons who commit the crime of embezzlement shall be punished respectively in the light of the seriousness of the circumstances and in accordance with the following provisions:

(1) An individual who embezzles not less than 100,000 yuan shall be sentenced to fixed-term imprisonment of not less than 10 years or life imprisonment and may also be sentenced to confiscation of property; if the circumstances are especially serious, he shall be sentenced to death and also to confiscation of property.

(2) An individual who embezzles not less than 50,000 yuan but less than 100,000 yuan shall be sentenced to fixed-term imprisonment of not less than five years and may also be sentenced to confiscation of property; if the circumstances are especially serious, he shall be sentenced to life imprisonment and confiscation of property.

(3) An individual who embezzles not less than 5,000 yuan but less than 50,000 yuan shall be sentenced to fixed-term imprisonment of not less than one year but not more than seven years; if the circumstances are serious, he shall be sentenced to fixed-term imprisonment of not less than seven years but not more than 10 years. If an individual who embezzles not less than 5,000 yuan and less than 10,000 yuan, shows true repentance after committing the crime, and gives up the embezzled money of his own accord, he may be given a mitigated punishment, or he may be exempted from criminal punishment but shall be subjected to administrative sanctions by his work unit or by the competent authorities at a higher level.

Id. at §§ 383, 385, 386.

Supreme People's Procuratorate of China, § 3. Confiscation of personal properties may be also imposed in addition to imprisonment or death penalty. Criminal Law, §§ 383, 385, 386.

16. If the bribe does not constitute a crime, a government employee may nonetheless be disciplined by the bureau where the employee works, or by that bureau's immediate superior authorities. *See* Criminal Law, §§ 383, 385, 386.
17. With respect to the cash payments and "gifts" referenced in the Second Interim Report, if they were worth more than RMB 5,000, the forestry bureau employee who accepted the gift may face both bribery charge and administrative sanctions.
18. Further, an entity that offers a bribe worth more than RMB 200,000 to government employees may be charged with entity bribery. The entity may consequently face a criminal fine of 1-5 times the value of the bribe offered, and its responsible personnel may be punished by criminal detention from 1 to 6 months or imprisonment from 6 months to 5 years. Criminal Law, § 393.³

Question 2: *Under PRC law, what are the legal consequences of filing inaccurate information with the AIC?*

19. Under PRC law, a person who knowingly files inaccurate information with the AIC may be subject to administrative sanctions and criminal punishment.

³ *Id.* Criminal Law,

Article 393 Where a unit offers bribes for the purpose of securing illegitimate benefits or, in violation of State regulations, gives rebates or service charges to a State functionary, if the circumstances are serious, it shall be fined, and the persons who are directly in charge and the other persons who are directly responsible for the offence shall be sentenced to fixed-term imprisonment of no more than five years or criminal detention.

20. A company that knowingly registers with overstated registered capital may face administrative sanctions including rectification, an administrative fine from 5% to 15% of the overstated amount, and revocation of the registration and business license. Administrative Regulations of the People's Republic of China on Company Registration, § 68.⁴ The company and its shareholders may also be punished by a criminal fine from 1% to 5% of the overstated amount. Individual shareholders or responsible personnel of entity shareholders may face criminal detention from 1 to 6 months or imprisonment up to 5 years. Criminal Law, § 158.⁵
21. A company that knowingly registers with inaccurate information may face potential administrative sanctions, including rectification, an administrative fine from RMB 50,000 to RMB 500,000, and revocation of registration and business license. *Id.* Company Registration, § 69⁶.

4 Administrative Regulations of the People's Republic of China on Company Registration,

Article 68 If the registration of a company is obtained through falsification of the registered capital, the company registration organ shall order the company to make corrections and impose a fine at an amount of between 5 percent to 15 percent of the falsified registered capital. If the circumstance is severe, the company registration organ shall revoke the company registration or revoke its business license.

5 *Id.* Criminal Law,

Article 158 Whoever, when applying for company registration, obtains the registration by deceiving the competent company registration authority through falsely declaring the capital to be registered with falsified certificates or by other deceptive means shall, if the amount of the falsely registered capital is huge, and the consequences are serious or if there are other serious circumstances, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined not less than one percent but not more than five percent of the capital falsely declared for registration.

Where a unit commits the crime as mentioned in the preceding paragraph, it shall be fined, and the persons who are directly in charge and the other persons who are directly responsible for the crime shall be sentenced to fixed-term imprisonment of not more than three years or criminal detention.

6 *Id.* Company Registration,

22. A company that knowingly registers with false capital contribution may face both administrative sanctions and criminal punishment. The sanctions include rectification, an administrative fine from 5% to 15% of the false amount claimed. *Id.* at § 70⁷. The punishment includes criminal fine from 2% to 10% of the false amount claimed, and the same applicable criminal detention or imprisonment as those stated in the paragraph 20 above. Criminal Law, § 159⁸.

Question 3: *What is the definition of "business activities" under PRC law, and do the activities of Sino-Forest's BVI subsidiaries, as their business is described in the Reports of the IC, come within that definition?*

23. The term "business activities" is not well defined under PRC law. In practice, however, "business activities" generally encompass any for-profit activities.

Article 69 If the registration of a company is acquired through a false certificate or other deceptive means, the company registration organ shall order the company to make corrections and impose a fine from RMB 50,000 Yuan to RMB 500,000 Yuan. If the circumstance is severe, it shall revoke the company registration or revoke its business license.

⁷ *Id.*

Article 70 If an initiator or shareholder of a company makes false capital contribution, fails to deliver the monetary or non-monetary property as capital contribution, or fails to deliver them on time, the company registration organ shall order him/her to make corrections and impose a fine from 5 percent to 15 percent of the amount of the false capital contribution.

⁸ *Id.* Criminal Law,

Article 159 Any sponsor or shareholder of a company who, in violation of the provisions of the Company Law makes a false capital contribution by failing to pay the promised cash or tangible assets or to transfer property rights, or surreptitiously withdraws the contributed capital after the incorporation of the company shall, if the amount involved is huge, and the consequences are serious, or if there are other serious circumstances, be sentenced to fixed-term imprisonment of not more than five years or criminal detention and shall also, or shall only, be fined not less than two percent but not more than 10 percent of the false capital contribution or of the amount of the capital contribution surreptitiously withdrawn.

Where a unit commits the crime as mentioned in the preceding paragraph, it shall be fined, and the persons who are directly in charge and the other persons who are directly responsible for the crime shall be sentenced to fixed-term imprisonment of not more than five years or criminal detention.

24. According to the description in the reports of the IC, the BVI subsidiaries' businesses are for-profit, and therefore, in my opinion, those activities likely constitute "business activities" under PRC law.

Question 4: *What penalties could be applied under PRC law, and what regulatory action might be taken by PRC authorities, if Sino-Forest's BVI subsidiaries were determined to be engaged in "business activities" in the PRC?*

25. Foreign entities engaging in business activities in the PRC are required to register to obtain and maintain a proper license. Violation of this requirement may result in both administrative sanctions and criminal punishment. Regulations on Registration of Foreign Entities, §§ 2, 3.⁹ Sanctions include banning the unlicensed business activities, confiscating illegal income and properties used exclusively therefor, and/or an administrative fine of no more than RMB 500,000.¹⁰ Criminal punishment includes a

9 Administrative Measures for the Registration of Enterprises of Foreign Countries (Regions) Engaging in Production Operations Within the Territory in China,

Article 2 In accordance with relevant laws and regulations of the state, after receiving approval from the State Council and competent authorities authorized by the State Council (hereinafter referred to as Approving Authorities), foreign enterprises engaging in production operations within the territory of China shall apply to the State Administration for Industry and Commerce or its authorized local administration for industry and commerce (hereinafter referred to as Registration Authorities) for registration. After receiving approval for registration from the Registration Authorities and obtaining a People's Republic of China Business License (hereinafter referred to as a Business License), a foreign enterprise may engage in production and business activities. No foreign enterprise may engage in production or business activities within the territory of China without receiving approval from the Approving Authorities and being approved for registration by the Registration Authorities.

Article 3 In accordance with existing laws and regulations of the state, foreign enterprises engaged in the following production and business activities shall seek registration: (1) Exploration and development of petroleum and other land and marine mineral resources...

10 Measures for Investigation into, Punishment Against, and Banning of Any Business Operation That Is Carried out Without a License,

criminal fine from 1 to 5 times the amount of the profits gained, and the responsible personnel may also be subject to criminal detention from 1 month to 6 months, or imprisonment from 6 months to 15 years.¹¹

26. Therefore, the AIC may impose sanctions on Sino-Forest's BVI subsidiaries, and those BVI subsidiaries may also be charged with criminal offenses for their illegal business activities.

Question 5: *On p. 53 of the 2nd Interim Report of the Sino-Forest "Independent Committee," it is stated that:*

The IC Advisors have received copies of the Set-off Documents related to all the BVI standing timber purchase transactions

Article 14 As regards unlicensed business operation acts, the administrative department for industry and commerce shall ban them and confiscate the illegal gains according to law; if the Criminal Law is violated, the parties concerned shall be investigated for criminal liability according to the provisions of the Criminal Law on the crime of illegal business operation, the crime of negligently causing a serious accident, the crime of major labor safety accident, the crime of causing an accident in the control of dangerous articles or any other crime; if such activities are not serious enough for criminal punishment, a fine of not more than 20,000 yuan shall be concurrently imposed; as regards any unlicensed business operation act which is large in scale or causes serious social damage, a fine of not less than 20,000 yuan but not more than 200,000 yuan shall be concurrently imposed; as regards any unlicensed business operation act that harms human health, has serious hidden hazard to safety, threatens public safety or destroys environmental resources, the tools, equipment, raw materials, products (goods) and other property that are particularly used for unlicensed business operation acts shall be confiscated, and a fine of not less than 50,000 yuan but not more than 500,000 yuan shall be concurrently imposed.

If any law or regulation stipulates otherwise in respect of the punishments for the unlicensed business operation acts, such law or regulation shall prevail.

11 Criminal Law,

Article 225 Whoever, in violation of State regulations, commits illegal acts in business operation and thus disrupts market order, if the circumstances are serious, shall be sentenced to fixed-term imprisonment of not more than five years or criminal detention and shall also, or shall only, be fined not less than one time but not more than five times the amount of illegal gains; if the circumstances are especially serious, he shall be sentenced to fixed-term imprisonment of not less than five years and shall also be fined not less than one time but not more than five times the amount of illegal gains or be sentenced to confiscation of property:

between the first fiscal quarter of 2006 and the first fiscal quarter of 2011. However, the IC Advisors have not been provided with any documents showing movement of money to confirm that such set-off arrangements have been carried out. During meetings of the IC Advisors with AIs and Suppliers, representatives from the AIs and Suppliers declined to produce such documents showing movements of money. Common reasons cited for declining to produce documents included "tax reasons" and sensitivity towards the MW allegations and the resultant publicity. Further, some AIs visited stated that they may not in fact make payment themselves as instructed by SF but would instead arrange for other parties ("fourth parties") to make payment on their behalf. Those fourth parties may then instruct "fifth" or "sixth" parties to make payment.

In this situation, the Suppliers receiving payment will sometimes instruct its own "fourth" parties to receive payment on its behalf. All the AIs interviewed stated that these fourth parties are unrelated to SF. A common reason cited to explain the use of such expanding set-offs was for tax reasons but all AIs declined to discuss exactly how such use of fourth parties reduce taxes payable. During the meeting with Supplier #1, its legal representative explicitly stated that it would always instruct another party to receive payment from the AIs on its behalf. Reasons given for this arrangement included tax minimization and the fact that Supplier #1 did not have transactions with the AIs and therefore would be unable to account for the receipt of payment from the AIs.

Assuming that the purported transactions between Sino's BVI subsidiaries and their AIs and suppliers were real, and were not simply illusory transactions designed to inflate Sino's revenues, profits and assets, what "tax reasons" would explain the failure (1) to produce to the "Independent Committee" documents showing movements of money or (2) to explain to the "Independent Committee" how the use of fourth parties would minimize taxes payable? Is there a lawful way under PRC

law for an AI or Supplier to reduce taxes payable by using fourth parties to receive payments on behalf of the AI?

27. In my opinion, on the assumption stated in the question above, the reason to involve these fourth parties is likely to evade the “value added tax” (“VAT”). The VAT applies to any transaction involving a sale of goods. When there is a chain of sales transactions, one can evade multiple VAT by concealing all the intermediate transactions through the use of a related fourth party to complete the final sale. If the intermediate transactions are not traceable, the VAT will be imposed only on the final transaction.
28. With respect to that part of the above question which concerns the failure to produce documents showing the movement of money, in my opinion, it is likely that Sino’s BVI subsidiaries and their AIs and suppliers have declined to produce such documents because documents showing the movement of money may reveal the intermediate transactions, and thus, result in penalties for illegal tax evasion.
29. Evasion of VAT may result in both an administrative fine of no more than 5 times the amount of the tax evaded,¹² and criminal punishment of imprisonment for the responsible personnel.¹³

12 Law of the People's Republic of China on the Administration of Tax Levying:

Article 64 If a taxpayer or withholding agent falsifies tax basis, the tax authorities shall charge him to make corrections within a given time limit and impose a fine of up to but not exceeding RMB 50,000.

If a taxpayer fails to make declaration of tax, fails to pay or underpays the tax payable, the tax authorities shall seek the payment of the tax unpaid or underpaid as well as the late payment interest, and concurrently impose a fine of exceeding 50% but not exceeding five times of the amount of tax unpaid or underpaid.

13 The article 201 of the Criminal Law was amended in Feb. 2009. Between the original and the amendment laws, the court will apply whichever is more favorable to the defendant depending on the situation.

Article 201 Any taxpayer who fails to pay or underpays the amount of taxes payable by means of forging, altering, concealing or destroying without authorization account books or vouchers for the accounts, or overstating expenses or omitting or understating incomes in account books, or refusing to file his tax returns after the tax authorities have notified him to

Question 6: *Under PRC law, is it correct that standing timber, when not held in conjunction with a land use right, cannot be definitively proven by reference to a government maintained register? Is it correct that it is normally not possible to have Plantation Rights Certificates issued in the PRC for standing timber only?*

30. The Forestry Registration Law requires a modification request to be filed for any transfer of standing timber to change both the forestry bureau's registration record and the plantation rights certificate. Forestry Registration Law of People's Republic of China, §§ 24, 30. The transfer is completed only after the registration is modified accordingly. *Id.*
31. According to the National Forestry Bureau, the national policy after the forest land reform in 2006 is that a plantation right is a "three rights in one." The three types of

do so or filing false tax returns shall, if the amount of tax evaded accounts for over 10 percent but under 30 percent of the total of taxes payable and over RMB 10,000 but under RMB 100,000, or if he commits tax evasion again after having been twice subjected to administrative sanctions by the tax authorities for tax evasion, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also be fined not less than one time but not more than five times the amount of tax evaded; if the amount of tax evaded accounts for over 30 percent of the total of taxes payable or is over RMB 100,000, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined not less than one time but not more than five times the amount of tax evaded.

Amendment VII to the Criminal Law, Article 3

Article 201 of the Criminal Law is amended as: "Where any taxpayer declares false tax returns by cheating or concealment or fails to declare tax returns, and the amount of evaded taxes is relatively large and accounts for more than 10 percent of the payable taxes, he shall be sentenced to fixed-term imprisonment not more than three years or criminal detention, and be fined; or where the amount is huge and accounts for more than 30 percent of the payable taxes, shall be sentenced to fixed-term imprisonment not less than three years but not more than seven years, and be fined.

Where anyone bearing the withholding obligation fails to pay or fails to pay in full the withheld or collected taxes by cheating or concealment, and the amount is relatively large, he shall be punished pursuant to the preceding paragraph.

Where either of the acts as described in the preceding two paragraphs is committed many times without punishment, the amount shall be calculated on an accumulated basis.

"Where any taxpayer who committed the act as described in Paragraph 1 has made up the payable taxes and paid the late fines after the tax authority issued the notice of tax recovery in accordance with the law, and has been administratively punished, he shall not be subject to criminal liability, except one who has been criminally punished in five years for evading tax payment or has been administratively punished by the tax authorities, twice or more."

rights encompassed within a plantation right are (1) the forest land use right, (2) the right to use the standing timber on the land, and (3) the ownership of the standing timber. The three rights go together in one plantation rights certificate, and these rights may not be separated. Therefore, no plantation rights certificate may be issued for standing timber alone.

32. Except for the National Bureau's policy, no current law expressly specifies the concept of "three rights in one." In practice, some local forestry bureaus in different areas may issue plantation rights certificates for standing timber without the right of land use, even after the 2006 reform.
33. The opinions expressed in paragraphs 31 and 32 above are based on my inquiries with the National Forestry Bureau, and seven provincial forestry bureaus: Beijing, Guangdong, Yunnan, Fujian, Chongqing, Guangxi, and Heilongjiang.

Question 7: *On pp. 24-25 of the 2nd Interim Report, it is stated:*

If the BVI or WFOE has entered into a timber purchase contract to acquire standing timber, has from the local forestry bureau a written confirmation letter and does not have a Plantation Rights Certificate registered in its name or been provided the relevant Plantation Rights Certificate registered in the name of the Supplier for such standing timber: each such timber purchase contract entered into by such BVIs or WFOE is valid, effective and legally binding on the parties thereto subject to the authorization by (a) the de facto owner with the Plantation Rights Certificate for such standing timber, if any, or (b) the ultimate farmer or collective economic organization who has legally obtained the ownership of the standing timber during the reform of the collectively-owned plantation rights system, as the case may be. If the de facto owner or the ultimate farmer or collective economic organization, as the case may be, refuses to

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grant the authorization to any contract, the contract will be void and the Company will have no contractual rights. However, if the Company has paid consideration to the Supplier pursuant to the contract, the Company will have a cause of action against the Supplier for the return of the consideration based on the legal theory of unjust enrichment;

Are the statements above, insofar as they relate to BVIs, correct as a matter of PRC law?

34. Subject to the local practice stated in paragraphs 32 above, a purchase of standing timber is a purchase of three types of rights under the current national policy: the right to use the timber, the ownership of the timber, and the right to use the forest land where the standing timber is. Therefore, standing timber may not be purchased without purchasing the land use right.
35. Further, foreign forestry entities are not allowed to purchase land use rights. Thus, as a foreign entity, the standing timber purchase contracts entered into by Sino's BVIs are void and unenforceable under PRC law.

Question 8: *On p. 9 of the Final Report of the "Independent Committee," it is stated that:*

Management also provided copies of news articles regarding foreigners being subject to criminal sanctions in China for possessing maps and other geographical information that were deemed to be classified as state secrets. The IC has reviewed these responses from Management and was unable to verify all of Management's assertions regarding forestry maps or that forestry mapping information would be regarded as subject to such sanctions but recognizes that this is an area of the law in China where a conservative approach may be prudent.

Generally, what land features or physical facilities are considered to constitute a "state secret" under PRC law? Assuming that a map does not encompass a military installation or other governmental facility, would possession of the map by a foreigner be subject to criminal sanctions under PRC law?

36. Anyone who holds materials that are "state secrets" may be punished by criminal detention or imprisonment. Criminal Law, § 282.¹⁴ "State secrets" are not well defined in the criminal laws of the PRC, but the Law of the People's Republic of China on Guarding State Secrets provides a broad list of items that are considered "state secrets."¹⁵ Nevertheless, the National or Provincial Secret Protection Administration shall decide whether a piece of information is identified as a "state secret."¹⁶ In practice, the Secret

¹⁴ *Id.* Criminal Law,

Article 282 Whoever unlawfully holds the documents, material or other objects classified as "strictly confidential" or "confidential" State secrets and refuses to explain their sources and purposes shall be sentenced to fixed-term imprisonment of not more than three years, criminal detention or public surveillance.

¹⁵ The Law of the People's Republic of China on Guarding State Secrets

Article 9 Where divulgence of any of the following issues which are relevant with the national security and interests may cause any harm to the national security and interests with respect to the politics, economy, national defense, foreign affairs and etc., such issues shall be cognized as the State secrets:

1. Confidential issues involved in the significant decisions on the State affairs;
 2. Confidential issues involved in the national defense development and in the activities of the armed forces;
 3. Confidential issues involved in the diplomatic activities and in activities related to foreign countries, and the secrets of which the State shall fulfill the obligations of confidentiality to foreign countries;
 4. Confidential issues involved in the national economic and social development;
 5. Confidential issues involved in the science and technology;
 6. Confidential issues involved in the activities in protecting the security of the State and in the investigation of crimes;
- and
7. other confidential issues which are cognized by the State secret-protection administration.

¹⁶ *Id.*

Article 20 Where the organs and units fail to make clear or raise disputes on whether the relevant confidential issues are subject to the State secrets or not or which category of State secrets they should be classified into, the State secret protection

Protection Administration may consider any document that is confidential to the State and not revealed to the public a "state secret," regardless of whether the document is marked with the word "classified" or any other word or designation which makes clear that the map is a "state secret." Any mark or designation on the document which indicates that the document contains a state secret could constitute prima facie evidence of that fact, yet the court would rely on the Secret Protection Administration's opinion in any case involving a "state secret." If a map encompasses a PRC military installation or other governmental facility that is not revealed to the general public, then the map might be identified as a "state secret," and holding such a map could constitute the crime of possession of state secrets under PRC law. As a general matter, however, maps of forestry resources are not identified as state secrets under PRC law, and thus holding such maps would not constitute a crime. In fact, as I explain below, maps of pertinent forestry areas are required under PRC law to be attached to plantation rights certificates.

Question 9: *On p. 10 of the Final Report, it is stated that:*

In mid December 2011, Management provided a document entitled "Detailed Description of Locating Forestry Resources in China" which explains how the locations of BVI standing timber assets are determined. This document has been provided to the Board.

It indicates that although certain types of stand maps and these land descriptions are available as part of PRCs, maps are not readily available for continuing possession by persons trading in

administration or the secret protection administrations of the provinces, autonomous regions or municipalities directly under the Center Government shall render a decision on the aforementioned issues.

standing timber without a lease as is the case of the transactions by SF's BVI model. Management indicates that such maps usually can be borrowed from forestry bureaus (but not retained) and are used by the survey companies as part of the Company's due diligence. Management believes the ability of a foreign company to retain such maps is unclear and has adopted a cautious approach to this issue. The advice received by the IC from independent forestry experts is that this practice is not inconsistent with the practice of other parties in China who buy and sell standing timber without leasing the underlying land.

Are the underlined statements above correct as a matter of PRC law?

37. It is true that PRC forestry bureaus are not obliged to provide maps of the forestry resources within their jurisdiction to members of the public. Under PRC law, however, a map must be attached to a plantation right certificate, and that map must describe the location of the relevant forest land, its boundaries and adjacent areas, the hectarage, the number of the trees and their species. Regulations on Plantation and Forestland Rights Registration, § 11.¹⁷ Such maps do not provide information on the general forestry areas, but only on that specific piece of land to which the plantation right certificate pertains. *Id.*

Question 10: *In the PRC, is there a database for plantation rights certificates, and if so, can a member of the public gain access to that database and, if so, how?*

¹⁷ Regulations on Plantation and Forestland Rights Registration,

Article 11 The registration organ shall decide to approve it within 3 months, when an application should meet all the following conditions:

(1) the location, four boundaries, species, area and number of the forests, plantation, forestland shall be accurate;

.....

38. The plantation rights registration database is generally open to the public upon request. Regulations on Plantation Rights and Forestland Registration, § 20.¹⁸ Local forestry bureaus determine the precise procedure on how to obtain information from the database. Generally, any member of the public who follows those local, routine procedures and who pays the required fee, can access to the database. Moreover, certain websites also provide online inquiry services regarding the ownership of plantation rights, such as <http://www.lqfzgl.com/index.aspx>.

Question 11: *According to AIC documents, SJXTM was an equity joint venture established in May 1997 by Shanghai Changxiang Industrial Co., Ltd., a state-owned entity that held an 83% equity interest in SJXTM, and Shanghai Jinsen Material Trade Co., Ltd., which held a 17% equity interest in SJXTM. AIC documents disclose that, prior to the termination of the joint venture agreement in 2005, SJXTM was “a joint venture by state-owned enterprise and collective enterprise.”*

Given that SJXTM was a “a joint venture by state-owned enterprise and collective enterprise,” would it have been possible under PRC law for Sino-Forest, a Canadian company, to have owned, either directly or indirectly, an equity interest in SJXTM?

39. According to the AIC records provided to me by Class Counsel, SJXTM is a non-company joint venture by a wholly state-owned enterprise and a collective enterprise. Thus, as a foreign company, Sino-Forest could not have invested directly in SJXTM.

40. Sino-Forest could not have indirectly owned an equity interest in SJXTM either. A collective enterprise is owned by a specific group of individuals who are Chinese citizens.

¹⁸ *Id.*

Article 20 The registration organ shall open the registration files to the public upon request.

Thus, Sino-Forest would not have been able to invest in SJXTM through investment in the collective enterprise.

41. In conclusion, it is my opinion that it would have been impossible for Sino-Forest to own an equity interest directly or indirectly in SJXTM under PRC law.

VI. CONCLUSION

42. It is my understanding that discovery has not yet commenced in this action and, accordingly, my opinions are subject to amendment or revision based upon the development of additional evidence.

43. I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this Affidavit are true and correct;
- the reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions;
- I have reviewed Rule 4.1 of the Ontario *Rules of Civil Procedure*, and I have prepared this Affidavit having regard to the duty described therein;
- I have no present or prospective interest in the parties to this case, and I have no personal interest or bias with respect to the parties involved; and
- my compensation is not contingent on an action or event resulting from the analyses, opinions or conclusions in, or the use of, this Affidavit.

Date

Dennis Deng

Sworn to me this ___ day of
March, 2012, at the City of Beijing,
in the Country of the People's Republic of China.

Notary Public [or Commissioner of Oath, as appropriate]

Court File No. CV-11-431153-00CP

**ONTARIO
SUPERIOR COURT OF JUSTICE**

BETWEEN:

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN
CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING
ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN ONTARIO,
SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly known
as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN, KAI KIT
POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND, JAMES M.E.
HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY J. WEST,
PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT SUISSE SECURITIES
(CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES CORPORATION, RBC
DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC WORLD MARKETS INC.,
MERRILL LYNCH CANADA INC., CANACCORD FINANCIAL LTD., MAISON
PLACEMENTS CANADA INC., CREDIT SUISSE SECURITIES (USA) LLC, and BANC OF
AMERICA SECURITIES LLC

Defendants

Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF ALAN MAK

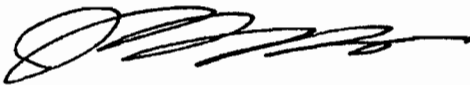
I, Alan Mak, of the City of Toronto, in the Province of Ontario, MAKE OATH AND
SAY:

1. I am a chartered accountant with Rosen & Associates Limited. I have knowledge of the matters set out below. Where that knowledge is based on information obtained from others, I have so indicated and believe that information to be true.
2. Rosen & Associates Limited was asked by Siskinds LLP and Koskie Minsky LLP, counsel for the plaintiffs, to prepare a report regarding the financial reporting of Sino-

Forest Corporation and the role of its auditors. Attached as **Exhibit "A"** is a copy of the report of Rosen & Associates dated March 2, 2012. My qualifications and acknowledgement of expert's duty are included in this report.

- 3. I swear this affidavit in support of the Plaintiffs' motion for an order granting leave to pursue the cause of action available under Part XXIII.1 of the *Securities Act*, RSO 1990, c S.5, as amended (the "*OSA*").

SWORN before me at the City of)
 Toronto, in the Province of Ontario,)
 this 2nd day of March, 2012.)



 A Commissioner, etc.
 Jonathan Bida



 Alan Mak

Court File No.: CV-11-431153-00CP

**ONTARIO
SUPERIOR COURT OF JUSTICE**

BETWEEN:

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN, KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND, JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY J. WEST,

PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT SUISSE SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC WORLD MARKETS INC., MERRILL LYNCH CANADA INC., CANACCORD FINANCIAL LTD., MAISON PLACEMENTS CANADA INC., CREDIT SUISSE SECURITIES (USA) LLC, and BANC OF AMERICA SECURITIES LLC

Defendants

Proceeding under the Class Proceedings Act, 1992

**AFFIDAVIT OF STEPHEN GOWAN CHANDLER
(sworn February 29, 2012)**

I, STEPHEN GOWAN CHANDLER, of the city of Hong Kong, in the country of the People's Republic of China, MAKE OATH AND SAY:

1. I am a consultant to Key Business Connections Ltd. ("KBC") a company incorporated in Hong Kong, in the People's Republic of China ("PRC").

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2. I have knowledge of the matters to which I hereinafter depose. Where that knowledge is based on information obtained from others, I have so indicated and believe that information to be true.
3. I swear this affidavit in support of the plaintiffs' motion seeking an order granting leave to the plaintiffs to pursue the causes of action under Part 23.1 of the Ontario *Securities Act*, RSO 1990, c S 5. I swear this affidavit for no improper purpose.

I. KBC'S BACKGROUND AND MY QUALIFICATIONS

4. I am a permanent resident of Hong Kong, where I act as a consultant to KBC.
5. KBC was incorporated in Hong Kong on June 12, 2007, for the purpose of providing a broad spectrum of investigative services. Such services include, among other things, due diligence, background investigations, litigation support, management of intellectual property, and grey market investigations, all primarily in the PRC. Since 2007, KBC has provided litigation support for hedge funds, law firms, and banks in Hong Kong and elsewhere. KBC works with a number of contractors. For matters in the PRC, KBC works with Intellect Consultancy Ltd. ("Intellect Consultancy"), a company incorporated in Hong Kong. Intellect Consultancy conducts research and investigations in the PRC, and has offices and staff in Shenzhen and Shanghai.
6. I hold a Doctorate degree in Education from Bristol University and a Masters in Training from Leicester University, both of which are in the United Kingdom ("UK"). I have obtained professional qualifications and experience, together with formal awards, in the area of criminal investigations during more than thirty-five years of employment with the Northumbria Police in the United Kingdom and the Hong Kong Police in China. I am a Fellow of the Chartered Management Institute (UK) and a member of the Asian Crisis and Security Group. I have been qualified as an expert in the areas of counterfeit security script by courts in Malaysia, Portugal (Macau), and Hong Kong.
7. With respect to my professional police qualifications, I have obtained or completed the

following:

- a. A Certificate in Police Studies from Framwellgate College, Durham UK;
 - b. The UK Police Force professional promotion examination for the rank of Sergeant;
 - c. Police Senior Professional examinations for promotions to the ranks of Inspector, Chief Inspector, and Superintendent in the Special Administrative Region ("SAR") of Hong Kong;
 - d. Detective Training in the UK and Hong Kong SAR;
 - e. The Inspectors Command Course and the Senior Police Command Course in the Hong Kong SAR;
 - f. The Senior Police Command Course in Scotland, UK;
 - g. Advanced Hostage Negotiator and incident management training delivered by the UK, United States (Joint Services Training) and Hong Kong; and
 - h. Counterfeit and forgery techniques and investigation studies with the US Secret Service and security printers/paper makers both in the United States and Great Britain
8. I spent the first seven years of my police career in the UK, followed by 28 years with the Royal Hong Kong Police (now referred to as the Hong Kong SAR Police). I specialised in criminal investigations and worked with a number of law enforcement bodies outside of Hong Kong and China, while undertaking commercial crime investigations involving Chinese companies and nationals. In 1995, I was awarded the Colonial Police Medal by Her Majesty the Queen of England. In 2004 I was awarded the Chief Executive of Hong Kong's Commendation.
9. I have extensive experience investigating commercial crime. I worked in the Commercial Crime Bureau of the Hong Kong Police for five years in the ranks of inspector, senior inspector, and chief inspector. I undertook several complex investigations into commercial fraud and received a number of commendations for my work from the Hong Kong Police, Hong Kong Judiciary, United States Secret Service, and the Hong Kong and Shanghai Banking Corporation.
10. Upon promotion to Superintendent of Police in 1985 I was attached to the Internal Investigation Branch. Upon promotion to Senior Superintendent of Police in 1991, I was

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made head of the Joint Services Anti-Smuggling Task Force, which focused upon eradicating cross-border smuggling and tax evasion in Hong Kong and Mainland China. During this period I worked very closely with Mainland Chinese government officials for over two years.

11. I was promoted to Chief Superintendent of Police in 1996 and took up the position as head of the Complaints and Internal Affairs Bureau of the Hong Kong Police Force. In this position, I undertook due diligence investigations into individuals who were being considered for sensitive posts or promotion to senior ranks within the Hong Kong Police. I also assisted other government departments in their due diligence enquires. As part of my duties, I conducted and managed a number of complex and sensitive internal investigations into criminality and misconduct alleged against police officers. I left this post upon my promotion to the Assistant Commissioner of Police in December 2000.
12. I retired from the Hong Kong Police in 2005 to take up an appointment on the board of management of the Hong Kong Jockey Club as the Executive Director Security and Corporate Legal Services. The Hong Kong Jockey Club is a not for profit charitable organisation with over US\$15 billion in turnover in the gaming and leisure market including horse racing, sports betting, hotel/restaurants, golf courses, equestrian centres, and retail outlets in Hong Kong and China. This was a key position within the organization with responsibility for the maintenance of the ethics, integrity and for corporate governance. During this period I personally conducted or managed due diligence investigations of vendors, suppliers, new employees, as well as potential business partners. I also conducted internal investigations to assist the Audit Department in their support of good corporate governance. I left the Hong Kong Jockey Club in December 2010.
13. Since December 2010, I have worked as a consultant, conducting due diligence research and investigations in Asia. During this period I have undertaken work on a number of due diligence investigation matters for the Casino Regulatory Authority of the Singapore Government.
14. I currently provide consultancy services to KBC.

II. MY RETAINER IN THIS MATTER

15. On or about July 2, 2011, KBC was retained by Siskinds LLP and Koskie Minsky LLP to provide investigative services in support of a proposed class proceeding in which the primary defendant was Sino-Forest Corporation ("Sino-Forest").
16. I was retained in this matter on January 24, 2012. I was tasked by Siskinds LLP and Koskie Minsky LLP to conduct an inquiry into the specific matters addressed below.

III. MATERIALS REVIEWED

17. During the course of my investigation, I have reviewed the following documentary material:
 - a. Muddy Waters Research report on Sino-Forest, dated June 2, 2011 ("Muddy Waters Report");
 - b. The statement of claim in this action;
 - c. The First Interim Report of the Independent Committee to the Board of Directors of Sino-Forest Corporation ("First Report"), the Second Interim Report of the Independent Committee of the Board of Directors of Sino-Forest Corporation ("Second Report"), and Final Report of the Independent Committee of the Board of Directors of Sino-Forest Corporation ("Final Report") and all schedules and attachments thereto;
 - d. The following *Globe and Mail* articles relating to Sino-Forest:
 - i. "Sino-Forest On Track With Operations And First Quarter Reporting; Not Aware Of Any Reason For Share Price Decline", Dated: Wednesday, May 25, 2011
 - ii. "Pöyry Releases Sino-Forest's China Forest Asset 2010 Valuation Reports" Dated: Friday, May 27, 2011
 - iii. "Sino-Forest Signs Long-Term Master Agreements To Acquire 266,000 Hectares Of Plantation Forests In Shaanxi And Yunnan Provinces" Dated: Monday, May 30, 2011
 - iv. "Sino-Forest Releases Supporting Evidence Against Allegations From Short Seller" Dated: Monday, June 06, 2011

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- v. "Key partner casts doubt on Sino-Forest claim" Dated: June. 20, 2011
 - vi. "On the trail of the truth behind Sino-Forest" Dated: September 2, 2011
 - vii. "Sino-Forest Responds To Request To Commence Action Against Certain Insiders And Others" Dated: Friday, October 14, 2011
 - viii. "Sino-Forest Announces Resignation Of Director" Dated: Friday, November 04, 2011
 - ix. "Sino-Forest Announces The Resignation Of Allen Chan As Chairman And Chief Executive Officer And His Appointment As Founding Chairman Emeritus" Dated: Sunday, August 28, 2011
 - x. "The empire Sino Forest built and the farmers who paid the price" Dated: November. 10, 2011
 - xi. "Sino-Forest Announces Findings Of The Independent Committee" Dated: Tuesday, November 15, 2011
 - xii. "Sino-Forest executives linked to key timber supplier" Dated: December. 12, 2011
 - xiii. "Sino-Forest Releases Final Report Of The Independent Committee" Dated: Tuesday, January 31, 2012
 - xiv. "Why Sino-Forest's web is so hard to untangle" Dated: February 1, 2012
- e. Various Sino-Forest filings with the Ontario Securities Commission, as set out below;
 - f. Various media and Internet material relating to Sino-Forest, both in English and Chinese;
 - g. Statutory filings by Sino-Forest subsidiaries, associates, suppliers and customers in Hong Kong and China; and
 - h. Subscription databases in Hong Kong and China.
18. Statutory information on companies incorporated in Hong Kong and China can be downloaded from government and commercial databases via the Internet. Corporate statutory documents are available at the offices of the Registrar of Companies in Hong Kong, as well as on the Internet via a website known as ICRIS, which is operated by the Registrar of Companies.

19. The Administration of Industry and Commerce ("AIC") in China is a government office that retains detailed records of companies in China. Through KBC's agents in China, we have ordered the entire AIC records for certain subsidiaries, associates, joint ventures, customers and suppliers of Sino-Forest. These documents are written in Chinese, and have been translated to English for my review. I verily believe that the translation of the files, documents, and records which I have obtained and reviewed are true and accurate translations of the original documents.
20. The AIC files identified in this affidavit are voluminous. Accordingly, I attached only the relevant excerpts from those records and the translations. Copies of the complete AIC files have been retained and are available for examination on request.
21. The translation of the vast majority of the exhibits in this affidavit have been prepared by Wong Kam Yee of Intellect Consultancy. Since 1981, Ms. Wong has provided translation services to regulatory agencies in Hong Kong and China, law firms and multi-nationals seeking to enforce their commercial rights or make criminal complaints. She has translated investigation reports, supporting documents (including extracts from AIC files) and letters of complaint. Ms. Wong has translated thousands of documents over that period of time which have been accepted and exhibited to legal actions in the Courts of Hong Kong.
22. In limited circumstances we also used Diners Professional Translations Services Ltd ("Diners") to provide translations. Diners is a professional translation service incorporated in Hong Kong. Diners provides professional translation services to law firms and other institutions, and specialises in technical translations of legal, contractual, and sophisticated commercial documents. Diners provided translations of certain of the Leizhou EJV documents which are footnoted below. The remainder of the exhibits referred to in this affidavit were, in all cases translated by Madam Wong Kam Yee. The person at Diners that was responsible for the translation of documents attached to this affidavit was Mr. Lam Shing-Ming. Mr. Lam has a Masters of Arts in translation from the Chinese University of Hong Kong and is a member of the Chartered Institute of Linguists.

23. Attached and marked as Exhibits "SSS" and "TTT" are copies of the Chinese AIC documents and their translations, along with a notarized declaration from Wong Kam Yee and Lam Shing-Ming the individuals who translated those documents. Where I refer to specific AIC documents in this affidavit, those documents have been extracted from Exhibits "SSS" and Exhibit "TTT".
24. Persons resident in Hong Kong and China are issued an identity card with a unique number. It is possible to have both a Hong Kong identity card and a PRC identity card. For example, Allen Chan Tak Yuen ("Allan Chan") who is also known by the pinyin translation of his name, Chen Deyuan, has an identity card issued to him by the Hong Kong government: ID #: E459151(1). When analyzing corporate filings both in Hong Kong and China, I have relied on these unique identifiers as evidence that specific named individuals are directors and shareholders of relevant companies.

IV. FINDINGS

25. Based on our review, and as set out in more detail below, we found:
- a. Allen Chan and New Ross Investments Ltd. ("New Ross") the company of which he was the principal shareholder and director, were sued by a PRC state-owned company for failing to properly invest monies invested with New Ross and for passing bad cheques.
 - b. It appears that Zhanjiang Leizhou Eucalyptus Resources Development Co. Ltd., a company that purported to provide sales for Sino-Forest, was a shell and never did any business from the issuance of its business licence and the commencement of the joint venture.
 - c. Despite claims in Sino-Forest's public disclosure that it had invested in Shanghai Jin Xiang Timber Ltd. ("SJXT"), it appears that neither Sino-Forest nor any of its subsidiaries had any such investment.
 - d. With respect to Homix Limited:

- i. Sino-Forest disclosed that one of its subsidiaries acquired Homix Limited ("Homix"). However, it failed to disclose that one of Sino's vice presidents, Chen Hua, was a major shareholder of a Homix subsidiary at the time of the acquisition.
 - ii. The patents that belong to Homix and its subsidiaries do not correspond with the description of those patents in Sino-Forest's disclosure documents.
- e. Contrary to the statements made in the Final Report of the Independent Committee of Sino-Forest, maps are in fact allowed and have been widely used in Mainland China for at least the last three years.
- f. Chen Jun, a member of Sino-Forest's management, was still recorded as a fifty-percent shareholder of Sonic Jita Engineering Company Limited ("Sonic Jita") at the time that Muddy Waters released its report on Sino-Forest on June 2, 2011.

(a) Allen Chan and New Ross Investments Ltd.

26. On December 19, 1990, Allen Chan and the company of which he was the principal shareholder and director, New Ross, were sued by the China Foreign Trade Leasing Corporation and Sumlease Investment Ltd for the sum of US\$799,979.92. A copy of this writ, High Court Writ 8671 of 1990, which was filed with the Supreme Court Registry in Hong Kong, is attached and marked as **Exhibit "A"**.
27. New Ross was incorporated in Hong Kong on September 1, 1988. Allen Chan was a director along with a corporate nominee named Ramillies Limited. On November 29, 1988, Allen Chan was issued 499,998 shares at HK\$10 per share out of 500,000 shares. Attached and marked as **Exhibit "B"** are a copy of the certificate of incorporation and copies of statutory corporate filings by New Ross with the Registrar of Companies for the period September 1, 1988 to February 28, 1997, together with a notice from the Registrar of Companies advising that New Ross was struck off the Register of Companies for failing to make annual corporate returns and to pay the fines levied by the government.

28. China Trade Foreign Leasing Corporation was a Chinese government organization. Sumlease Investment Ltd was a company incorporated in Hong Kong whose majority shareholder was the China Foreign Trade Leasing Corporation. The writ alleged that Allen Chan and New Ross were loaned US\$647,474.75 for the purpose of buying the issued shares of "Tai Yuen Shipyard Limited and in no circumstances shall the same be used for any other Purpose".
29. The writ alleges that Allen Chan admitted he had not used the money advanced for the purpose of the purchase of the shares of Tai Yuen Shipyard as required by the agreement. It also alleges that Mr. Chan did not provide development plans, financial reports, and profit and loss accounts prepared by qualified accountants and reports on business management.
30. The writ alleges that, once this conduct came to the plaintiffs' attention, Allen Chan requested an extension of time and modification of the restriction on the use of the funds. The parties agreed to the extension and modification of the restrictions as part of a second agreement. The writ further alleges that, in the second agreement, Allen Chan was advanced US\$683,551 for the purposes of repaying the first agreement.
31. The writ alleges that Allen Chan gave the plaintiff two post-dated cheques for HK\$300,000 and HK\$700,000 and that they were dishonoured on presentation on the due dates. This was *prima facie* an offence against section 18(1) of the Theft Ordinance, Laws of Hong Kong if the cheques were handed over in Hong Kong and there was no intention of repaying the funds on the due dates.
32. The files in relation to this action have been archived by the Supreme Court and there is no public access to that material. However, as there is no recorded judgment, it is likely the plaintiffs either did not pursue the action or the parties came to a settlement.
33. It should be noted that Allen Chan or his representatives failed to file the required statutory returns for New Ross with the Hong Kong Government and on February 28, 1997, New Ross was struck off the Register of Companies.

(b) The alleged sales through Leizhou EJV

34. The statement of claim alleges that, initially, Sino-Forest's business was conducted primarily through an equity joint venture ("EJV") with the Leizhou Forestry Bureau, Zhanjiang Leizhou Eucalyptus Resources Development Co. Ltd. ("Leizhou"). The statement of claim further alleges that Leizhou did not generate the sales that Sino claimed or its sales were overstated.
35. Our review of the AIC records and other materials as set out below supports this conclusion. In particular, it would appear that Leizhou EJV was a shell and never did any business from the issuance of its business licence and the commencement of the joint venture.

AIC Filings for Leizhou

36. The Leizhou EJV filings with the AIC consisted of 240 pages in Chinese. I asked Wong Kam Yee to review those 240 pages and I instructed her to identify those pages that disclose information in relation to the incorporation, legal representatives, shareholders, directors, financial status or material changes of the Leizhou EJV.
37. Attached and marked as **Exhibit "C" to Exhibit "J"** are copies of the Chinese-language pages so identified, along with the English translations made by Ms Wong. Documents marked at **Exhibit "K" to Exhibit "S"** are from the same AIC file but were translated by Diners.
38. The following is a summary of corporate information from the AIC Leizhou EJV file, including details of directors and shareholders:

Company Name	Zhanjiang Leizhou Eucalypt Resources Development Co., Ltd. 湛江雷州桉树资源发展有限公司
Business License No.	Qi Du Yue Zhan Zong Zi No.000571
Company Type	Solely owned Hong Kong company
Legal Representative	Chan Tak Yuen 陈德源
Registered Capital	USD1.4 million

Paid-up Capital	USD12.6 million
Registered Address	No.33 Middle Renmin Avenue, Zhanjiang City 湛江市人民大道中 33 号
Date of Incorporation	1994--1-29
Company Telephone	3215649/3334788
Business Line	Forestry business; wood processing; manufacturing and selling wood products and forest chemical products.
Company Status	Cancelled

The AIC file is not clear as to how the registered capital is less than the paid up capital however there is a possibility that there was at some stage a reduction in the paid up capital.

Shareholders are reflected as follows:

Shareholders	Contracted Contribution		Actual Paid-up	
	Amount	Percentage of contracted Investment	Amount	Percentage of contracted investment
Leizhou Forestry Bureau 雷州林业局	USD11.75 million	47%	USD11,640,000	46.56%
Sino-Wood Partners Limited 嘉汉木业集团有限公司	USD13.25 million	53%	USD1,000,000	0.04% Note: The capital verification report indicates 0.04%. We believe the accountant made an error with their decimal point and the figure should read 4%.

39. I have also reviewed the statutory annual returns of Sino Wood Partners Limited ("Sino Wood") with the Hong Kong Registrar of Companies for the years 1996 through to 2000, copies of which are attached hereto and marked as Exhibit "T". They indicate that the directors of Sino Wood for the period 1996 through 2000 include Allen Chan Tak Yuen, Chan Wai Ling and Poon Kai Kit. The returns indicate that Sino-Wood's shareholders were Allen Chan (1 share) and Sino-Forest Corporation (9,999 shares).

Sino-Forest's extensive references to Leizhou in its public disclosure

40. I have read through the disclosure documents of Sino-Forest and reproduce below a number of statements made by Sino-Forest regarding its interest in the Leizhou EJ.V.

41. Sino-Forest's predecessor, Mt. Kearsage Minerals Inc., described the Leizhou EJV at page 34 of its information circular dated February 11, 1994:

Leizou Joint Venture

Zhanjiang Leizhou Eucalypt Resources Development Company Limited (the "Leizhou Joint Venture") is owned 53% by Sino-Wood and 47% by State owned Leizhou Forestry Bureau (the "Bureau"). The Bureau is a district forestry bureau of the forestry bureau of Guangdong Province and is located in the southern-most part of Guangdong Province,

Eucalypt is an important hardwood resource for the production of paper and board products. The PRC is second to Brazil in terms of land under plantation for eucalypt trees. Due to the climate requirements, most of the PRC's eucalypt plantation is located in southern PRC, which is on a latitude equivalent to Cuba.

Established in 1954, the Bureau operates a 53,000 hectares eucalypt tree plantation, wood chip processing facilities and manufactures related products. The Bureau engages in extensive research and development in the proration and growing of eucalypt trees. This work has resulted in the opinion of the Bureau in achieving a high yield of tree proration (15-25 cubic meters per hectare per annum) and a short growth cycle (Five to six years).

Under the Joint Venture Documents, as amended, the following assets, having an agreed value of US\$2.49 million, are to be transferred to the Leizhou Joint Venture by the Bureau as the first instalment of its capital contribution:

- about 3,500 hectares (or 190,345 cubic meters) of eucalypt plantation; and
- wood chip processing facilities with an annual capacity of 100,000 tonnes.

Additional capital contributions up to the Bureau's full obligation under the joint venture contract of US\$4.7 million will be made within two years from the date of the business licence and by injection of additional plantation and processing facilities.

Sino-Wood has agreed to make a total capital contribution of US\$5.3 million to the Leizhou Joint Venture, of which the first instalment of US\$1.0 million is to be made on or before April 28, 1994 and the balance before January 28, 1996.

42. Page 7 of the information circular dated May 15, 1995 provides:

Through Sino-Wood the Corporation owns interests varying between 53% and 55% in six Chinese foreign equity joint ventures ("the Joint Ventures") in Guangdong and Jiangxi Provinces in the People's Republic of China. Pursuant

to joint venture agreements ("the Joint Venture Agreements") relating to the Joint Ventures, Sino-Wood agreed to contribute to the Joint Ventures a total of US\$22,240,000 of which US\$3,895,000 was made in March 1994 and the balance of US\$18,345,000 must be made before the end of January, 1996.

The Board at Directors believes that the Corporation should raise additional equity funding of approximately US\$10,000,000 (approximately C\$13,700,000) in order to contribute to the financing of the obligations of Sino-Wood under the Joint Venture Agreements and to provide additional working capital for the Corporation's expansion of its forestry plantation business in South China in the current year

43. Page 2 of Sino-Forest's financial statements for the year ended December 31, 1996 provides:

Wood chip production in the Leizhou EJV in 1995 accounted for approximately 60.6% of total production. In 1996, wood chip production in the Leizhou EJV accounted for approximately 35.8% of total production. As we continue to ramp up the phase-in of our CJV plantations over the next few years, the Leizhou EJV's production of wood chips will be less and less significant to the total production level. In 1996, the Leizhou EJV produced 212,500 BDMT of wood chips compared to 204,200 in 1995.

44. On Page 5 of Sino-Forest's Annual Report for the year ended December 31, 1996 it was claimed that 20,000 hectares of forest had already been phased in through the Leizhou EJV, and on page 8, it was reported that:

Sales in the Leizhou EJV remained relatively constant over 1995. Sales were \$23-million in 1996 consisting of approximately 212,500 BDMT of wood chip shipments compared to 204,200 BDMT in 1995.

45. At Page 10 of Sino-Forest's Annual Report and Financial Statements for the year ended December 31, 1996, the following statements were made:

The Leizhou EJV

Under the Leizhou EJV joint venture agreement, the Company's wholly-owned subsidiary, Sino-Wood Partners, Limited ["Sino-Wood"] is committed to provide \$5,300,000 in capital to acquire its 53% equity interest in the Leizhou EJV. An initial capital contribution of \$1,000,000 was made in 1994 with the balance due January 1996. During 1996, Sino-Wood's EJV partner, the Leizhou Forestry Bureau ["LFB"] agreed to extend payment of the balance of the capital contribution to December 1996. No capital contribution was made in December 1996 as Sino-Wood has agreed with the LFB to settle its capital contribution to the Leizhou EJV concurrent with the settlement of amounts due to the Leizhou EJV by the LFB.

46. Page 2 of the Sino-Forest prospectus dated January 28, 1997 states:

"Leizhou EJV" means the EJV subsidiary operating the eucalyptus tree plantation Zhanjiang Leizhou Eucalypt Resources Development Company Ltd. in Guangdong Province.

47. On the same page, "EJV" is defined as an Equity Joint Venture established under EJV law, while page 10 charts the 53% holding of the Leizhou EJV as being through Sino Forest Partners Ltd, a wholly owned subsidiary of Sino-Forest.

48. At page 8 of the Sino-Forest 1997 prospectus, the following statements are made:

Timber from the Leizhou EH/ Plantation

The Leizhou EJV operates 20,000 hectares of eucalyptus tree plantation. The eucalyptus tree plantation of the Leizhou EJV is located on the Zhanjiang Leizhou peninsula in Guangdong Province. This plantation supports crops of eucalyptus trees which in management's experience have a cycle (from planting to harvesting) of approximately five years and which are specifically genetically engineered for the soil and semi-tropical climate conditions of southern China. In 1994 and 1995, there were approximately 156,300 BDMT and 204,200 BDMT, respectively, of eucalyptus wood chips produced by the Leizhou EJV. In 1996, the Company expects to maintain its production volume from the Leizhou EJV plantation at approximately 200,000 BDMT.

49. On page 19 of the Sino-Forest 1997 prospectus, it states:

BUSINESS STRATEGY

Based on the success of its original eucalyptus plantation investment in the Leizhou EJV in 1994, the Company focused its efforts on expanding rapidly

in the management and operation of, and investment in, tree plantations in the PRC and the production of wood chips, while at the same time reducing its involvement in the forestry and board chemical businesses

50. On page 22 of the Sino-Forest 1997 prospectus, it states:

BUSINESS OPERATIONS

Wood chips produced by the Leizhou EJV are sold in the export market by the Company's joint venture partner under an arrangement that was established in 1994. This arrangement is expected to terminate by the end of 1996.

The \$12,177,000 due from the Leizhou EJV joint venture partner as at September 30, 1996 represents cash collected from the sale of wood chips by the Leizhou EJV joint venture partner on behalf of the Leizhou EJV. As originally agreed by the Company, the cash is being retained by the Leizhou EJV joint venture partner to fund the ongoing plantation costs of the Leizhou EJV. At the end of 1995, the Company commenced discussions with the Leizhou EJV joint venture partner for the repayment of some or all of the amount due by early 1997. The Leizhou EJV joint venture partner has incurred planting and maintenance costs on behalf of the Leizhou EJV which could be applied against part of the amount due to the Company. In addition, the balance could be used to offset the required remaining capital contribution of U.S.\$4,300,000 owing to the Leizhou EJV by the Company, or be repaid to the Company.

Total export shipments (including those from the Leizhou EJV) estimated for 1996 account for approximately 60% of the total estimated wood chip shipments of the Company. Export shipments for the nine months ended September 30, 1996 represent 66.7% of total shipments. Of the 259,574 BDMT in total export sales of wood chips by the Leizhou EJV and the Guangxi CJV for the nine months ended September 30, 1996, approximately 60% were to Japan which is the world's largest importer of wood chips.

51. On page 23 of the Sino-Forest 1997 prospectus, it states:

BUSINESS OPERATIONS

Chipping Facilities

The Company's Leizhou EJV operates a three-line chipping plant with an annual capacity of approximately 250,000 tonnes of wood chips. The plant is located approximately 50 km from the Leizhou EJV plantation and approximately 80 km from the Zhanjiang port. Zhanjiang port is one of the ports that the Company uses to export its wood chips to Japan, South Korea and Taiwan. All of the Company's eucalyptus trees harvested in the Leizhou

EJV are chipped in this facility. The wood chips produced in this facility are generally stored in the plant for no more than one week before being transported by trucks to the Zhanjiang port for export.

52. On page 24 of the Sino-Forest 1997 prospectus, it states:

Fibre Supply and Process

The Company currently produces its wood chips from two sources of supply: (1) standing timber purchased from the local forestry bureaus and (2) timber grown on the Leizhou EJV's eucalyptus plantations.

The Company currently manages and operates 20,000 hectares of tree plantation lands in the Leizhou EJV. The Company has phased-in approximately 30,000 hectares (including the 20,000 hectares from the Leizhou EJV, or approximately 5% of the lands currently under contract.

53. On page 28 of the 1997 prospectus, it is stated that:

Research and Development

Research and development is carried out at the research facilities of the Leizhou EJV and by independent laboratories and research centres.

54. Subsequent to the date of the 1997 prospectus, Sino-Forest reported changes in the relationship with the Leizhou EJV.

55. In the 3rd quarter 1997 report to shareholders it was stated that:

As at September 30, 1997, the amount due to Leizhou EJV from the Leizhou Forestry Bureau amounted to \$16,755,000, of which the Company's equity position in the Leizhou EJV represents \$8,880,000. The Leizhou EJV receivable was satisfied in November 1997 through a payment to the Company of timber holdings of a value approximately \$8,880,000.

56. At page 10 of Sino-Forest's Annual Report for the year ended December 31, 1997, the following information was set out:

In 1997, wood chip shipments totalled 1,160,560 BDMT compared to 592,800 BDMT shipped in 1996, an increase of approximately 96%. Of the total wood chips shipped in 1997, 311,300 BDMT were exported to Japan, South Korea and Taiwan and 849,260 BDMT were sold in the domestic PRC market. For

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the year ended December 31, 1997, the Company acted as principal on 184,400 BDMT and as an agent on 931,160 BDMT. Wood chip shipments from Leizhou EJV in 1997 were 45,000 BDMT compared to the 212,500 BDMT shipped in 1996. The decrease was due to the decision to restructure Leizhou EJV, which was completed in the fourth quarter of 1997 as explained below. As a result of this decision, wood chip orders which could have been shipped by the Leizhou EJV were filled by the Heyuan CJV and the Guangxi CJV partner which together reported a 193% increase in shipments from 380,300 BDMT in 1996 to 1,115,560 BDMT in 1997. Export shipments have decreased approximately 10% from 346,400 BDMT in 1996 to 311,300 BDMT in 1997 as a result of the continuing weak economy in Japan and the economic downturn in Asia. Demand for wood chips in China remains strong and was the reason for the significant increase in shipments from 246,400 BDMT in 1996 to 849,260 BDMT in 1997, an increase of 245%.

57. Page 11 of that Annual Report deals with a change in the relationship with the Leizhou EJV.

This change was said to have occurred with the agreement of the Leizhou Forestry Bureau:

LEIZHOU EJV

As part of the Company's strategy to operate and manage its plantation business under the preferred CJV structure, the Company entered into an agreement with the Leizhou Forestry Bureau ("LFB"), its partner in the Leizhou EJV, to cease operations and distribute the net assets of the Leizhou EJV according to their respective equity interests. The Company's share of the net assets of the Leizhou EJV, as at the effective date of the partners' withdrawal of their equity interests, October 1, 1997, amounted to \$12.4 million. As part of the agreement with the LFB, the LFB agreed to exchange the Company's interest in the net assets of the Leizhou EJV for 730,440 cubic meters of standing timber owned by the LFB. The standing timber is to be provided by the LFB to the Company over a three-year period as required by the Company. The Company is responsible for harvesting and transportation costs. The remaining capital contribution of \$4.3 million, which was due to the Leizhou EJV, was also settled as a result of the agreement with the LFB. The Company is in discussions with a potential new partner in the Leizhou region to establish a new CJV on a similar basis to its existing CJVs.

Findings

58. In addition to reviewing the AIC file and Sino-Forest's disclosure documents, I reviewed a letter from the Leizhou Forestry Bureau dated February 27, 1998 regarding the Leizhou joint venture. The statements in Sino-Forest's disclosure documents are inconsistent with that letter. In particular, the letter states that the capital contribution of the Leizhou EJV was

not paid up by Sino-Forest. Moreover, despite Sino-Forest's claim of an amicable parting with the Leizhou Forestry Bureau, the Bureau complained about Sino-Forest to the Zhanjiang Municipal Foreign Economic Relations & Trade Commission. The Bureau's letter dated February 27, 1998 is attached and marked as Exhibit "D".

59. The letter states that Leizhou EJV was a shell and never did any business from the issuance of its business licence and the commencement of the joint venture.
60. I have also identified financial statements for the financial year 1996 in the AIC files of the Leizhou AIC, copies of which are attached and marked as Exhibit "Q". There are no entries for "Return on Investment", "Profit for the year" or "Undistributed profit".
61. Furthermore, in a letter dated June 25, 1998, the Zhangjiang Sino-Forest Technology Center informed the Zhanjiang Administration for Industry and Commerce that "Leizhou Forestry Bureau had failed to contribute forestry land, factory facilities and investment as agreed in the joint venture thus affecting the normal operations of the joint venture". A copy of the letter is attached and marked as Exhibit "E".

(c) Sino-Forest's alleged investment in Shanghai Jiu Xiang Timber Ltd. ("SJXT")

62. The statement of claim alleges that Sino-Forest had claimed in its public disclosure that it had acquired a 20% equity interest in "Shanghai Jin Xiang Timber Ltd." ("SJXT"). It further alleged that Sino never invested in a company called "Shanghai Jin Xiang Timber Ltd."
63. We have examined the AIC records and other documents, as set out below, to determine if there was any evidence that Sino-Forest had an equity interest in SJXT. It appears that neither Sino-Forest nor any of its subsidiaries held shares of SJXT.

Sino-Forest's extensive references to SJXT in its disclosure

64. I have read through the disclosure documents of Sino-Forest and reproduce below a number of statements made by Sino-Forest regarding its interest in SJXT.

65. On page 11 of Sino-Forest's 1997 Annual Report, under the heading "Wood-Based Panel and Contract Supply," it was stated that:

To establish strategic partnerships with key local wood product suppliers and to build a strong distribution network for the wood-based product and contract supply businesses, the Company has acquired a 20% equity interest in Shanghai Jin Xiang Timber Ltd. ("SJXT"), an EJV that was formed in 1997 by the Ministry of Forestry in China. The operation of SJXT is to organize and manage the first and only official market for timber and log trading in eastern China. The investment in SJXT will provide the Company good accessibility to a large base of potential customers and companies in the timber and log businesses in eastern China. The total investment of SJXT is estimated to be \$9,662,000 (RMB80 million) of which the Company will be required to contribute approximately \$1,932,000 for 20% of the equity interest. As at December 31, 1997, the Company has made capital contributions to SJXT in the amount of \$1,037,000.

66. At page 27 of Sino-Forest's Annual Information Form, dated May 20, 1998, under "Sales and Marketing", it was stated that:

The Company will initially focus on the Greater Shanghai Region and take advantage of Shanghai Timber's sales network in the region. Currently, the Company is in negotiation with several customers to secure between U.S. \$40 and U.S. \$50 million of contract supply business. To establish strategic partnerships with key local wood product suppliers and to build a strong distribution for the wood-based product and contract supply businesses, the Company has acquired a 20% equity interest in Shanghai Jin Xiang Timber Ltd. ("SJXT"), an EJV that was formed in 1997 by the Ministry of Forestry in China. The operation of SJXT is to organize and manage the first and only official market for timber and log trading in Eastern China. The investment in SJXT is expected to provide the Company with good accessibility to a large base of potential customers and companies in the timber and log businesses in Eastern China.

67. On page 5 of Sino-Forest's Annual Report for the year ended December 31, 1998, under the heading "Lumber and Wood Products Trading - a Promising Opportunity," it was stated that:

Sino-Forest's 20% equity interest in Shanghai Jin Xiang Timber Ltd. ("SJXT" or the Shanghai Timber Market) represents a very significant development for our lumber and wood products trading business. The market is prospering and continues to look very promising. Phase I, consisting of 100 shops, is

completed. Phases II and III are expected to be completed by the year 2000. This expansion would triple the size of the Shanghai Timber Market.

The Shanghai Timber Market is important to Sino-Forest as a generator of significant new revenue. In addition to supplying various forest products to the market from our own operations, our direct participation in SJXT increases our activities in sourcing a wide range of other wood products both from inside China and internationally. The Shanghai Timber Market is also very beneficial to the development of the forest products industry in China because it is the first forest products national sub-market in the eastern region of the country.

In October 1998, we announced an Agency Agreement with SJXT, under which Sino-Forest will provide 130,000 m³ of various wood products to SJXT over an 18 month period. Based on current market prices, we expect this contract to generate significant revenue for Sino-Forest amounting to approximately \$40 million. The market also greatly facilitates Sino-Forest's networking activities, enabling us to build new industry relationships and add to our market intelligence, all of which increasingly leverage our ability to act as principal in our dealings.

68. On page 5 of Sino-Forest's Annual Report for the year ended December 31, 1999, under the heading "Lumber and Engineered Wood Products Trading," it was stated

The lumber and engineered wood products trading business diversifies Sino-Forest's revenue base; provides a high return; and further expands our position in the huge and rapidly growing Asian market for engineered wood products. The Shanghai Timber Market provides us with a market for our wood products as well as being a source of a wide range of wood products from both Chinese and international markets. The market also facilitates networking opportunities for Sino-Forest and enables us to build new and beneficial industry relationships.

69. On pages 12 and 13 of that same Annual Report, in the section titled "Review of Opportunities," it is stated that:

There are also promising growth opportunities as Sino-Forest's investment in Shanghai Jin Xiang Timber Ltd. (SJXT or the Shanghai Timber Market), develops. The Company also continues to explore opportunities to establish and reinforce ties with other international forestry companies and to bring our e-commerce technology into operation. Sino-Forest's investment in the Shanghai Timber Market — the first national forest products submarket in eastern China — has provided a strong foundation for the Company's lumber

and wood products trading business. To date, the timber market has been a significant source of new revenue for Sino-Forest, both as a way to market our products and a way to source a wide range of other wood products from inside China and internationally. Sino-Forest's lumber and wood products trading business generated revenue of \$37.2 million for the Company in 1999. This represents an increase of 219 per cent over the \$11.7 million in revenues generated in 1998 and an increase of 1,591 per cent over the \$2.2 million in revenues generated in 1994.

70. On pages 18-19 of that same Annual Report, in the section titled "Review of Operating Results," it is stated that:

Sales from lumber and wood products trading increased 264% to \$34.2 million compared to \$9.4 million in 1998. The increase in lumber and wood products trading is attributable largely to the increase in new business generated from our investment in Shanghai Jin Xiang Timber Ltd. (SJXT) and a larger sales force in 1999.

71. On page 20 of that same Annual Report, under the heading "Investment in SJXT," it is stated that:

The Company held a 34.4% equity interest in SJXT, an equity joint venture (EJV) that was formed by the Ministry of Forestry in China. The purpose of the investment is to establish strategic partnerships with key local wood products suppliers and to build a strong distribution network for the lumber and wood products trading and the wood-based panel businesses. The total capital investment of SJXT is \$1,509,000 [Chinese renminbi 12.5 million] of which the Company's required capital contribution is \$519,000. As at December 31, 1999, the Company's required capital contribution of \$519,000 was fully made. The operation of SJXT is to organize and manage the first and only national submarket for timber and log trading in eastern China. The investment in SJXT will provide the Company with accessibility to a large base of potential customers and companies in the timber and log businesses in eastern China. The investment in SJXT has contributed to the significant growth of the lumber and wood products trading business, which has recorded an increase in sales of 219% from \$11.7 million in 1998 to \$37.2 million in 1999.

- 72. In Sino-Forest's Annual Report for the year ended December 31, 2000, on p. 18 under the heading "Investment in SJXT," the following was stated

The Company has a 34.4% equity interest in Shanghai Jin Xiang Timber Ltd. ("SJXT"), an equity joint venture ("EJV") that was formed by the Ministry of Forestry in China. The purpose of the investment is to establish strategic partnerships with key local wood product suppliers and to build a strong distribution network for the lumber and wood products trading and wood-based panel businesses. The total capital investment of SJXT was \$1,509,000 [Chinese renminbi 12.5 million] of which the Company's required capital contribution was \$519,000. As at December 31, 2000, the Company's required capital contribution of \$519,000 was fully made. The operation of SJXT is to organize and manage the first and only national sub-market for timber and log trading in eastern China. The investment in SJXT will provide the Company good accessibility to a large base of potential customers and companies in the timber and log businesses in eastern China.

- 73. Sino-Forest's 1997 Annual Report indicates that Sino-Forest would acquire a 20% interest in SJXT through an estimated capital contribution of US\$1,932,000 (comprising approximately 20% of the total estimated capitalization of US\$9,662,000 of SJXT). Sino-Forest disclosed that it had made an investment of US\$1,037,000 towards its required contribution. However, the 1999 Annual Report refers to a 34.4% equity interest in SJXT. Further, in contrast to the 1997 report, the 1999 Annual Report indicates that the total capital investment of SJXT was US\$1,509,000, of which the capital contribution of Sino-Forest was US\$519,000.. We have examined all the AIC records for SJXT and Sino-Forest disclosures and can find no explanation for how this has changed.

- 74. Finally, Sino-Forest's disclosure documents issued after its 2000 Annual Report removed all mention of SJXT. The only exception was a reference in Sino-Forest's 2001 Annual Report, which stated, at page 9, that:

One market for Sino-Forest products is the Shanghai Timber Market in eastern China. The Market consists of suppliers offering wood and wood products for the wholesale domestic market.

AIC Filings relating to SJXT/SJXTM

75. I am informed by Yu How Wun, an agent of Intellect Consultancy, and I believe that he conducted a search for the AIC file in the name of "Shanghai Jin Xiang Timber Ltd.", but that he found no company by this name.
76. However, further AIC searches by Yu Ho Wun ascertained that a company by the name of Shanghai Jinxiang Timber Wholesale Market Management Co., Ltd. 上海金翔木材批发市场经营管理有限公司 ("SJXTM") was incorporated on July 9, 1997 and that an individual by the name of Pan Jiajie 潘家杰 (holding Chinese identity # 441623194001061314) was a director. The name Pan Jiajie is the Pinyin or simplified Chinese character name for Poon Kai Kit, who was the president and a director of Sino-Forest. He holds Chinese identity # 441623194001061314 and Hong Kong identity # H328031(6).
77. The AIC file for SJXTM consists of 311 pages in Chinese. I asked Wong Kam Yee to review those pages and I instructed her to identify those pages that disclosed information in relation to the incorporation, legal representatives, shareholders, directors, material changes and financial information of SJXTM up to the year 2005. Attached and marked as Exhibit "U" to Exhibit "EE" are copies of the Chinese versions of those pages and of the English translations
78. According to the AIC records, SJXTM was incorporated on July 9, 1997. The registered address for the company is at No.2755, Fengxiang Road, Nanxiang Town, Jiading District Shanghai 嘉定区南翔镇丰翔路 2755 号. The business of the company is reflected to be "Providing market management services for the dealers of timber and decoration materials."
79. From incorporation until the mid-point of 2005, the following were the shareholders of SJXT holding their shares in the proportions as set out:

Shareholders	Subscription	Percentage
Shanghai Jinsen Material Trade Co., Ltd. 上海金森物资贸易公司	Renminbi 0.5 million	17 (rounded)

Shanghai Changxiang Industrial Co., Ltd. 上海昌翔实业有限公司	Renminbi 2.5 million	83 (rounded)
Total	Renminbi 3 million	100%

80. The recorded directors of SJXTM are as follows:

Name	Document No.	Position
Cai Xuelin 蔡学麟	320204500812001	Chairman
Zhang Jinde 张锦德	310222195204130814	Director
Qu Rongguo 瞿荣国	310222195512230817	Supervisor
Zhang Yulin 张玉林	310222195706110418	Director
Ma Cong 马聪	320106690914243	Director
Poon Kai Kit 潘家杰 @ Pan Jiejie	441623194001061314	Director

81. Consequently, for the period up until mid 2005, SJXTM had a paid up capital of three million renminbi which would have roughly equated to US\$375,000. Shanghai Jinsen Material Trade Co., Ltd., held 17% of the shares and Shanghai Changxiang Industrial Co., Ltd., held 83% of the shares. Exhibit "U" which is a document from the files of the AIC for SJXTM describes SJXTM as a joint venture invested by a collective and a State owned enterprise. In subsequent investigations of the shareholding and structure of both Shanghai Jinsen and Shanghai Changxiang, Shanghai Jinsen is a collective whilst in looking at the the shareholders of Shanghai Changxing, the two companies which hold shares in Shanghai Changxiang are also collectives and not state owned companies. Neither Sino-Forest nor any of its subsidiaries are identified as shareholders.

82. I have also reviewed the financial statements for SJXTM filed with the AIC for the years 2000 and 2002, copies of which are attached and marked as Exhibits "EE".

83. For the financial year ending 31st December 2000, SJXTM had a balance sheet which reflected assets of RMB 47,413,236 and liabilities of RMB 34,673,473. The box for business revenue was not filled in; however profit was RMB 350,348. For the financial year ending 31st December 2002, SJXTM had a balance sheet which reflected assets of RMB

40,349,657 and liabilities of 27,783,161. Business revenue was RMB 66,392,044 on which profit was RMB 12,391.

84. On August 6, 2005, SJXTM's shareholders, Shanghai Jinsen Material Trade Co., Ltd and Shanghai Changxiang Industrial Co., Ltd., agreed to terminate their joint venture. A copy of the Agreement to Terminate Joint Venture Business is attached and marked as Exhibit "X".
85. The agreement states that Shanghai Jinsen Material Trade Co Ltd. decided to terminate its involvement on January 15 2000, but that the termination procedures had not been completed. On completion, Shanghai Jinsen Material Trade Co., Ltd withdrew its capital of RMB 500,000.
86. Subsequently, on August 11, 2005, Shanghai Changxiang Industrial Co. Ltd.¹ withdrew RMB 540,000, thus reducing the capital of SJXTM to RMB 1,960,000. Copies of the capital verification report and a report of the People's Government of Nanxiang Town are attached and marked Exhibits "Z" and "Y".
87. On August 25, 2005, the following changes to SJXTM were approved:

We have received your request on Jinxiang Timber Wholesale Market's restructuring and capital increase. Upon review, we agree that Shanghai Jinxiang Timber Wholesale Market 上海金翔木材批发市场 changes from a collective ownership to a limited company (Joint Venture by domestic companies) and increases its registered capital to RMB8.46 million, including RMB1.96 from Shanghai Nanxiang Industrial Development Zone Industrial Co., Ltd. 上海南翔工业开发区实业有限公司 and RMB6.50 million from Shanghai Jincai Industrial Co., Ltd. 上海金材实业有限公司. Its business scope covers market management service for suppliers of timbers, plywood and decorative materials in Jinxiang Timber Market. We hope that your company would get changes registered in time.

A document issued by the People's Government of Jiading District Nanxiang Town is attached and marked as Exhibit "CC".

¹ known by its new name, Shanghai Nanxiang Industrial Development Zone Industrial Co., Ltd.

88. Subsequent to these changes the following people became directors of SJXTM: Zhang Jinde 张锦德, Poon Kai Kit 潘家杰, Zhang Yulin 张玉林, Ma Cong 马聪, Cai Xuelin 蔡学麟. Attached and marked as Exhibit "DD" are a resolution of the company and certificates of appointment as directors.

AIC Filings relating to SJXTM's shareholders

AIC Filings relating to Shanghai Jinsen (SJXTM's shareholder until 2005)

89. Shanghai Jinsen Material Trade Co., Ltd ("Shanghai Jinsen") is one of the two shareholders of SJXTM. The filing with the AIC consisted of 37 pages in Chinese. I asked Wong Kam Yee to review those 37 pages and instructed her to identify the pages which disclosed information in relation to the incorporation, legal representatives, shareholders, directors, material changes and financial status of Shanghai Jinsen. Attached and marked as Exhibit "FF" to Exhibit "JJ" are those Chinese-language pages, along with the English translations.
90. According to the AIC records, the Shanghai Jinsen business licence was revoked on February 4, 2005. Prior to that date, it was a collective-owned company and no shareholders or directors are listed. None of the individuals listed as management and staff appear to relate to Sino-Forest or its subsidiaries and associates. A copy of the collective staff list is attached and marked as Exhibit "GG".
91. Further, on February 4, 1993, a firm of accountants under the name of Huihua CPA firm listed on the capital verification report, carried out a capital verification. It showed that the capital subscription of Shanghai Jinsen was solely from its own funds. There was no suggestion of external investment and no changes have been filed over the period from 1997 to 2000, when Sino-Forest alleged it had a capital interest in Shanghai Jin Xiang Timber Limited. A copy of the capital verification report is attached and marked as Exhibit "HH".

Company Name	Shanghai Jinsen Material Trade Co., Ltd 上海金森物资贸易公司
Registration No.	3101151005437
Registered Address	No. 1208, Pudong Avenue 浦东大道 1208 号
Legal Representative	Ji Zonglin 纪宗林

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Registered Capital	RMB1 million
Date Established	--
Registering Authority	Shanghai AIC Pudong New District Branch
Business Scope	Wood and related products, metal materials, chemical materials, building materials, construction hardware, auto parts, hardware
Business model	Wholesale, retail, and purchase & sale agency
Status	Revoked
Date of revoking	February 4, 2005

AIC Filings relating to Shanghai Changxiang

92. Shanghai Changxiang Industrial Co., Ltd. 上海昌翔实业有限公司 (“Shanghai Changxiang”) is the second shareholder of SJXTM. The filings with the AIC consisted of 84 pages in Chinese. I asked Wong Kam Yee to review those 84 pages and instructed her to identify the pages which disclosed information in relation to the incorporation, legal representatives, shareholders, directors, material changes and/or financial status of Shanghai Changxiang. Attached and marked as Exhibit “KK to Exhibit “QQ” are those Chinese-language pages and the English translations. I note that Shanghai Changxiang has changed its name to Shanghai Nanxiang Industrial Development Zone Industrial Co Ltd.

93. Details relating to this company compiled from the AIC file are as follows:

Company Name	Shanghai Nanxiang Industrial Development Zone Industrial Co., Ltd 上海南翔工业开发区实业有限公司
Registration No.	310114001805623
Registered Address	Room 104, Building No. 4, Qianjiaqiao, Shejia Village, Nanxiang Town, Jiading District, Shanghai 嘉定区南翔镇沈家村钱家桥 4 幢 104 室
Legal Representative	Xu Long 徐龙
Registered Capital	RMB12 million
Date Established	November 19, 1996
Period of Operation	From 1996-11-19 to 2026-11-18
Company Type	Limited Company
Registering Authority	Shanghai AIC Jiading Branch
Business Scope	Sales of hardware, building materials, decoration materials, steel, machinery and electronic products, garments, daily necessities, automobile accessories, plastic products; business consulting

Status	Active
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94. The share holdings of Shanghai Changxiang are as follows:

Name	Shanghai Nanxiang Economic Development Co., Ltd 上海南翔经济发展总公司
Subscription (RMB)	10,000,000
Percentage	83.3%

Name	Jiading Nanxiang Industrial Co., Ltd 嘉定南翔工业公司
Subscription (RMB)	2,000,000
Percentage	16.7%

95. The directors of Shanghai Changxiang are listed as follows:

Name	Position
Zhang Qingzhong 章庆忠	Director
Xu Long 徐龙	Director
Zhang Jinde 张锦德	Executive Director
Li Yuxing 李玉兴	Supervisor

96. From an examination of the AIC file, there is no identifiable capital involvement by Sino-Forest, its subsidiaries or associates in Shanghai Changxiang. I have obtained the two AIC files for those companies which are shareholders of Shanghai Changxiang namely Shanghai Nanxiang Economic Development Co., Ltd and Jiading Nanxiang Industrial Co., Ltd. I instructed Wong Kam Yee to examine these filings. She advises me, and I believe, that there is no apparent Sino-Forest capital involvement in these two companies as they are both collectives and have not filed details of any shareholders or directors. They have filed details of their Legal Representatives and none of them are names which have been associated as far as has been determined, with Sino-Forest. Consequently, it is unclear how Sino-Forest could hold its stated shareholding over the 1997 to 2000 period in SJXTM.

AIC Filings relating to Shanghai Jincai (SJXTM's shareholder from 2005)

97. Shanghai Jincai Industrial Co., Ltd 海金材实业有限公司 (“Shanghai Jincai”) is reflected in the AIC files as holding share capital of SJXTM totalling RMB 6,500,000 effective from about August 25, 2005. This is also around the time that Poon Kai Kit became a director of SJXTM. Shanghai Jincai filings with the AIC consisted of 65 pages in Chinese. I asked Wong Kam Yee to review those 65 pages and instructed her to identify the pages that disclose information in relation to the incorporation, legal representatives, shareholders, directors, material changes and/or financial status of Shanghai Changxiang. Attached and marked as Exhibit “RR” to Exhibit “XX”, are those Chinese-language pages, along with the English translations.
98. The AIC records for Shanghai Jincai indicate the company was established on August 22, 2005. It is a limited liability company with an issued registered capital of RMB 15,000,000. Pan Jiajie 潘家杰 (i.e. Kai Kit Poon) is the legal representative. The following is a summary of the AIC records.

As at February 8, 2012

Company Name	Shanghai Jincai Industrial Co., Ltd. 上海金材实业有限公司
Registration No.	310114001483490
Registered Address	No. 8 Fengxiang Road, Nanxiang Industrial Development Zone, Jiading District, Shanghai 上海市嘉定区南翔工业开发区丰翔路 8 号
Legal Representative	Pan Jiajie 潘家杰
Registered Capital	RMB 15,000,000
Date Established	August 22, 2005
Period of Operation	August 22, 2005 to August 21, 2015
Company Type	Limited Liability Company
Registering Authority	Shanghai Jiading AIC
Business Scope	Processing of wooden products; sales of woods, manmade boards, plywood and architecture decoration materials; commercial consultancy; conference service; design and production of computer graphics.
Status	Active

Shareholders

Name	Subscription (RMB)	Percentage
Pan Jiajie 潘家杰	RMB 10,500,000	70%

Cai Xuelin 蔡学麟	RMB 4,500,000	30%
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Key Executives

Name	Position	ID No.
Pan Jiajie 潘家杰	Executive Director	441623194001061314
Cai Xuelin 蔡学麟	Supervisor	32020419500812001X

Name	Pan Jiajie 潘家杰
Nationality	Chinese
Date of Birth	January 6, 1940
Address	No. 3 Gongyuan Road, Yuanshan Township, Lianping County, Guangdong 广东省连平县元善镇公园路3号
ID No.	441623194001061314
Photo	Nil

Changes

27- Nov -2007 – Change of registration number

Before	After
3101142119687	310114001483490

27- Nov -2007 – Change of shareholders

Before	After
Ma Cong 马聪 (ID No.: 320106690914243) RMB 10,500,000 - 70%	Pan Jiajie 潘家杰 (ID No.: 441623194001061314) RMB 10,500,000 - 70%
Cai Xuelin 蔡学麟 (ID No.: 320204500812001) RMB 4,500,000 – 30%	Cai Xuelin 蔡学麟 (ID No.: 32020419500812001X) RMB 4,500,000 – 30%

27- Nov -2007 – Change of directors

Before	After
Ma Cong 马聪 (ID No.: 320106690914243) Executive Director– Legal Representative	Pan Jiajie 潘家杰 (ID No.: 441623194001061314) Executive Director– Legal Representative
Cai Xuelin 蔡学麟 (ID No.: 320204500812001) Supervisor	Cai Xuelin 蔡学麟 (ID No.: 32020419500812001X) Supervisor

99. The first application for a company name was under that of Shanghai Jinjia Industrial Co Ltd. Shanghai Jincai was one of the alternative names. This is the only reference that has

been found in any of the shareholders files where the name "Sino-Forest" has been identified. The application for pre-approval of company name is attached and marked as Exhibit "RR".

100. The two initial investors in Shanghai Jincai, as of July 26 2005, were Ma Cong (RMB 10,500,000) and Cai Xuelin (RMB 4,500,000). It was not until November 13, 2007 that Poon Kai Kit contributed RMB 10,500,000. This corresponded to the withdrawal of an identical amount of capital by Ma Cong. Copies of documents evidencing these events are attached and marked as Exhibits "VV" and Exhibit "XX". In any event, I can find no capital interest in the name of Sino-Forest, its subsidiaries or associates in Shanghai Jincai at any time.

Findings

101. As set out above, Sino-Forest claimed in its various disclosure documents that it initially had a 20% interest in the capital of SJXT, which purportedly increased to 34.4%. However, based on our review of the AIC records there appears to have been no Sino-Forest subsidiary holding shares in SJXTM. Moreover, the paid up capital of SJXTM over the period to the year 2005 does not appear to equate to that which was stated during that period.

(d) The alleged misrepresentations relating to Homix Limited

102. The statement of claim alleges that on January 12, 2010, Sino-Forest issued a press release in which it announced the acquisition by one of its wholly-owned subsidiaries of Homix Limited. The statement of claim alleges that Sino-Forest failed to disclose that Homix was a related party to Sino-Forest, contrary to Canadian generally accepted accounting principles.

103. Our review of the AIC records indicates that one of Sino-Forest's vice presidents was also a major shareholder of a Homix subsidiary at the time of the acquisition by Sino-Forest.

Sino-Forest's references to Homix in its disclosure

104. I have read through the disclosure documents of Sino-Forest and reproduce below a number of statements made by Sino-Forest regarding its interest in Homix.

105. In the Sino-Forest 2009 Annual Report, on page 20, it states:

HOMIX acquisition

In accordance with our strategy to focus on research and development and to improve the end-use of our wood fibre, we acquired HOMIX Ltd. in January 2010 for \$7.1 million. This corporate acquisition is small but strategically important adding valuable intellectual property rights and two engineered-wood processing facilities located in Guangdong and Jiangsu Provinces to our operations. Homix has developed environment-friendly technology, an efficient process using recomposed technology to convert small-diameter plantation logs into building materials and furniture. Since we plan to grow high volumes of eucalypt and other FGHY species, this acquisition will help us achieve our long-term objectives of maximizing the use of our fibre, supplying a variety of downstream customers and enhancing economic rural development.

106. At page 31 of that Annual Report, the following statement was made:

Acquired HOMIX Limited on January 4, 2010, the Company acquired all of the issued and outstanding shares of HOMIX Limited ("HOMIX"), a company engaged in research and development and manufacturing of engineered-wood products in the PRC, for an aggregate consideration of \$7,100,000. The acquisition included HOMIX's facilities and its patents in the PRC.

107. On p. 81 of that Annual Report, it states:

SUBSEQUENT EVENT

On January 4, 2010, the Company acquired all of the issued and outstanding shares of Homix Limited, which is engaged in research & development and in manufacturing engineered-wood products, for aggregate cash consideration of \$7.1 million.

108. On page 5 of Sino-Forest's 3rd quarter 2010 report to shareholders, it stated that:

Acquired Homix Limited

On January 4, 2010, the company acquired all of the issued and outstanding shares of Homix limited ("Homix"), a company engaged in research and development and manufacturing of engineered-wood products in the PRC, for an aggregate consideration of \$7,100,000. The acquisition included homix's facilities and its patents in the PRC.

Hua Chen's role at Sino-Forest

109. On page 85 of Sino-Forest's 2009 Annual Report, the Senior Vice President Administration and Finance for China for Sino Forest is identified as Hua Chen. It states that she joined Sino-Forest in 2002.

110. I have conducted enquiries to identify the Chinese identity card number of Hua Chen, or as she would be known in China, "Chen Hua". In this context, I have been advised by Wong Kam Yee as a result of name searches that she was a legal representative of a number of companies associated with Sino-Forest in China, including:

- i. Sino-Forest (Suzhou) Trading Co., Ltd;
- ii. Sino-Forest (Guangzhou) Co., Ltd;
- iii. Sino-Forest (China) Investment Co., Ltd;
- iv. Sino-Forest (Yangjiang) Co., Ltd;
- v. Sino-Forest (Heyuan) Co., Ltd;
- vi. Sino Wood (Heyuan) Co., Ltd; and
- vii. Sino-Forest (Anhui) Co., Ltd.

111. From this research, I have determined that Hua Chen has been issued with an identity card by the Chinese government authorities, # 320503196107311027.

Background on Homix Limited and Hua Chen's role in Homix

112. Homix Limited is registered in the British Virgin Islands, and has two subsidiary companies incorporated in the PRC as follows:

Guangzhou Dacheng Panyu Wood Company Ltd.

广州市番禺大成木业有限公司

Jiangsu Dayang Wood Company Ltd

江苏大阳木业有限公司

113. The AIC records relating to Jiangsu Dayang Wood Co., Ltd. 江苏大阳木业有限公司 (“Jiangsu Dayang”) included a print-out of corporate changes and information relating to the financial status of the company. Wong Kam Yee translated the records showing the historic and current shareholding, legal representative and directorships in that company. Copies of the Chinese print-out with accompanying English translations are attached and marked as Exhibit “YY”.
114. The AIC records show that Jiangsu Dayang was established on August 19, 2003. It is a limited company with registered capital of RMB 80 million. Allen Chan Tak Yuen 陈德源 (i.e. Allen Chan) is the legal representative. Details of the current business registration and the legal representatives, directors and shareholders are as follows:

Company Name	Jiangsu Dayang Wood Co., Ltd. 江苏大阳木业有限公司
Registration No.	321300000010898
Registered Address	No. 322 Fumin Avenue, Economic Development Zone, Suqian City 宿迁经济开发区富民大道 322 号
Legal Representative	Chan Tak Yuen 陈德源
Registered Capital	RMB 80 million
Date Established	August 19, 2003
Period of Operation	55 years – (2003-08-19 to 2058-08-19)
Company Type	Limited Company (WOFE)
Registering Authority	Jiangsu Suqian AIC
Business Scope	Wood processing and engineering technology consultancy service; research, development, manufacture and sale of artificial boards.
Status	Active

115. Homix Limited is currently the sole shareholder of Jiangsu Dayang. After Sino-Forest acquired Homix, the key executives of Jiangsu Dayang were as follows:

Name	Position	ID No.
Chan Tak Yuen 陈德源	Chairman of the board	E459151(1)
Li Mingchen 李明臣	General Manager	110108197204252319

Chen Hua 陈华	Director	320503196107311027
Zhao Weimao 赵伟茂	Director	110108195711182213
Wu Yongzheng 吴永争	Supervisor	452502197110098238

116. The following represents corporate changes to Jiangsu Dayang from 2003 forward:

Date	Status Change	Before Date	After Date
25-11-2003	Registered Capital	RMB 1 million	RMB 6 million
12-12-2003	Name	Suqian Dayang Wood Co., Ltd.	Jiangsu Dayang Wood Co., Ltd.
5-3-2004	Increase in Registered Capital	RMB 6 million	RMB 10 million
	Increase in Paid-in Capital	RMB 35.9 million	RMB 10 million
	Shareholders	Chen Hua 陈华 (RMB 1.8 million) Huang Qingliu (RMB 3.6 million) Xiong Xueping (RMB 0.6 million)	Chen Hua 陈华 (RMB 3 million) Huang Qingliu (RMB 6 million) Xiong Xueping (RMB 1 million)
21-07-2004	Directors	Chen Hua (Chairman of the board of directors) Xiong Xueping (Director/General Manager) Lin Xiaomei (Supervisor) Huang Qingliu (Director) Xiong Fangwen (Supervisor) Liao Changlu (Chairman of the board of supervisors)	Chen Hua (Chairman of the board of directors) Wang Huisheng (Director/General Manager) Wang Wei (Supervisor) Huang Qingliu (Director) Chen Liyun (Supervisor) Li Qiong (Supervisor)
	Shareholders	Chen Hua (RMB 3 million) Huang Qingliu (RMB 6 million) Xiong Xueping (RMB 1 million)	Chen Hua (RMB 3 million) Huang Qingliu (RMB 6 million) Wang Huisheng (RMB 0.5 million) Huang Zhigang (RMB 0.5 million)
16-11-2004	Legal	Chen Hua	Guo Qingquan

	Representative		
	Directors	Chen Hua (Chairman of the board of directors) Wang Huisheng (Director/General Manager) Wang Wei (Supervisor) Huang Qingliu (Director) Chen Liyun (Supervisor) Li Qiong (Supervisor)	Guo Qingquan (Chairman of the board of directors) Wang Huisheng (Director/General Manager) Huang Zhigang (Director/Deputy General Manager) Gao Meng (Director) Luo Guilian (Director) Wang Wei (Supervisor) Chen Liyun (Supervisor) Li Qiong (Supervisor)
	Shareholders	Chen Hua (RMB 3 million) Huang Qingliu (RMB 6 million) Wang Huisheng (RMB 0.5 million) Huang Zhigang (RMB 0.5 million)	Guo Qingquan (RMB 3 million) Luo Guilian (RMB 3 million) Gao Meng (RMB 3 million) Wang Huisheng (RMB 0.5 million) Huang Zhigang (RMB 0.5 million)
12-04-2006	Address	Economic Development Zone, Suqian City	No. 322 Fumin Avenue, Economic Development Zone, Suqian City
28-01-2008	Shareholders	Guo Qingquan (RMB 3 million) Luo Guilian (RMB 3 million) Gao Meng (RMB 3 million) Wang Huisheng (RMB 0.5 million) Huang Zhigang (RMB 0.5 million)	Guo Qingquan (RMB 3 million) Chen Hua (RMB 3 million) Gao Meng (RMB 3 million) Wang Huisheng (RMB 0.5 million) Huang Zhigang (RMB 0.5 million)
29-06-2010	Registered Capital	RMB 10 million	RMB 80 million
	Paid-in Capital	RMB 10 million	RMB 80 million
	Legal Representative	Huang Zhigang	Chan Tak Yuen
	Directors	Huang Zhigang (Chairman of the board/General Manager)	Chan Tak Yuen (Chairman of the board) Chen Hua/Zhao Weimao

		Liao Chunhe (Director) Cheng Lin (Director) Wang Huisheng (Supervisor)	(Director) Wu Yongzheng (Supervisor) Li Mingchen (General Manager)
	Shareholder	HOMIX LIMITED (RMB 10 million)	HOMIX LIMITED (RMB 80 million)

117. Thus, the AIC records reflect that Chen Hua was a shareholder of Jiangsu Dayang from August 19, 2003 to November 16, 2004 when she divested herself of her shares. On January 28, 2008, she again became a shareholder and there is no record that she has since disposed of her shares.

118. The AIC records further reflect that Chen Hua was a legal representative of Jiangsu Dayang from August 19, 2003 to November 16, 2004, and chairperson of the board of directors of Jiangsu Dayang for the same period.

Findings regarding disclosure of Homix as a related-party

119. As set out above, our investigation reveals that Chen Hua was a shareholder and legal representative of a Homix subsidiary at the time a Sino-Forest subsidiary acquired Homix. However, I have not identified any disclosure in the published material of Sino-Forest that reflects the previous involvement of Chen Hua with Jiangsu Dayang.

120. The Second Report states that the Independent Committee has evidence that Chen Hua did not hold a position in Jiangsu Dayang after January 28, 2008. However, the documents I have reviewed, as indicated above, indicate that Chen Hua continued to be a shareholder of Jiangsu Dayang after this date.

Records of Homix patents

121. An Intellect Consultancy agent, Chiu Kong Sang, has advised me and I believe that he has searched for any patents in the name of Jiangsu Dayang. A copy of the search is attached and marked as Exhibit "ZZ".

122. The PRC State Intellectual Property Office database records revealed that Jiangsu Dayang Wood Co., Ltd 江苏大阳木业有限公司 has two registered patents in the PRC as follows:

Application Date	Patent	Applicant No.	Inventor
2008-08-22	Wood dyeing method and equipment 木材染色的方法及其设备	200810142046.1	Che Binglei 车炳雷; Huang Xianshun 黄衍顺
2008-08-22	Wood dyeing equipment 木材染色的设备	200820146919.1	Che Binglei 车炳雷; Huang Xianshun 黄衍顺

123. As indicated earlier in this affidavit, Sino-Forest's 2009 Annual Report states that "Homix has developed environment-friendly technology, an efficient process using recomposed technology to convert small-diameter plantation logs into building materials and furniture". This description of Homix's patents is different than the patents identified in the chart above, which are described as patents for wood dyeing.

124. We have also reviewed the financial statements filed by Jiangsu Dayang for the 2009 period, immediately prior to the acquisition of Homix by Sino-Forest. Choy Suk Chung who is a Chinese accountant employed by Intellect Consultancy Ltd has examined the accounts and advised me of the following information:

Item	As at Dec. 31, 2009
Current Assets	RMB 17,353,803.26
Total Assets	RMB 45,711,989.57
Current Liabilities	RMB 47,995,288.18
Total Liabilities	RMB 47,995,288.18
Share Capital	RMB 10,000,000.00
Shareholder's Equity	RMB -2,283,298.61
Liabilities and Shareholder's Equity	RMB 45,711,989.57
Revenue	RMB 29,573,000.00
Tax	RMB 1,387,000.00
Net Profit	RMB -6,711,993.24

125. This shows negative shareholders equity and a negative net profit for Jiangsu Dayang in the year immediately preceding the acquisition of Homix Limited.

126. We also review the AIC records for Guangzhou Panyu Dacheng Wood Co., Ltd. ("Panyu Dacheng"). These records consist of 261 pages in Chinese. I asked Wong Kam Yee to review those 261 pages and instructed her to identify those pages that disclose information in relation to the incorporation, legal representatives, shareholders, directors, material changes and/or financial status of Panyu Dacheng. Copies of those Chinese documents with English translations prepared by Madam Wong Kam Yee are attached and marked as Exhibits "AAA" to Exhibit "OOO".
127. The AIC records show that Panyu Dacheng was established on July 21, 1998. It is a limited company with an issued registered capital of RMB 1 million. Chan Tak Yuen ("Allen Chan") is the legal representative.

Company Name	Guangzhou Panyu Dacheng Wood Co., Ltd. 广州市番禺大成木业有限公司
Registration No.	440126400000999
Registered Address	Zhi Village, Dashi Street, Panyu District, Guangzhou 广州市番禺区大石街植村
Legal Representative	Chan Tak Yuen 陈德源
Registered Capital	RMB 1 million
Date Established	21-July-1998
Period of Operation	20 years – (21-July-1998 to 21-July-2018)
Company Type	Limited Company (WOFE)
Registering Authority	Guangzhou Panyu AIC
Business Scope	Research, development and manufacture of artificial boards; sale of products manufactured on itself; wood processing and engineering technology consultancy service.
Status	Active

Shareholder

Name	Subscription (RMB)	Percentage %
HOMIX LIMITED 恒大控股有限公司	RMB 1 million	100%

Key Executives

Name	Position
Chan Tak Yuen 陈德源	Chairman of the board
Liao Chunhe 廖春和	Manager

Name	HOMIX LIMITED 恒大控股有限公司
Address	P.O. Box 3321, Drake Chambers, Road Town, Tortola, British Virgin Islands
Registration No.	1445474

Changes

Date	Change	Before Date	After Date
18-12-2000	Name	Panyu City Dacheng Wood Co., Ltd. 番禺市大成木业有限公司	Panyu Dacheng Wood Co., Ltd. 番禺大成木业有限公司
	Address	Zhi Village, Dashi Township, Panyu City 番禺市大石镇植村	Zhi Village, Dashi Township, Panyu District, Guangzhou 广州市番禺区大石镇植村
06-04-2006	Shareholders	Huang Yanshun 黄衍顺 (RMB 0.1 million) Cai Yingxin 蔡迎新 (RMB 0.9 million)	Huang Yanshun 黄衍顺 (RMB 0.1 million) Luo Guilian 罗贵连 (RMB 0.9 million)
25-06-2008	Address	Zhi Village, Dashi Township, Panyu District, Guangzhou 广州市番禺区大石镇植村	Zhi Village, Dashi Street, Panyu District, Guangzhou 广州市番禺区大石街植村
	Business Term	No Limit	1998-07-21 to 2018-07-21
11-11-2008	Shareholders	Huang Yanshun 黄衍顺 (RMB 0.1 million) Luo Guilian 罗贵连 (RMB 0.9 million)	Homix Limited 恒大控股有限公司 (RMB 1 million)
	Legal Representative	Huang Yanshun 黄衍顺	Huang Zhigang 黄志刚
	Directors	Huang Yanshun 黄衍顺 (Executive Director/Manager) Gao Xueling 高雪玲	Huang Zhigang 黄志刚 (Chairman of the board/Manager) Cheng Lin 成林/Liao

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		(Supervisor)	Chunhe 廖春和 (Director) Wang Huisheng 汪惠生 (Supervisor)
	Company Type	Limited	Limited (WOFE)
	Business Scope	Research, development, processing and sale of artificial boards, wood and wooden products; engineering technology consultancy service.	Research, development and manufacture of artificial boards; sale of products manufactured on itself; wood processing and engineering technology consultancy service.
	Registration No.	4401262000027	企独粤穗总字第304265号
30-07-2009	Directors	Huang Zhigang 黄志刚 (Chairman of the board/Manager) Cheng Lin 成林/Liao Chunhe 廖春和 (Director) Wang Huisheng 汪惠生 (Supervisor)	Huang Zhigang 黄志刚 (Chairman of the board/Manager) Chen Binghua 陈炳华 /Liao Chunhe 廖春和 (Director) Qian Kaipeng 钱开鹏 (Supervisor)
	Registration No.	企独粤穗总字第304265号	440126400000999
24-05-2010	Legal Representative	Huang Zhigang 黄志刚	Chan Tak Yuen 陈德源
	Directors	Huang Zhigang 黄志刚 (Chairman of the board/Manager) Chen Binghua 陈炳华 /Liao Chunhe 廖春和 (Director) Qian Kaipeng 钱开鹏 (Supervisor)	Chan Tak Yuen 陈德源 (Chairman of the board) Chen Hua 陈华/Zhao Weimao 赵伟茂 (Director) Wu Yongzheng 吴永争 (Supervisor)
29-09-2010	Manager	Huang Zhigang 黄志刚	Liao Chunhe 廖春和

128. We have also reviewed Panyu Dacheng financial statements for the 2009 period, immediately prior to the acquisition of Homix by Sino-Forest. Choy Suk Chung has examined the accounts and advised me of the following information:

Item	As at Dec. 31, 2009
Current Assets	RMB 14,875,830.19

Non Current Assets	RMB 10,318,615.01
Total Assets	RMB 25,194,445.20
Current Liabilities	RMB 10,979,346.19
Non Current Liabilities	RMB 13,323,155.88
Total Liabilities	RMB 24,302,502.07
Share Capitals	RMB 1,000,000.00
Shareholder's Equities	RMB 891,943.13
Liabilities and Shareholder's Equities	RMB 25,194,445.20
Revenue	RMB 20,612,728.43
Net Profit	RMB 197,755.43

129. I am advised by Chiu Kong Sang of Intellect Consultancy, and I believe, that he conducted a search of the PRC State Intellectual Property Office database records. These reflect that Guangzhou Panyu Dacheng Wood Co., Ltd 广州市番禺大成木业有限公司 has not registered any patent designs in the PRC.

(e) The Possession of Maps in Mainland China by foreigners or foreign commercial organisations

130. The Final Report of the Independent Committee of the Board of Directors of Sino- Forest Corporation, dated January 31, 2012 states:

The Second Interim Report discussed the absence of maps in documentation for BVI timber purchase transactions. In response to these concerns, Management provided information regarding various issues regarding the due diligence conducted prior to entering into a BVI timber purchase contract, including maps which in the case of timber purchases were provided through forestry bureaus.

Management also provided copies of news articles regarding foreigners being subject to criminal sanctions in China for possessing maps and other geographical information that were deemed to be classified as state secrets. The IC has reviewed these responses from Management and was unable to verify all of Management's assertions regarding forestry maps or that forestry mapping information would be regarded as subject to such sanctions but recognizes that this is an area of the law in China where a conservative approach may be prudent.

In mid December 2011, Management provided a document entitled "Detailed Description of Locating Forestry Resources in China" which explains how the locations of BVI standing timber assets are determined. This document has been provided to the Board. It indicates that although certain types of stand maps and these land descriptions are available as part of PRCs, maps are not

readily available for continuing possession by persons trading in standing timber without a lease as is the case of the transactions by SF's BVI model.

Management indicates that such maps usually can be borrowed from forestry bureaus (but not retained) and are used by the survey companies as part of the Company's due diligence. Management believes the ability of a foreign company to retain such maps is unclear and has adopted a cautious approach to this issue. The advice received by the IC from independent forestry experts is that this practice is not inconsistent with the practice of other parties in China who buy and sell standing timber without leasing the underlying land.

131. From my own personal knowledge of working in China as the head of the anti-smuggling task force prior to 1997, and whilst the Assistant Commissioner of Police handling Hong Kong and Mainland China border issues, and more recently in my position as Executive Director of Security and Legal Services with the Hong Kong Jockey Club, I have experience of and exposure to the Mainland Chinese position on the public possession of and use of area maps of China.

132. From my experience, the official position of the Mainland Chinese Government and application within the Provinces has changed considerably from since 2000. Following the directive of Deng Xiao Peng regarding the opening up of China to foreign trade, there are now far fewer restrictions on the possession and use of maps. On my first visit to China in the early 1990's it was difficult to obtain any accurate provincial level maps. However, since that time, China has advanced to the stage where it now produces its own maps for Mainland China manufactured Global Positioning Systems ("GPS"), which are freely available for purchase by the general public. Furthermore, most new high end vehicles produced and sold in China are now equipped with a built-in GPS, utilising accurate maps and latitude and longitude location identification.

133. In addition, visitors to China are widely encouraged to use city maps on hand held GPS. Furthermore, China is covered by 'Google' (internet search engine) satellite photographs and map overlays to which access is not restricted in Mainland China.

134. As the executive director of security and corporate legal services at the Hong Kong Jockey Club, I was involved in the land site selection and acquisition for a new thoroughbred horse

training facility in a rural area of Guangdong Province. This is the southernmost province of China bordering Hong Kong. Detailed land maps including property ownership boundaries and satellite imaging were freely available at the various sites which were examined.

135. The only exception is that possession of a detailed map of a military installation could carry the risk of arrest and enquiry by the Public Security Bureau. However, I believe that this would also be a matter for investigation in countries other than the PRC.

136. Based on my experience, given that Sino-Forest and its subsidiaries are in an industry in which maps would be an integral part of their business, their business is legally recognised in China, and forestry title boundaries would have to be designated by means of maps, I find it implausible that Sino-Forest is unable to secure maps of the areas for which they claim to have legal title.

(f) Sonic Jita

137. At Pages 67 to 70 of the Second Report, under "RELATIONSHIPS", the allegations of Muddy Waters in relation to Yuda Wood and Sonic Jita are discussed extensively.

138. In its investigation, the Independent Committee set out the following information:

(d) Statutory Declarations

The issues of SF's relationship with Yuda Wood were still being examined by the IC Advisors in the middle of August, 2011, at a time when the Company's quarterly report for the period ending June 30, 2011 ("Q2s") were being prepared.

To address certain issues relating to Yuda Wood pending completion of the IC's review, statutory declarations were obtained by the IC and the Audit Committee from the following members of Management at the IC's request:

- Allen Chan;
- Albert Ip; and
- Chen Jun.

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The declarations were prepared with assistance from the Company's counsel and

were sworn on August 15, 2011.

In his statutory declaration, Allen Chan declared that:

(i) he did not hold a direct or indirect or beneficial shareholding interest in Yuda Wood, Beijing Sonic Jita or Hong Kong Sonic Jita or their affiliates, and was not involved in their operations and that he did not have other personal arrangements with or entitlements from these entities; and (ii) to his knowledge, no officer, director or employee of SF held a direct or indirect or beneficial shareholding interest in Yuda Wood, Beijing Sonic Jita or Hong Kong Sonic Jita or their affiliates or was involved in their operations, and that to his knowledge, no other officer, director or employee of SF had any other personal arrangements with or entitlements from these entities.

In his statutory declaration, Albert Ip:

(i) denied having ever been an executive of Hong Kong Sonic Jita, held himself out to be a representative of Hong Kong Sonic Jita or entered into a contract in 2005 with Hong Jiang City, Hunan Province, on behalf of Hong Kong Sonic Jita; and

(ii) further declared that Zhan Xiaokun and Chen Jun did not become employees of SF until after resigning as directors from, and selling their shares in, Hong Kong Sonic Jita.

However, searches at Hong Kong's Companies Registry in August 2011 indicated that Chen Jun remained a director and shareholder of Hong Kong Sonic Jita since joining SF in July 2010. In response to this finding, SF counsel arranged for Chen Jun to make a statutory declaration in which he declared that he had been only a nominee shareholder in Hong Kong Sonic Jita, and had submitted a letter to the other shareholder and director of Hong Kong Sonic Jita, Huang Ran, on June 26, 2010, tendering his resignation as director and asking to transfer his shares to Huang Ran. Huang Ran appears, from the documents exhibited to Chen Jun's statutory declaration, to have only filed documents implementing such requests with Hong Kong's Companies Registry and Stamp Duty office one year later, on June 10, 2011. Those documents were dated July 30, 2010, and included minutes of a shareholders' meeting allegedly held in Hong Kong on July 30, 2010, and attended by Chen Jun, at which his resignation as director and sale of his shares was approved. Chen Jun stated in his declaration that he did not attend any such meeting.

139. Searches have been conducted by Chiu Kong Sang of Intellect Consultancy Ltd for documents filed with the High Court Registry in Hong Kong and by Tse Siu Cheung, an

employee of Intellect Consultancy Ltd in relation to any litigation in which Sino-Forest or subsidiaries of Sino-Forest has been involved. Our searches indicate that litigation was commenced in Hong Kong in which Hua Dao Shipping (Far East) Ltd and BM Shipping Group SRL sued Sino-Wood Partners in High Court Action 5439 of 1998. Sonic Jita Engineering Company Limited was identified in the statement of claim as an associated company of Sino-Wood Partners Ltd. A copy of the writ has been obtained from the Court Registry, and is attached and marked as Exhibit "PPP".

140. Searches have been conducted by myself on-line through ICRI which is the official web site of the Registrar of Companies in Hong Kong. All of the statutory information filed by Sonic Jita Engineering Company Ltd has been downloaded for the period 2006 to the most recent return on 22nd August 2011. Copies of the documents are attached and marked Exhibit "QQQ". I have prepared a schedule of the information which has been filed with the Registrar of Companies as follows:

Company No.	435844
Company Name	Sonic Jita Engineering Ltd. (On the date of incorporation, the company name was Combine (Far East) Ltd. 永合(遠東)有限公司, the company changed to Sino-Fiber Partners Ltd. 嘉安纖維有限公司 on November 30, 1993, Vicondia Ltd. on September 7, 1995 and changed to the current name on August 1, 1997.)
Date of Incorporation	15-July-1993
Corporate Secretary	Panocean Secretarial Services Ltd. (CR No. 227964) 美信秘書服務有限公司 Room 1708, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Hong Kong
	Room 1708, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Hong Kong
	The total nominal value is HKD10,000. The authorized share capital is 10,000 shares which were issued, each with a nominal value of


	HKD1.00.
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141. According to the information we obtained from ICRIS, Chen Jun was appointed a director of Sonic Jita on February 2, 2007. The other director was Huang Run and the return was filed with the Registrar of Companies on February 2, 2007, the same date of the appointment. On that same date, Zhan Xiao Kun who was an existing shareholder transferred his 5,000 shares to Chen Jun, as evidenced by an annual return of directors and shareholders which was filed on July 25, 2007 with the Registrar of Companies.

142. Both Huang Run and Chen Jun are reflected as the two directors and shareholders of Sonic Jita until such time as a "Notification of Change of Secretary and Director (Appointment/Cessation)" was filed on June 10, 2011. This is after the date of the Muddy Waters Report in which specific allegations were made about the related party nature of Sonic Jita. The return purported to show that Chen Jun had in fact resigned as a director of Sonic Jita nearly one year earlier on July 30, 2010.


143. An annual return filed on August 22, 2011 purported to show that Chen Jun had transferred his 5,000 shares of Sonic Jita to Huang Run on July 30, 2010, more than one year after the return had been filed. There should be in existence bought and sold notes and instruments of transfer stamped to indicate that stamp duty was made within 2 days of the actual transaction which purported to be on July 30th 2010. The Inland Revenue Department of the Hong Kong Government has set out the rules governing the sale or transfer of stock in Hong Kong. I have attached a copy of such marked as Exhibit "RRR".

SWORN OR ~~AFFIRMED~~ before)
 me at the Special Administrative)
 Region of Hong Kong, in the)
 People's Republic of China, this 29th)
 day of February, 2012.)
)
)
)
)



 Notary Public

COLIN BERNARD COHEN
 Notary Public, Hong Kong SAR
 2303-7 Dominion Centre
 43-59 Queen's Road East
 Wanchai, Hong Kong



 Stephan Gowan Chandler

Trustees of the Labourers' Pension Fund of Central and Eastern Canada,
et al. and Sino-Forest Corporation, *et*

Plaintiffs

Defendants

**ONTARIO
SUPERIOR COURT OF JUSTICE**

Proceeding commenced at Toronto

Proceeding under the *Class Proceedings Act, 1992*

**AFFIDAVIT OF STEPHEN GOWAN CHANDLER
(Sworn February 29, 2012)**

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