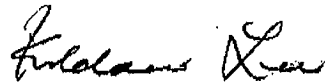


THIS IS EXHIBIT "O" TO  
THE AFFIDAVIT OF W. JUDSON MARTIN  
SWORN MARCH 30, 2012

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A Commissioner, etc.

  
LEE HONG KIU KILDARIA  
Solicitor, Hong Kong SAR

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

**August 10, 2011**

## PRIVILEGED AND CONFIDENTIAL

August 10, 2011

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

**Introduction**

The Independent Committee (the "IC") of the Board of Directors (the "Board") of Sino-Forest Corporation ("SF" or the "Company") was established by the Board on June 2, 2011, immediately following the release by Muddy Waters, LLC of its "research report" (the "MW Report") regarding SF. 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.

On June 8, 2011, the Ontario Securities Commission (the "OSC") announced it was investigating matters related to SF. On July 5, 2011, it announced it was conducting a targeted review of Ontario reporting issuers listed on Canadian stock exchanges and having significant business operations in emerging markets. The investigation of SF is a high priority file at the OSC. It has the attention of its new Chairman and a large investigative team has been assigned to the file, likely with external advisors.

The IC's activities to date have been focused on both the original task of examining and reviewing the allegations in the MW Report, interacting with Ernst & Young ("E&Y") and responding to the extensive requests for information from the OSC investigators. The MW Report allegations are both general and sweeping and at times specific; with many of the specific allegations being quite historic in nature. The purpose of this First Interim Report is to inform the Board of the nature and scope of the IC's activities to date and the planned next steps.<sup>1</sup>

**Independent Advisors**

In early June 2011, the IC appointed the following independent advisors to assist it:

- Osler, Hoskin & Harcourt LLP ("Osler") – Canadian Counsel
- Mallesons Stephen Jaques – Hong Kong Counsel
- Jun He Law Offices – PRC Counsel
- PricewaterhouseCoopers LLP ("PwC") – Forensic Accounting Advisors

**Scope of IC's Review**

The IC, having regard to the principal allegations in the MW Report relating to the legitimacy of SF's business, initially focused its independent review on:

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<sup>1</sup> All dollar numbers herein are in U.S. dollars and subject to rounding.

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- the ownership structure of forestry assets on the SF balance sheet
- the ownership of trees by SF in Yunnan Province, which is the geographic focus of the MW Report
- the existence and value of those trees
- the revenue recognition processes of SF
- the relationship of SF with its suppliers and customers in its BVI standing timber trading activities, particularly as they affect the items above

In addition, the IC set out to independently determine the facts relevant to the numerous specific allegations in the MW Report and to respond to questions and demands for information from the OSC. The IC process has also involved extensive interaction with E&Y, SF's auditors.

The initial focus of the IC's review of the MW Report has been on the allegations that affect the current state of the Company and its recent financial and other disclosure.

A comprehensive work plan was developed by the IC advisors and approved by the IC. This is an evolving document currently approximately 75 pages in length.

### **Business Model and Legal Regime**

To be able to respond to the MW Report and the questions of the OSC, it is essential to have a clear and detailed understanding of SF's business model and the Chinese legal regime in which it operates. The following is an overview summary of the business that the IC is utilizing to guide and focus its review and examination.

SF's business encompasses several business segments: (i) plantation fibre operations (sometimes also referred to as the tree plantation business), (ii) wood log and wood products trading operations (both import and domestic) and (iii) manufacturing and other operations.<sup>2</sup> SF also owns a majority interest in Greenheart Group Limited.

The plantation fibre operations use two principal business models, a "purchased plantation" model and a "planted plantation" model. The "purchased plantation" model operates through two legal structures: a BVI/AI legal structure and, to a lesser but growing extent, a PRC-incorporated Wholly Foreign Owned Enterprise ("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). Management has advised all fresh cash capital invested into the PRC since 2005 has been invested in WFOE structures.

SF discloses 711,000 hectares of purchased plantations under management in the PRC at December 31, 2010, with 466,826 hectares recorded as held by BVIs and 214,182 hectares recorded as held by WFOEs at December 31, 2010. SF discloses 77,700 hectares of planted plantation under management in the PRC at December 31, 2010.

<sup>2</sup> We note that segments (i) and (ii) have been grouped under the general description of "Wood Fibre Operations" in public disclosure.

The Company recorded \$1.401 billion in revenue from its plantation fibre operations in the year ended December 31, 2010 (out of a total revenue of \$1.923 billion), of which \$1.326 billion was generated through its purchased plantation model conducted through the BVI/AI legal structure. The Company recorded \$3.122 billion in timber holdings on its balance sheet, as at December 31, 2010, of which Management has advised \$2.464 billion was recorded as timber holdings by BVIs. The plantation fibre operations represented \$620 million of Income (as disclosed in the segment footnote of the 2010 financial statements) in the year ended December 31, 2010. Over 90% of such Income was generated through the BVI/AI legal structure. The total consolidated Income of SF for 2010 was \$576 million. (Income is income (loss) from continuing operations before interest, other income, exchange losses and changes in fair market value of financial instruments.)

While significant revenues are derived from the wood log and wood products trading business segment (\$454 million in revenue in 2010, with approximately 98% of that being derived from the imported wood log and products trading portion of that business), this segment generated \$15.8 million of Income. It is a relatively low profit margin business in comparison to the profit margins in the plantation fibre operations.

Manufacturing revenue represented \$67.3 million in the year ended December 31, 2010 with a loss of \$8.7 million (excluding the Greenheart consolidation).

Thus the core activity of trading in standing timber using the "purchased plantation" model, conducted through the BVI/AI legal structure, is a central driver of asset value, revenue and income for SF.

The purchased plantation model involves the purchase of standing timber and sale of standing timber (priced either as standing timber or as logs) pursuant to standardized agreements of purchase and sale. When conducted through the BVI/AI legal structure the timber purchases are arranged through suppliers/aggregators, usually but not always under the framework of a master agreement. The BVI sales are conducted through entities referred to by SF as "authorized intermediaries" ("AIs"). The BVI structure does not involve the BVIs concurrently purchasing land use rights or leases with the purchase of standing timber. However, the BVI supply contracts usually contain certain rights for a WFOE subsidiary to negotiate such land use/lease rights (referred to as "plantation land use rights").

The planted plantation model involves the planting of seedlings on land for which SF has plantation land use rights through leases or other similar legal instruments. Management advises that sales from these planted plantation transactions do not utilize "AIs", but rather involve direct cash sales to customers.

The BVIs do not directly sell standing timber to customers; they sell under contract to an AI who may resell to others. The BVI timber sales accounts receivables are settled by the AI making payments to SF suppliers on behalf of SF. These payments enable SF BVIs to acquire further standing timber from such suppliers. As SF publicly discloses no cash flows directly through the BVIs, the BVI/AI legal structure is accordingly more complex from an accounting verification and legal structure point of view than the WFOE structure. The BVI held assets have continued to grow as proceeds have been re-invested to acquire further BVI held assets in the PRC.

Most of the IC's time and attention has been spent on gathering and analyzing information relating to the plantation fibre operations and in particular the purchased plantation model operated through the BVI/AI structure and this work is ongoing.

### Cash

Earlier in the process, 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 the PRC and the logistics and requirements of in person/in branch verification in that country led the IC to confirm only a portion of the PRC accounts (28 accounts, representing approximately 81% of the expected PRC cash position). The IC was satisfied that SF's expected cash position existed as at the date of the confirmation. PwC's brief reporting note in this regard is attached as Schedule A. 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. The IC expects that the Audit Committee will report to the Board on sources and uses of cash during Q2 in the context of its report of its review of the Q2 financial statements and management's discussion and analysis.

### Fact Gathering

To date, much of the IC's work has been, and continues to be, capturing, assembling and organizing in useable, searchable form, massive amounts of data from the Company's records including:

- corporate particulars for all the SF subsidiaries (approximately 146 entities) and corporate searches of AIs and other third party entities (conducting corporate searches which in the PRC is a time consuming exercise as among other things minor differences in symbols can confuse name searches and the results of corporate searches);
- capturing electronic data (accounting data, emails and user files in Word, Excel and PDF) from the Company servers, backup tapes and user computers and personal devices of over 120 SF personnel (over 17 terabytes of data);
- approximately 452 BVI timber purchase or supply contracts for the last five years;
- approximately 1,695 timber purchase and lease contracts for the Company's Sino-Wood group of WFOE subsidiaries (the overwhelming majority of these contracts are where there is just one contract for the purchase of standing timber and lease of the land underneath that timber);
- 254 timber purchase contracts and 301 lease contracts for the Company's Sino-Panel group of WFOE subsidiaries;

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- approximately 1,196 plantation rights certificates for the Sino-Wood group of WFOEs (including Mandra) have been collected and inventoried (these can cover multiple properties);
- approximately 383 plantation rights certificates for Sino-Panel WFOEs have been collected and inventoried (of these, 92 are held in the names of WFOEs and 291 are held in the names of suppliers);
- approximately 196 original forestry bureau ("FB") confirmations for BVI timber purchase transactions, 44 confirmations for WFOE timber purchase transactions and 60 confirmations for WFOE land lease transactions have been gathered. (Confirmations can cover multiple properties.);
- approximately 580 sales contracts for BVI timber sale transactions;
- 1,530 sample sale agreements for a range of activities in the Sino-Wood group of WFOEs (primarily from wood log sales and manufacturing operations);
- 56 sample sales contracts for a range of activities in the Sino-Panel group of WFOEs;
- BVI set-off documentation;
- nine master supply agreements for the purchase of standing timber;
- identities, corporate particulars and coordinates of AIs and suppliers/aggregators;
- valuation reports;
- legal advice obtained by SF; and
- certain information about the other businesses segments.

The Company has a very complex corporate subsidiary structure which operationally is organized into three main legal structure streams – the group of "operating" BVI companies in the purchased plantations business; the Sino-Panel group of WFOE companies which the IC understands holds planted plantations, purchased plantations, engages in wood log trading (involves one BVI trading company) and has some manufacturing operations; and the Sino-Wood WFOE group of companies which the IC understands holds the plantations acquired in the Mandra transaction, planted plantations, engages in wood log trading and has manufacturing operations.

The decentralized structure of the Company, including the absence of a central server in the PRC, has made the data collection exercise extraordinarily time consuming and difficult. The decentralized record keeping, the large number of offices and the apparent absence of any formal SF documentation retention protocol has required significant effort to ensure the completeness of the data received. In addition, the practice of SF personnel storing data on both their SF and personal computers has required an additional amount of work in processing electronic data.

Much of the SF and other information is, of course, in Chinese and the IC is entirely reliant on Mandarin and Cantonese speakers from among the IC advisors for appropriate translations. In this regard, it should be noted that minor translation differences can give rise to significant confusion among entities, especially third party companies, and there is evidence of such confusion in the MW Report and other public reporting.

### **Management Response**

Senior Management was initially briefly interviewed and denied the allegations in the MW Report.

Management has subsequently provided a preliminary draft response to the MW Report which confirmed in writing their denial of the allegations, and included responses to certain specific allegations. This has been followed up with limited documentation to support their explanations. The IC is seeking to independently verify their explanations with Company documentation and other sources as part of the overall review.

In addition to the fact gathering exercise described above, certain members of Management have been interviewed in respect of specific areas or issues and they and others will be further interviewed to answer questions and otherwise assist the review team as it conducts its examination process through the electronic data, FB visits and AI/supplier interviews.

### **Revenue Mapping**

The OSC requested that the relevant BVI purchase and sale contracts be “mapped” or tied back to SF’s reported 2010 revenue. PwC and Management completed this project and were able to tie back all the BVI contracts as requested, together with macro customer level data from the other businesses, to the Company’s total 2010 revenue. The resulting model is very detailed and can be used to analyze numerous performance metrics. The revenue mapping documents were delivered to the OSC on August 10, 2011 pursuant to the summons referred to under “Current Activities/Next Steps – OSC Investigation” below.

### **Relationship Mapping**

During the course of the IC advisors’ work, as the identities of third parties and individuals related to them become known, the IC advisors are seeking to identify any documented evidence of linkages between Management and staff of SF and those third parties. This is an ongoing process. Information gained from this exercise may impact other aspects of the examination and vice versa. It would be premature to report or to draw any conclusions on this area until the examination is further advanced.

Directorship searches have been conducted in Hong Kong for key members of SF Management and certain other persons and to date no conflicts have been found. Additional searches are being done on other individuals. Corporate searches have also been initiated on a large number of AIs and entities relating to AIs, suppliers/aggregators and associated entities, which list is growing as results are analyzed, contracts reviewed, name changes identified and electronic information reviewed. The search process in the PRC is arduous, decentralized and thus considerably more time consuming than in a North American jurisdiction. As a result, the search and review is



ongoing. Corporate searches on all SF's Hong Kong, PRC and BVI subsidiaries have been conducted and received, and are being cross checked.

### Current Activities/Next Steps

#### (a) FB Visits

For the last several weeks the IC advisors, accompanied by Management, have been conducting visits to various FB offices in Yunnan Province seeking confirmations from the FB officials in such offices as to SF's holdings in their respective jurisdictions. These confirmations, while not essential to establishing ownership of the timber, would constitute independent confirmatory evidence of SF's contractual rights. Yunnan was selected because of the large hectarage disclosed by SF in that province and because it was the focus of the MW Report on the issue of timber ownership. There is no system of registration for the holding or trading of standing timber maintained by the FBs visited to date. The IC's advisors understand, based on information obtained from the FBs, that each has a system for registration of plantation land use rights which is available when SF enters leases or land use agreements as in the case of transactions involving planted plantations held through WFOEs and certain of the timber supply arrangements using WFOEs where plantation land use rights are purchased concurrently with the timber supply.

Because each BVI typically purchases its rights to standing timber through contracts without concurrently purchasing plantation land use rights, the verification of SF's rights to such timber under the applicable forestry legal regime is more challenging than in the case of WFOE holdings involving plantation land use rights.

The FB process has been far more time consuming than originally anticipated for a number of reasons including:

- the confirmations being sought are not a standard official document customarily issued by an FB; that is, responding to the SF request is not a routine established process for the FB;
- the FB offices in Yunnan are in remote locations and visiting them involves very challenging and time consuming travel;
- the high public profile of the matter appears to have resulted in an initial reluctance of FB officials to become involved and a high degree of caution as to providing the cooperation requested;
- from the Company's perspective there are a very limited number of people with the relationships necessary to assist with the process of gaining access to FB officials and obtaining confirmations from them;
- time has been lost due to FB office closures in connection with local holidays, officials travelling, etc.; and

- when FBs are visited, they do not provide confirmations on the day of the visit, and follow-up visits may be required, if the FB will provide a confirmation.

The IC has also embarked on a secondary process to determine if it is possible to follow a contractual chain of title for standing timber purchased by the BVIs through the suppliers/aggregators. This is expected to be a time consuming process and success will depend on completeness of Company records and/or supplier cooperation. Further visits to review plantation rights certificates of the underlying assets at various FBs are also likely required. Initial searches, at least in the case of the BVI transactions, indicated that SF does not retain copies of underlying evidence of title or chain of title from suppliers/aggregators, although review of such documents is a required part of internal Company purchase protocol.

(b) AIs (Customers)/Aggregators (Suppliers) Interviews

It is proposed that a significant proportion of the Company's suppliers/aggregators and AIs will be interviewed by the IC's advisors with a view to understanding the relationships and verifying the financial transactions between SF with these entities, including the cost of the timber held on SF's balance sheet. The OSC has agreed to issue a summons pursuant to section 13 of the *Securities Act* (Ontario) (the "Act") for the purposes of compelling production of materials from the IC, including documents and information related to the third-party AIs and suppliers/aggregators. Such compelled production will give rise to certain confidentiality protections under the Act. In addition, OSC Staff has confirmed that, in the event of an eventual hearing, the IC and/or the Company could seek to invoke certain procedural confidentiality measures with a view to protecting the identities of the AIs and suppliers/aggregators. The process has been initiated and the Company is seeking to make the necessary arrangements.

(c) Valuations

Independent valuations are contemplated by the work plan if necessary. The extent and scope of any valuations to be conducted will be determined after the FB process and AI/supplier/aggregator interviews have been conducted.

(d) Electronic Data Searches

As noted above, a significant volume of electronic data has been secured and processed from key custodians. To date, approximately six terabytes of data (of the total 17 terabytes noted above) from 23 high priority custodians resulting in a total of in excess of approximately 845,000 unique e-mails and user files have been processed into an electronic review environment to facilitate systematic and orderly review. Numerous focused searches were initially done as a priority at the request of E&Y which resulted in approximately 11,000 responsive documents for review. PwC has since turned its attention to broader additional searches designed to address the specific allegations and issues in relation to areas of interest to it. The data is voluminous and the review teams have to date identified in excess of 138,000 documents for review and are currently working through them. As the work progresses it can be expected that the scope of the electronic review will expand to support the work and to follow up on items of interest identified in the initial review.

(e) OSC Investigation

The IC and the Company have very little insight into the OSC's investigation. The OSC has made and continues to make extensive requests for information and requires the IC's counsel, Osler, to meet with it once a week. It can be expected that the OSC will subpoena individuals to compelled interviews at which oral evidence will be given under oath. It is apparent that the OSC will not restrict itself to the specific allegations in the MW Report. This has been and continues to be a very time consuming process which has impacted the speed of the IC's examination. On August 10, 2011, at Osler's request, the OSC issued a summons pursuant to which the OSC compelled production of the 2010 SF revenue mapping spreadsheet prepared by PwC for the IC. As compelled evidence, such information will enjoy certain confidentiality protections provided under securities legislation. In addition, OSC Staff has confirmed its understanding that any disclosure of privileged information by the IC to the OSC (including any "work product" of the IC arising out of the review process) is not intended to constitute a complete waiver of the underlying privilege.

(f) Evidence Briefs

As a subsidiary element of the overall work plan, PwC has detailed plans to develop focused working briefs on eight topics: AI #16; Yuda Wood; (redacted) FB Joint Venture; Survey Company #1; AIs (overall approach and then a subset of individual and groups of AIs); suppliers; FBs; and BVI transactions (especially in relation to documentation needed or present in support of transactions). These briefs will serve to amalgamate the sources of information on these topics which range in their breadth.

E&Y

The IC and its advisors are working closely with E&Y, keeping them informed of the progress of the review process and addressing questions of particular interest to them in relation to the scope, completeness and findings of the review. As noted above, certain searches were conducted in areas of interest to E&Y and the results provided to it.

For its part, E&Y has been helpful in providing background information to PwC and the other advisors. Efforts on the part of the IC and its advisors directed to addressing E&Y questions have taken considerable effort. While many of the issues raised are ones which the IC was considering, the relative priorities are not always the same. As with the requests from the OSC, the IC and its advisors recognize E&Y's legitimate need for information and have worked to balance the various priorities while keeping E&Y fully advised of the progress of its work.

Findings

While the IC has not determined that there is any validity to any of the material allegations in the MW Report, and there are clear errors in certain specific allegations, it is premature for the IC to comment on its findings beyond the limited comments set out above. The review process is ongoing in respect of most of the matters. Furthermore, the material issues are closely interrelated and accordingly, until all the major aspects of the review process are complete, any public statement as to the IC's findings may be misleading or inaccurate.

**Timing**

The IC does not expect to complete its review within the originally announced timeframe of two to three months. It is difficult to estimate how much longer the IC process will take because many of the variables (e.g., OSC, FB visits, AI/supplier/aggregator interviews) are not within our control. However, the IC believes it would be prudent to announce that it will be another six to eight weeks before the IC expects to be in a position to produce its next interim report to the Board. The completion of the entire IC process is very likely to take longer than that time frame but the IC currently believes it can be concluded prior to the Company's year end.

SCHEDULE A  
PRICEWATERHOUSECOOPERS REPORT MEMORANDUM ON CASH  
CONFIRMATIONS

From: /CA/FAS/PwC  
To: @osler.com>@INTL  
Cc: /CA/FAS/PwC@Americas-CA, /HK/CFR/PwC@Asia,  
SF-OslerTeam <SF-OslerTeam@osler.com>  
Date: 07/27/2011 10:25 AM  
Subject: Cash confirmation status for your meeting with OSC

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Attached is the information requested on cash status - let me know if there are any questions.

#### HK Confirmations

- \$585M confirmed in 293 accounts through 87 confirmations as at June 13, 2011 (\$558M excl. 2 offshore PRC confirm).
- Confirmed loans of \$47 million.
- All confirmations received but 2 HK-controlled accounts in Shanghai were not confirmed in accordance with our standard PRC bank confirmation process. These were offshore accounts and the banks would not allow them to be confirmed through their onshore procedures. The value of these 2 accounts was \$27M.
- Expected balance of \$585M in 293 accounts covered by 87 confirmations.
- Coverage of 100%.

#### PRC Confirmations

- As at June 13, balances confirmed \$229M (\$227M excluding 1 remote PRC confirm - see below).
- Based on total \$282M balances in all PRC accounts reported by the client on June 13, confirmations covered 81% of the reported balances.
- 28 accounts out of 273 total accounts selected for confirmation. 28 confirmations received.
- 1 confirmation of an account in Guangzhou related to a Yunnan subsidiary. Since no company representative was present, the bank needed additional authorizations and the confirmation took more than 1 day. As such, it was not confirmed in front of PwC as per our standard PRC bank confirmation procedures. The value of this account was \$2M.

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PwC |

Email: @ca.pwc.com  
Assistant:  
PricewaterhouseCoopers LLP  
Royal Trust Tower, TD Centre, Suite 3000, Toronto ON M5K 1G8  
<http://www.pwc.com/ca>