

**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**

**MOTION RECORD**

(Motion Returnable July 16, 2012)

July 10, 2012

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**Lawyers for an Ad Hoc Committee of  
Purchasers of the Applicant's Securities,  
including the Representative Plaintiffs in  
the Ontario Class Action and the Quebec  
Class Action against the Applicant**

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# TAB 1

**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**

**NOTICE OF MOTION**

**TAKE NOTICE** that the Ad Hoc Committee of Purchasers of the Applicant's Securities, including the plaintiffs in the action commenced against Sino-Forest Corporation ("SFC" or the "Applicant") in the Ontario Superior Court of Justice, bearing (Toronto) Court File No. CV-11-431153-00CP (the "Ontario Plaintiffs" and the "Ontario Class Action", respectively) and the plaintiff in the action commenced against the Applicant in the Quebec Superior Court bearing Court File No. 200-06-000132-111 (the "Quebec Plaintiff" and the "Quebec Class Action", respectively) (together, the "Class Action Plaintiffs"), will make a motion to a Judge of the Commercial List on July 16, 2012, at 10:00 a.m., 330 University Avenue, 8<sup>th</sup> Floor, Toronto, Ontario, or at such other time and place as the Court may direct.

**PROPOSED METHOD OF HEARING:** The motion is to be heard orally.

**THE MOTION IS FOR:**

1. An order, if necessary, abridging the time for service and filing of this notice of motion and the related motion record, validating the manner of service and dispensing with any further service thereof;
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2. An order compelling the Applicant and Monitor to provide to the Class Action Plaintiffs and other material stakeholders in this proceeding who have executed a confidentiality agreement in the form appended hereto as Schedule "A", or in such other form as may be directed by this Court (the "Participating Stakeholders"), the following documents (hereinafter as defined in rule 30.01(1) of the Ontario *Rules of Civil Procedure* ("Documents")), by no later than July 20, 2012:

(a) Documents in the Applicant's possession, control or power, provided to potential bidders as part of SFC's marketing process;

(b) Documents in the Applicant's possession, control or power, received as part of the letters of intent/bids to purchase SFC's assets, and any related analysis;

(c) the claims register in this case; and

(d) copies of any proofs of claim or D&O proofs of claim filed against SFC or the directors or officers.

3. An order directing the Monitor to create a dataroom accessible to the Participating Stakeholders forthwith, to which the following Documents shall be added, together with such other Documents or information as Participating Stakeholders may agree or as this Court may direct,

(a) the Documents outlined at paragraph 2 (a) through (d) above;

- (b) any Documents provided by the Applicant to the representatives of the Ad Hoc Committee of Noteholders pursuant to the waiver agreements entered into between SFC and holders of the 10.25% Guaranteed Senior Notes Due 2014 and the 6.25% Guaranteed Senior Notes due 2017 in January 2012;
  - (c) any Documents provided by the Applicant to the representatives of the relevant noteholders (the "Consenting Noteholders") as contemplated in section 5(h) of the Restructuring Support Agreement dated March 31, 2012 (the "RSA");
  - (d) any budgets prepared under section 5(j) of the RSA;
  - (e) any Documents placed in the data room referenced in the RSA and defined in Schedule "B" of the RSA, namely the virtual data room maintained by the Applicant through the facilities of Merrill Corporation, as the same may be supplemented after the agreement date;
  - (f) any Documents provided to the Consenting Noteholders pursuant to the terms of the RSA;
  - (g) Documents relevant to determining the assets and contractual liabilities of each of the Applicant's subsidiaries that are in the possession, control or power of the Applicant, including:
    - (i) unconsolidated financial statements (whether audited or unaudited) for each of the Applicant's subsidiaries for each
-

- of 2006, 2007, 2008, 2009, 2010, 2011, and for any interim period ending on a date after December 31, 2010;
- (ii) all Documents related to the Applicant's outstanding notes, including without limitation:
1. indentures;
  2. guarantees; and,
  3. pledges or other security agreements of any kind or form;
- (h) copies of all indemnities given to either the Applicant's auditors or to any of the underwriters in any of the Applicant's public or non-public share or note offerings;
- (i) un-redacted copies of the IC's reports and of any schedules thereto, and un-redacted copies of all documents related to or forming the basis for the IC reports, including any English translations thereof;
- (j) Documents in the possession, control or power of the Applicant pertaining to the audits of the Applicant's financial statements, including correspondence and working papers;
- (k) Documents in the possession, control or power of the Applicant relevant to any of the Applicant's public or non-public share or note offerings, including correspondence and working papers;
- (l) un-redacted copies of all enforcement notices issued by the OSC to the Applicant or to any of its current or former officers or directors;
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(m) un-redacted copies of all correspondence between the Applicant and its insurers and/or its current and former directors or officers in respect of the claims asserted in the Ontario Class Action or the Quebec Class Action; and

(n) copies of all insurance policies in respect of the Applicant, its subsidiaries and their current and former directors and officers, responding or that might respond to the claims made in the Ontario Class Action or the Quebec Class Action.

4. Such further and other relief as this Honourable Court deems just.

**THE GROUNDS FOR THE MOTION ARE:**

1. The stated purpose of these proceedings is to preserve and obtain value for the Applicant's stakeholders;
  2. As a result of these proceedings, the Ontario Class Action and the Quebec Class Action have been stayed;
  3. On June 28, 2012, the Phase I bid deadline for the Applicant elapsed;
  4. No mediation has been scheduled and if one occurs it will not be before September 2012;
  5. Although the form, content and scope of any plan of compromise or arrangement remains uncertain, the Applicant has stated an intention to hold a meeting of
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creditors to consider a plan of compromise or arrangement as early as August, 2012.

6. To date, neither the Applicant nor the Monitor has made the Applicant's marketing materials, bids received by the Applicant (if any) or other information pertinent to these proceedings available to stakeholders for their review;
  7. There is an information asymmetry between the stakeholders in that the Ad Hoc Noteholders have access to information that is not available to the Class Action Plaintiffs regarding the affairs of the Applicant and its sales process, and information relevant to the class actions is being withheld from the Class Action Plaintiffs;
  8. The relief sought is necessary and appropriate to permit material stakeholders to evaluate restructuring options, show leadership in proposing alternative restructuring options, and, if necessary, respond to litigation;
  9. Timely, full and plain disclosure of information to material stakeholders is necessary to facilitate the attainment of the objectives of these proceedings, and to ensure accountability in the unique circumstances of this case;
  10. Sections 11 and 23 of the *Companies' Creditors Arrangement Act*;
  11. Rules 3.02, 16.08, 30.01 and 37 of the *Rules of Civil Procedure*; and
  12. Such further grounds as counsel may advise and this Honourable Court may consider.
-

**THE FOLLOWING DOCUMENTARY EVIDENCE** will be used on the hearing of the motion:

1. the affidavit of Daniel Bach sworn July 11, 2012;
2. the affidavit of Daniel E. H. Bach, sworn April 11, 2012;
3. the pleadings and proceedings herein;
4. such further or other material as counsel may advise and this Honourable Court permit.

July 10, 2012

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**Lawyers for an Ad Hoc Committee of  
Purchasers of the Applicant's Securities,  
including the Representative Plaintiffs in the  
Ontario Class Action and the Quebec Class  
Action against the Applicant**

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**TO: THE ATTACHED SERVICE LIST**

830909\_3.DOC

## SCHEDULE "A" CONFIDENTIALITY AGREEMENT

**THIS AGREEMENT** is made as of July 16, 2012, by the undersigned (the "**Recipient**") for the benefit of **SINO-FOREST CORPORATION** ("**Sino-Forest**") and other stakeholders providing non-public information in furtherance of Sino-Forest's restructuring efforts (the "**Stakeholders**"). The Recipient agrees as follows:

1. **Background.** Sino-Forest and Stakeholders are exploring one or more possible restructuring transactions in connection with proceedings under the *Companies' Creditors Arrangement Act* (Canada), as well as opportunities for the settlement of claims against Sino-Forest's current and former directors and officers, auditors and underwriters (collectively, the "**Purpose**"). In connection with the Purpose, Sino-Forest, FTI Consulting Canada Inc., in its capacity as the court-appointed monitor of Sino-Forest (the "**Monitor**"), Stakeholders or their respective Representatives (respectively, an "**Originator**") may make Confidential Information available to the Recipient or their Representatives. All disclosures of Confidential Information under this Agreement are voluntary, and nothing in this Agreement is intended to require an Originator to disclose any Confidential Information to the Recipient. The exchange of Confidential Information under this Agreement does not imply any obligation to enter into a business transaction.

2. **Definitions.**

2.1 "**Confidential Information**" means (1) the fact that an Originator is exploring any particular restructuring transactions, and any negotiations or discussions regarding possible restructuring transactions, and (2) written, oral, electronic, visual and other materials, documents, data and information relating to Sino-Forest or its subsidiaries or affiliates that is obtained by the Recipient or their Representatives from an Originator or their respective Representatives in reliance on this agreement. Confidential Information also includes notes, documents, and materials prepared by or for the Recipient that reflect, interpret, evaluate, include, or are derived from Confidential Information. Confidential Information does not include any of the foregoing that the Recipient can demonstrate (i) has entered the public domain through no action of the Recipient or its Representatives in violation of this Agreement, (ii) was in the Recipient's possession before being disclosed to the Recipient pursuant to this Agreement; (iii) is received by the Recipient from a third party not in breach of and not subject to an obligation of secrecy to the Originator, (iv) is produced in compliance with applicable law or a court order, provided that the Recipient first gives the Originator notice of such law or order and the opportunity to defend or attempt to limit such production in accordance with article 3.2 of this Agreement; or (v) was independently developed by the Recipient without reference to Confidential Information.

2.2 "**Representatives**" of an Originator or the Recipient mean, as applicable, its directors, officers, partners, employees, agents, representatives, legal counsel and advisors.

3. **Use of Confidential Information.**

3.1 The Recipient will use Confidential Information solely in furtherance of the Purpose and not for any other purpose whatsoever. The Recipient will keep Confidential Information strictly confidential and, except as authorized in this Agreement, will not disclose or distribute Confidential Information to any person or entity without the prior written consent of the

Originator. For greater certainty, the Recipient may, in furtherance of the Purpose, discuss Confidential Information with other persons who have entered into an agreement with Sino-Forest in the form of this agreement. The Recipient may disclose Confidential Information to those of the Recipient's Representatives who need to have the Confidential Information to participate in or contribute to the Purpose, so long as those Representatives are informed by the Recipient of the confidential nature of the information and have agreed to keep the information confidential, and then only to the extent necessary to their participation or contribution. The Recipient will be responsible for any breach of this Agreement by their Representatives.

**3.2** If the Recipient is required by law to disclose any Confidential Information not otherwise permitted to be disclosed in this Agreement, the Recipient will immediately notify the Originator (so long as it is legally permitted to do so) and will not interfere with efforts by the Originator to obtain a protective order or other appropriate remedy. In any event, the Recipient will disclose only that portion of the Confidential Information that is legally required and will use commercially reasonable efforts to assure that confidential treatment is accorded any Confidential Information disclosed.

**4. Return of Confidential Information.** Except as authorized in this Agreement, upon request by the Originator at any time, the Recipient will promptly either return or certify in writing that the Recipient has destroyed the original and all copies of tangible Confidential Information.

**5. Privileged Information.** The Recipient acknowledges that certain of the Confidential Information to which it or its Representatives may be given access pursuant to this Agreement is information to which solicitor-client privilege and/or litigation privilege ("**Privilege**") attaches (collectively, "**Privileged Information**"). Recipient acknowledges and agrees that access to the Privileged Information is being provided solely for the Purpose and that such access is not intended and should not be interpreted as a waiver of any Privilege in respect of Privileged Information or any right to assert or claim Privilege in respect of Privileged Information. To the extent there is any waiver of Privilege, it is intended to be a limited waiver in favour of the Recipient, solely for the purposes and on the terms set out in this Agreement. The Recipient shall, at the request and expense of the Originator, claim or assert, or cooperate to claim or assert, Privilege in respect of Privileged Information. Sino-Forest, the Monitor and the Stakeholders agree that the Recipient's Representatives shall not be disqualified from advising or representing the Recipient by virtue of having had access to Privileged Information.

**6. Privacy Legislation** The Recipient agrees that any collection, storage, retrieval, use and disclosure of any information as part of the Confidential Information, which information constitutes "personal information" for the purposes of any applicable privacy legislation and/or regulations shall be in accordance with applicable privacy law, including without limitation (and each as applicable in the circumstances,) the *Personal Information and Electronic Documents Act* (Canada).

**7. Miscellaneous.**

**7.1 No Rights Granted.** All Confidential Information will remain the property of the Originator and no license or other rights to that Confidential Information is granted to the Recipient under this Agreement.

7.2 No Warranties. All Confidential Information is provided "AS IS" and without any warranty or condition, express, implied, or otherwise, including but not limited to warranties or conditions regarding accuracy, completeness, merchantability, or fitness for a particular purpose.

7.3 Binding Effect. This Agreement is binding on the Recipient and its successors and assigns, and for the benefit of the Originator and their successors and assigns. This Agreement is the entire agreement related to its subject matter and supersedes all prior agreements or understandings related to its subject matter.

7.4 Assignment. The Recipient may not assign or transfer any rights or obligations under this Agreement without the prior written consent of the Originator, which consent may be granted or withheld by the Originator in its sole and absolute discretion.

7.5 Amendment. No amendment, supplement, or other modification to this Agreement, and no consent to, or waiver, discharge, or release of, any term or provision or breach of this Agreement, will be valid or effective unless the amendment, supplement, or other modification or the consent, waiver, discharge, or release is in writing, expressly refers to this Agreement, is signed by the Recipient, and accepted in writing by the Originator.

7.6 Remedies. The Recipient acknowledges that money damages resulting from a breach of this Agreement may be inadequate and impossible to measure accurately. Accordingly, the Originator will be entitled to obtain an injunction and other equitable relief for any breach of this Agreement, and the breaching party may not assert as a defense in any such action that an adequate remedy at law exists. An Originator may recover all costs and expenses, including reasonable legal fees, incurred by it in enforcing this Agreement.

7.7 Severability. If any term or provision of this Agreement is determined by any court of competent jurisdiction to be invalid, illegal, or unenforceable in whole or in part by reason of any applicable law or public policy, that term or provision will remain in full force and effect to the fullest extent permitted by law, and all other terms and provisions will remain in full force and effect in their entirety.

7.8 Governing Law. This Agreement will be governed by and interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. The Recipient has caused this Agreement to be executed and delivered by its authorized representative as of the date shown above.

\_\_\_\_\_  
(Recipient)

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_

June 7, 2012

Court File No. CV-12-9667-00-CL

**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**

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June 7, 2012

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**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**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)  
PROCEEDING COMMENCED AT TORONTO**

**NOTICE OF MOTION**

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# TAB 2

**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, co-counsel for 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"). Siskinds LLP (along with Koskie Minsky LLP and Paliare Roland Rosenberg Rothstein LLP) are counsel to an Ad Hoc Committee of Purchasers of Sino-Forest's Securities, including the Representative Plaintiffs in the Ontario and Quebec Class Actions against Sino-Forest (collectively, the "Class Action Plaintiffs"). The identity of our clients is set out in my prior affidavit of April 11, 2012.

2. I have knowledge of the matters to which I 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 Class Action Plaintiffs' motion for disclosure of relevant information to stakeholders.

### **The Lead-Up to These Proceedings**

4. As set out below, following the allegations in the Muddy Waters report on June 2, 2011, there was a swift and precipitous decline in Sino-Forest's reported financial position.

5. On June 14, 2011, Sino-Forest issued its Q1 2011 financial statements for the period ending March 31, 2011. It reported that Sino-Forest had current assets of US \$4.983 billion, including cash and cash equivalents of US \$1.055 billion. It reported current liabilities of US \$759 million. Attached as **Exhibit "A"** is a copy of Sino-Forest's Q1 2011 financial statements.

6. On August 15, 2011, Sino-Forest issued its Q2 2011 financial statements for the period ending June 3, 2011. It reported that Sino-Forest had current assets of US \$4.974 billion, including cash and cash equivalents of US \$862 million. It reported current liabilities of US \$737 million. Attached as **Exhibit "B"** is a copy of Sino-Forest's Q2 2011 financial statements.

7. On November 15, 2011, Sino-Forest announced that it was deferring the release of its Q3 2011 financial results. It also indicated that Sino-Forest had a cash balance of \$571.1 million as of November 4, 2011. Attached as **Exhibit "C"** is a copy of Sino-Forest's press release dated November 15, 2011.

8. On December 12, 2011, Sino-Forest announced that it would not be filing its Q3 2011 financial results on a timely basis and that the board of directors had determined not to make the US \$9.775 million interest payment for the 2016 convertible notes that was due on December 15, 2011. Sino-Forest's press release indicates that these omissions constituted a breach of certain covenants under its senior and convertible note indentures. Attached as **Exhibit "D"** is a copy of Sino-Forest's press release dated December 12, 2011.

9. To my knowledge, Sino-Forest has not explained why it determined not to make a payment of only US \$9.775 million when it had reported only a few weeks earlier that it had cash of \$571.1 million.

10. On December 18, 2011, Sino-Forest announced 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 notice references the company's failure to release its Q3 2011 financial results. Sino-Forest indicated in its press release that it did not expect to file the Q3 financial results and cure its default within the 30 day cure period. In addition, the press releases indicated that on December 16, 2011, the board of directors established a "Special Restructuring Committee of the Board". Attached as **Exhibit "E"** is a copy of Sino-Forest's press release dated December 18, 2011.

11. On January 12, 2012, Sino-Forest announced it had entered into waiver agreements with holders of the 10.25% Guaranteed Senior Notes due 2014 and 6.25% Guaranteed Senior Notes due 2017. Attached as **Exhibit "F"** is a copy of Sino-Forest's

press release dated January 12, 2012. Attached as Exhibits "G1" and "G2" are copies of the waiver agreements.

12. The waiver agreements effectively provided for substantial supervision of Sino-Forest by an ad hoc group of noteholders (the "Ad Hoc Noteholders"). They required Sino-Forest to pay a 1% fee in cash to the paying agent for each of the 2014 and 2017 notes as well as the fees of: (a) any advisors to the Ad Hoc Noteholders including financial advisors, (b) the fees and expenses of the trustees for the notes; and (c) the fees and expenses of counsel to the trustees. Based on the principal amount of these notes, the 1% cash fee alone would have equalled approximately \$10 million.

13. This 1% cash fee was on top of the fees of the various advisors and trustees and the roughly \$50 million spent by the purportedly independent committee of directors investigating the Muddy Waters allegations.

14. In addition, among other matters, the waiver agreements required Sino-Forest to provide a preliminary strategic plan to the Ad Hoc Noteholders on or before March 31, 2012 in a form acceptable to the Ad Hoc Noteholders and/or their advisors in their sole discretion. The plan had to include an outline for "the strategic plan for the Company, an indicative timeline for any sale process, capital or equity process and will address to the extent practicable such other steps that are necessary to maximize value in respect of the Company's assets held in the People's Republic of China."

15. Finally, the waiver agreements prohibited Sino-Forest or its subsidiaries from directly or indirectly declaring, making or paying "any dividend, charge, fee or other distribution ... to or with respect to any of the issued and outstanding shares", effectively

foreclosing settlement of the class actions against Sino-Forest on behalf of shareholders.

16. Subsequently, on March 30, 2012, the Applicant and the Ad Hoc Noteholders entered into the Restructuring Support Agreement (the "RSA"). Attached as **Exhibit "H"** is a copy of the RSA.

17. The RSA provides the terms for a plan of compromise or arrangement of Sino-Forest in the context of the proceeding under the *Companies' Creditors Arrangement Act* ("CCAA"). The RSA is replete with provisions that provide the noteholders with priority and control over nearly every element of the CCAA proceeding. Among other matters, the RSA provides that

- (a) Sino-Forest will be restructured such that its business operations will be transferred under a new entity ("NewCo") free and clear of all claims;
- (b) The noteholders will receive most, if not all, of the shares in NewCo.;
- (c) the class actions will be forever extinguished against Sino-Forest without any consideration other than the minimal consideration provided for in the RSA;
- (d) each current or former director or officer of Sino-Forest shall be released from any and all claims against them (except for claims not subject to compromise under s.5.1(2) of the CCAA);

- (e) generally the noteholders have priority over all others including other creditors (with some exceptions or in situations where the noteholders consent);
- (f) Sino-Forest shall keep the noteholders' advisors (Goodmans LLP and Hogan Lovells) informed regarding any material discussions with any person with respect to the restructuring or sale process;
- (g) Sino-Forest cannot initiate or encourage any alternative transactions or even participate in any substantive discussions or negotiations with any person regarding an alternative transaction unless the alternative transaction provides for repaying the noteholders in full or better;
- (h) Sino-Forest cannot add new directors or executive officers unless that person or the terms of their appointment are acceptable to the noteholders;
- (i) it is a condition precedent that the terms of any plan of compromise or arrangement be consistent with the RSA or otherwise acceptable to the noteholders; and
- (j) Sino-Forest may not issue press releases concerning the transactions without the prior consent of the noteholders' advisors.



18. Notably, the RSA is subject to a general due diligence condition in favour of the Ad Hoc Noteholders.

### **These Proceedings**

19. On March 30, 2012, this court granted the initial order under the CCAA. The stated purpose of these proceedings is to preserve and obtain value for the Applicant's stakeholders. Attached as **Exhibit "I"** is a copy of the initial order.

20. On March 30, 2012, at the same time as the initial order, the court issued an order approving of a sale process for Sino-Forest's assets and business. The sale process contemplates the sale of Sino-Forest assets to a "successful bidder" on an "as is, where is" basis and free and clear of all claims, charges or other interests. The sale process provides that Sino-Forest shall keep the noteholders' advisors (Goodmans LLP, Hogan Lovells LLP, Moelis & Company LLC and Moelis & Company Asia Limited) generally informed regarding the status of the sale process and may provide these advisors with an opportunity to participate in material discussions. Attached as **Exhibit "J"** is a copy of the Sale Process Order.

21. The sale process provides for the following steps:

- (a) Sino-Forest prepares an initial offering summary notifying prospective purchasers of the assets and inviting offers.
- (b) potential bidders sign a confidentiality agreement and provide other information in order to become phase 1 qualified bidders.

- (c) Sino-Forest provides to the phase 1 qualified bidders access to due diligence materials and information relating to the assets and Sino-Forest's business.
- (d) Sino-Forest solicits non-binding letters of intent from the qualified bidders. The bids must provide for consideration of at least 85% of amounts owed to Sino-Forest noteholders. The sale process mandates content for the letters of intent including purchase price and the plan for the Sino-Forest business in the 12 months after the transaction. The deadline for these bids was June 28, 2012.
- (e) Sino-Forest determines which phase 1 qualified bidders become qualified bidders (for phase 2).
- (f) The sale process is terminated if there are no qualifying letters of intent, there is no reasonable prospect that a qualifying letter of intent will result in a qualified bid that is likely to be consummated, or Sino-Forest determines that continuing with the sale process is not in Sino-Forest's best interest.
- (g) For phase 2, Sino-Forest provides the qualified bidders additional due diligence materials and information relating to its assets and business, access to the data room and site tours.

- (h) Qualified bidders provide unconditional and irrevocable bids that include executed purchase agreements. The deadline for these bids is September 26, 2012
- (i) Sino-Forest chooses the highest or otherwise most favourable qualified bid by October 5, 2012. Sino-Forest shall finalize a definitive agreement by October 17, 2012.
- (j) The court approves, if appropriate, the successful bid and schedules a meeting of creditors to implement the bid.
- (k) The sale transactions must close no later than November 30, 2012.

22. On May 2, 2012, Sino-Forest brought a motion to approve a claims procedure order that would have granted significant control to the Ad Hoc Noteholders over the claims process. Most significantly, it provided that, for claims that exceed \$1 million, the Monitor and Sino-Forest could not accept, admit, settle, resolve, value (for any purpose), revise or reject the claims without the consent of the Ad Hoc Noteholders or order of the court. Following extensive negotiations among the parties, the claims procedure order was revised to remove these controls. Attached as **Exhibit "K1"** is a copy of the initial proposed claims procedure order. Attached as **Exhibit "K2"** is a copy of the order ultimately issued by the court.

23. On June 8, 2012, Sino-Forest brought a motion seeking (a) an order that the claims against the Applicant resulting from the ownership, purchase or sale of an equity interest in Sino-Forest, including the shareholder class action claims, are equity claims

(the "Shareholder Claims"); and (b) the indemnification claims against Sino-Forest relating to the Shareholder Claims, including indemnity claims by the class action defendants, are equity claims. Attached as **Exhibit "L1"** is a copy of the notice of motion (the "Equity Motion"). Attached as **Exhibit "L2"** is a copy of the proposed order on the Equity Motion.

24. Sino-Forest asserted that the Equity Motion was necessary and desirable to have the claims declared as equity claims "in light of the need to complete the restructuring of SFC as soon as possible" and "with a view to having a meeting of creditors in August 2012."

#### **Lack of Disclosure to Date**

25. I understand that the Monitor plans to report to the court on July 16, 2012 as to the status of sale process and in particular the letters of intent, if any, received. However, to date, despite requests for disclosure, the Class Action Plaintiffs have not received any material information from the Applicant in respect of the sale process or other matters impacting the Applicant's restructuring effort, or even a firm and binding commitment to provide such information.

26. The Class Action Plaintiffs had refrained from seeking to compel disclosure of information, until now, based upon the Monitor's efforts to organize a mediation for late July or early August. It now appears, however, that a mediation will not take place until sometime in September, if it happens at all.

27. In these circumstances, the Class Action Plaintiffs believe that it is important that they be placed on an even footing with other stakeholders, so that they can participate meaningfully in these proceedings. This includes access to information pertaining to the assets and liabilities of the Applicant, as well as information relevant to the Class Action Plaintiffs' claims against the Applicant and Third Parties.

*The Applicant's Liabilities*

28. On June 20, 2012, the Class Action Plaintiffs filed four proofs of claim with the Monitor. The proofs of claim were marked confidential. On June 29, 2012, Jennifer Stam wrote to Mr. Starnino advising that "we are also hereby giving notice that we intend to share the Claim with Goodmans who are subject to a confidentiality agreement on or after July 6, 2012." Ms. Stam does not explain why the Monitor intends to share the Class Action Plaintiffs' proofs of claim with Goodmans, counsel for the Ad Hoc Noteholders. The Class Action plaintiffs have no information and have not seen the claims filed by other claimants, other than those proofs of claims that were filed by Ernst & Young LLP and BDO Limited as evidence for the Equity Motion. Attached as Exhibit "M1" is a copy of Ms. Stam's email to Mr. Starnino. Attached as Exhibit "M2" is a copy of Mr. Starnino's response.

**The Applicant's Assets**

29. Apart from the information made available to the public through the IC reports, there has been little disclosure throughout this process of the Applicant's assets or its dealings with its various advisors, auditors and underwriters. This information will likely be relevant to the fairness and reasonableness of a CCAA Plan and/or any settlement

of the Ontario and Quebec Class Actions. It should be disclosed in a timely way so that the Class Action Plaintiffs and the courts are not left having to take a position or decide matters with inadequate information. Even the information made available to prospective purchasers has not yet been made available to stakeholders other than the Ad Hoc Noteholders.

### **The Importance of Full and Plain Disclosure in this Case**

30. Plain and meaningful disclosure of information is particularly important in the circumstances of this case because of the strong indicia of fraud and other serious misconduct.

31. On January 10, 2012, the Applicant issued a press release wherein it cautioned that the company's historic financial statements and related audit reports should not be relied upon.

32. Less than two months later, on April 5, 2012, the Applicant's auditor, Ernst & Young, resigned.

33. On April 17, 2012, Allen Chan, who had previously resigned his position as a director and chief executive officer of Sino-Forest but continued as "Founding Chairman Emeritus", resigned from the company entirely. David Horsely resigned as chief financial officer, but remained an employee for the stated purpose of assisting with Sino-Forest's restructuring efforts. Attached as **Exhibit "N"** is a copy of Sino-Forest's press release of April 17, 2012.

34. On May 22, 2012, the Ontario Securities Commission ("OSC") commenced enforcement proceedings against Sino-Forest, Allen Chan, David Horsley and other

executives. The statement of allegations alleges that Sino-Forest and its senior executives "engaged in a complex fraudulent scheme to inflate the assets and revenue of Sino-Forest and made materially misleading statements in Sino-Forest's public disclosure record related to its primary business." Among other detailed allegations, it alleges "Sino-Forest falsified the evidence of ownership for the vast majority of its timber holdings by engaging in a deceitful documentation process. This dishonest process included the fraudulent creation of deceitful Purchase Contracts and Sales Contracts, including key attachments and other supplemental documentation." It alleges that Allen Chan and other management materially misled OSC staff during their investigation. Attached as **Exhibit "O"** is a copy of the OSC statement of allegations.

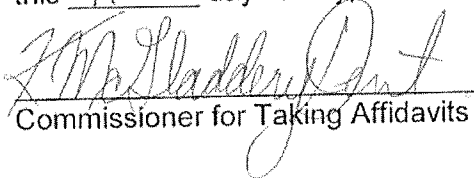
35. There has been some limited disclosure of the professional fees expended and expected by Sino-Forest. The First and Third Reports of the Monitor show Sino-Forest's cash flows and forecasts of its cash flow. They show very little cash inflow, but significant expenditures for professional fees. Sino-Forest expended \$6.5 million from March 31 to May 18, 2012 on professional fees. Going forward, the Third Report of the Monitor forecasts professional fees of roughly \$1 to 2 million each week between May 19 and October 5, 2012, totalling \$23.7 million. Attached as **Exhibit "P1"** and **"P2"** are copies of the First and Third Reports of the Monitor.

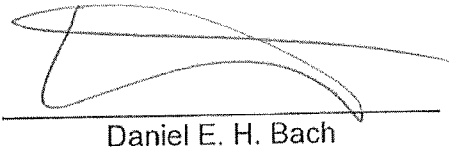
36. These amounts are significant as the reports state that Sino-Forest began the insolvency with only \$67.8 million. The following chart summarizes Sino-Forest's cash flows:

	March 31- April 6	April 7 - May 18	May 19 - October 5
Cash inflow	\$2,000	\$9,000	\$825,000
Payroll, board and committee fees, travel, rent, communications utilities and taxes	\$25,000	\$326,000	\$1.9 million
Professional fees	\$46,000	\$6.4 million	\$23.7 million
Cash remaining	\$67.8 million	\$61.0 million	\$36.2 million

37. It appears that Sino-Forest's cash assets are being quickly eroded by professional fees. In the unique circumstances of this case, the Class Action Plaintiffs believe that it is important that mechanisms be put in place to facilitate the flow of information to stakeholders while the Applicant has the time and resources to do so.

SWORN BEFORE ME at the City of  
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this 11<sup>th</sup> day of July, 2012.

  
Commissioner for Taking Affidavits

  
Daniel E. H. Bach



**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**

**ONTARIO**

**SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at Toronto

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Lawyers for an Ad Hoc Committee of Purchasers of  
the Applicant's Securities, including the  
Representative Plaintiffs in the Ontario Class Action  
against the Applicant

This is **Exhibit "A"** referred to in  
the Affidavit of Daniel E.H. Bach  
sworn this *11<sup>th</sup>* day of July, 2012

  
\_\_\_\_\_  
A Commissioner for Taking Affidavits

## **SINO-FOREST CORPORATION**

### **Condensed Interim Consolidated Financial Statements**

**For the three months ended March 31, 2011**

#### **Notice of no auditor review of the condensed interim consolidated financial statements.**

The accompanying unaudited condensed interim consolidated financial statements (the “Interim Financial Statements”) have not been reviewed by the Company’s external auditors.

On June 2, 2011, Muddy Waters, LLC issued a report (the “Report”) containing various allegations regarding the Company, its assets, operations and financial results. As a result of such report, on June 2, 2011, the Board of Directors of the Company appointed a committee of independent directors (the “Independent Committee”) to thoroughly examine and review the allegations contained in the Report, and report back to the Board of Directors. The Independent Committee has retained independent legal counsel in Canada, Hong Kong and China as well as independent accounting firm Pricewaterhouse Coopers LLP to assist with the examination.

The Company’s external auditors were initially engaged to conduct a review of the accompanying Interim Financial Statements in accordance with Canadian standards for the auditor review of interim financial statements. The Company’s auditors have advised that they are unable to complete a review of these financial statements until the completion of the examination and review by the Independent Committee and the auditors’ consideration of the results thereof.

The Board of Directors and management believe that, based on information currently available to them, the Interim Financial Statements were compiled in accordance with International Financial Reporting Standards (“IFRS”) and fairly depict the financial condition and results of operations of the Company. However, in the event that the allegations set forth in the Report prove to be accurate, in whole or in part, the information set forth in the Interim Financial Statements may differ materially and the Interim Financial Statements could be subject to restatement. As a result, readers should exercise caution in reviewing such financial statements. See Note 2.1 of the Interim Financial Statements.

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Income Statements**

[Expressed in thousands of United States dollars, except for earnings per share information] [unaudited]

	Notes	For the three months ended March 31,	
		2011	2010
		\$	\$
<b>Continuing Operations</b>			
Wood fibre		324,420	239,727
Manufacturing and other		12,854	11,288
Greenheart		1,650	—
<b>Revenue</b>	6	<b>338,924</b>	251,015
Cost of sales		(223,513)	(163,219)
Gain on changes in fair value of timber holdings less estimated point-of-sale cost		10,389	10,418
<b>Gross profit</b>		<b>125,800</b>	98,214
Other operating income		312	311
Selling and administrative expenses		(30,340)	(23,010)
Other operating expenses		(2,461)	(72)
<b>Operating profit</b>		<b>93,311</b>	75,443
Finance costs		(44,417)	(30,581)
Finance income		1,548	3,425
<b>Profit before changes in fair value of financial instruments</b>		<b>50,442</b>	48,287
Loss on changes in fair value of financial instruments	14, 22	(53,040)	(21,118)
<b>(Loss) profit before tax from continuing operations</b>		<b>(2,598)</b>	27,169
Income tax expense	7	(19,786)	(10,659)
<b>(Loss) profit for the period from continuing operations</b>		<b>(22,384)</b>	16,510
<b>Discontinued operations</b>			
Profit (loss) after tax for the period from discontinued operations		277	(595)
<b>Net (loss) profit for the period</b>		<b>(22,107)</b>	15,915
<b>Attributable to:</b>			
Equity holders of the parent		(20,700)	15,917
Non-controlling interests		(1,407)	(2)
		<b>(22,107)</b>	15,915

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Income Statements (cont'd)**

[Expressed in thousands of United States dollars, except for earnings per share information] [unaudited]

	<b>For the three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>(Loss) earnings per share, attributable to equity holders of the parent</b>		
- Basic, for (loss) profit for the period	<b>(0.08)</b>	0.07
- Diluted, for (loss) profit for the period	<b>(0.08)</b>	0.07
<b>(Loss) earnings per share for continuing operations, attributable to equity holders of the parent</b>		
- Basic, for (loss) profit from continuing operations	<b>(0.09)</b>	0.07
- Diluted, for (loss) profit from continuing operations	<b>(0.09)</b>	0.07
<b>Earnings (loss) per share for discontinued operations, attributable to equity holders of the parent</b>		
- Basic, for profit (loss) from discontinued operations	<b>0.00</b>	(0.00)
- Diluted, for profit (loss) from discontinued operations	<b>0.00</b>	(0.00)

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Statements of Comprehensive Income**

[Expressed in thousands of United States dollars] [unaudited]

	For the three months ended March 31,	
	2011	2010
	\$	\$
<b>Net (loss) profit for the period</b>	(22,107)	15,915
Unrealized net gains on available-for-sale financial assets, net of tax \$nil	—	1,539
Unrealized exchange differences on translation of foreign operations	39,388	382
<b>Other comprehensive income for the period, net of tax</b>	39,388	1,921
<b>Total comprehensive income for the period, net of tax</b>	17,281	17,836
<b>Attributable to:</b>		
Equity holders of the parent	18,688	17,838
Non-controlling interests	(1,407)	(2)
	17,281	17,836

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Statements of Financial Position**

[Expressed in thousands of United States dollars] [unaudited]

	Notes	As at March 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		1,054,881	1,223,352	1,102,366
Short-term deposits		33,189	32,101	70,387
Trade and other receivables	9	447,904	699,393	322,518
Prepayments	10	92,502	68,139	19,594
Timber holdings, measured at cost	11	3,302,124	2,888,556	2,074,732
Inventories	12	52,060	50,977	38,971
Other current financial assets	14	—	—	29,446
		<b>4,982,660</b>	<b>4,962,518</b>	<b>3,658,014</b>
<b>Non-current assets</b>				
Timber holdings, measured at fair value	11	260,119	249,090	167,990
Property, plant and equipment	15	85,680	82,525	47,299
Investment properties		23,417	23,498	22,653
Prepaid lease payment, non-current portion	13	91,744	90,215	64,001
Other non-current financial assets	14	10,871	11,153	46,637
Intangible assets and goodwill	15	272,562	264,217	850
Other assets	16	138,927	110,240	6,993
Deferred tax asset	7	3,500	3,500	2,900
		<b>886,820</b>	<b>834,438</b>	<b>359,323</b>
<b>Total assets</b>		<b>5,869,480</b>	<b>5,796,956</b>	<b>4,017,337</b>

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Statements of Financial Position (cont'd)**

[Expressed in thousands of United States dollars] [unaudited]

	Notes	As at March 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Interest-bearing loans and borrowings	14	242,861	241,629	103,991
Trade and other payables	14	504,890	522,593	280,103
Income taxes payable		11,294	10,979	7,346
		<b>759,045</b>	<b>775,201</b>	<b>391,440</b>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	14	1,553,749	1,541,093	793,531
Deferred tax liability	7	49,923	48,934	14,842
Derivative financial instrument	14	501,366	448,326	371,962
		<b>2,105,038</b>	<b>2,038,353</b>	<b>1,180,335</b>
<b>Total liabilities</b>		<b>2,864,083</b>	<b>2,813,554</b>	<b>1,571,775</b>
<b>Equity</b>				
Issued capital	17	1,261,086	1,261,086	1,213,483
Retained earnings		1,517,792	1,544,960	1,211,210
Other reserves		155,045	115,432	20,869
<b>Equity attributable to equity holders of the parent</b>		<b>2,933,923</b>	<b>2,921,478</b>	<b>2,445,562</b>
<b>Non-controlling interests</b>		<b>71,474</b>	<b>61,924</b>	—
<b>Total equity</b>		<b>3,005,397</b>	<b>2,983,402</b>	<b>2,445,562</b>
<b>Total liabilities and equity</b>		<b>5,869,480</b>	<b>5,796,956</b>	<b>4,017,337</b>



**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Statements of Changes in Equity**  
 [Expressed in thousands of United States dollars] [unaudited]

	Attributable to equity holders of the parent							Total equity	
	Issued capital	Contributed surplus	Revaluation reserve	Foreign currency translation reserve	PRC statutory reserve	Retained earnings	Total		Non-controlling interests
At January 1, 2011	\$ 1,261,086	\$ 11,489	\$ 640	\$ 101,315	\$ 1,988	\$ 1,544,960	\$ 2,921,478	\$ 61,924	\$ 2,983,402
Loss for the period	—	—	—	—	—	(20,700)	(20,700)	(1,407)	(22,107)
Other comprehensive income	—	—	—	39,388	—	—	39,388	—	39,388
<b>Total comprehensive income</b>	—	—	—	<b>39,388</b>	—	<b>(20,700)</b>	<b>18,688</b>	<b>(1,407)</b>	<b>17,281</b>
Share-based payment transactions	—	458	—	—	—	—	458	—	458
Acquisition of non-controlling interests	—	—	(233)	—	—	(6,468)	(6,701)	10,957	4,256
<b>At March 31, 2011</b>	<b>1,261,086</b>	<b>11,947</b>	<b>407</b>	<b>140,703</b>	<b>1,988</b>	<b>1,517,792</b>	<b>2,933,923</b>	<b>71,474</b>	<b>3,005,397</b>

**SINO-FORSET CORPORATION**  
**Condensed Interim Consolidated Statements of Changes in Equity (cont'd)**

[Expressed in thousands of United States dollars] [unaudited]

	Attributable to equity holders of the parent							Non-controlling interests	Total equity
	Issued capital	Contributed surplus	Revaluation reserve	Foreign currency translation reserve	PRC statutory reserve	Retained earnings	Total		
	\$	\$	\$	\$	\$	\$	\$	\$	
At January 1, 2010	1,213,483	12,933	6,266	—	1,670	1,211,210	2,445,562	—	2,445,562
Profit for the period	—	—	—	—	—	15,917	15,917	(2)	15,915
Other comprehensive income	—	—	1,539	382	—	—	1,921	—	1,921
<b>Total comprehensive income</b>	—	—	<b>1,539</b>	<b>382</b>	—	<b>15,917</b>	<b>17,838</b>	<b>(2)</b>	<b>17,836</b>
Transfer from (to) retained earnings	—	—	—	—	2	(2)	—	—	—
Exercise of share options	2,631	(749)	—	—	—	—	1,882	—	1,882
Share-based payment transactions	—	583	—	—	—	—	583	—	583
Acquisition of subsidiaries (note 5)	—	—	—	—	—	—	—	4,855	4,855
Acquisition of non-controlling interests	—	—	—	—	—	—	—	(4,000)	(4,000)
<b>At March 31, 2010</b>	<b>1,216,114</b>	<b>12,767</b>	<b>7,805</b>	<b>382</b>	<b>1,672</b>	<b>1,227,125</b>	<b>2,465,865</b>	<b>853</b>	<b>2,466,718</b>

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Statements of Cash Flows**  
[Expressed in thousands of United States dollars] [unaudited]

	Notes	For the three months ended March 31	
		2011	2010
		\$	\$
<b>OPERATING ACTIVITIES</b>			
(Loss) profit before tax from continuing operations		(2,598)	27,169
Loss before tax from discontinued operations		—	(153)
(Loss) profit before tax		(2,598)	27,016
Non-cash adjustment to reconcile (loss) profit before tax to net cash flows:			
Depreciation and amortization		3,413	2,194
Share-based compensation		576	651
Loss on change in fair value of financial instrument		53,040	21,118
Gain on changes in fair value of timber holdings less estimated point-of-sale costs	11	(10,389)	(10,418)
Unrealized exchange losses (gains)		1,810	(669)
Finance income		(1,548)	(3,425)
Finance costs		44,417	30,581
Other		1,264	1,531
		89,985	68,579
Working capital adjustments:			
Decrease in trade and other receivables		241,514	9,850
Increase in prepayments		(24,060)	(9,982)
Decrease (increase) in inventories		391	(15,081)
Increase in other assets		(25,800)	—
Decrease in non-current trade receivables		275	132
Decrease in trade and other payables		(36,291)	(59,581)
		246,014	(6,083)
Interest received		1,645	1,000
Income tax paid		(249)	(212)
Cash flows from (used in) operating activities before movement of timber holdings, measured at cost		247,410	(5,295)
Net increase in timber holdings, measured at cost		(368,947)	(116,685)
<b>Net cash flows used in operating activities</b>		<b>(121,537)</b>	<b>(121,980)</b>

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Statements of Cash Flows (cont'd)**

[Expressed in thousands of United States dollars] [unaudited]

	Notes	For the three months ended March 31	
		2011	2010
		\$	\$
<b>INVESTING ACTIVITIES</b>			
Net decrease in timber holdings, measured at fair value		269	5,089
Purchase of property, plant and equipment		(3,174)	(8,804)
Addition of investment properties		—	(243)
Payment for other assets		(2,732)	(169)
Payment for prepaid lease payment		(1,615)	(68)
Payment for intangible assets		(5,000)	—
Proceeds from disposal of property, plant and equipment		80	37
(Increase) decrease of non-pledged short-term deposits		(681)	7,189
Acquisition of subsidiaries, net of cash acquired	5	—	5,638
<b>Net cash flows (used in) from investing activities</b>		<b>(12,853)</b>	<b>8,669</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from interest-bearing loans and borrowings		119,303	92,604
Repayment of interest-bearing loans and borrowings		(119,857)	(72,878)
Proceeds from exercise of share options		—	1,882
Proceeds from exercise of share options of a subsidiary		343	—
Payment of deferred financing costs		—	(5,893)
Interest paid		(34,696)	(24,793)
(Increase) decrease in pledged short-term deposits		(210)	137
<b>Net cash flows used in financing activities</b>		<b>(35,117)</b>	<b>(8,941)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(169,507)</b>	<b>(122,252)</b>
<b>Net foreign exchange difference</b>		<b>1,036</b>	<b>259</b>
Cash and cash equivalents, beginning of period		1,223,352	1,102,366
<b>Cash and cash equivalents, end of period</b>		<b>1,054,881</b>	<b>980,373</b>

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 1. Corporate information

The Company is a corporation continued under the *Canada Business Corporations Act* whose shares are publicly traded on the Toronto Stock Exchange. The registered office is located at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario, Canada. The principal activities of the Company are described in note 6.

### 2.1 Basis of preparation

#### Financial Statements

The accompanying condensed unaudited interim consolidated financial statements (the "Interim Financial Statements") have not been reviewed by the Company's external auditors.

On June 2, 2011, Muddy Waters, LLC issued a report (the "Report") containing various allegations regarding the Company, its assets, operations and financial results. As a result of such report, on June 2, 2011, the Board of Directors of the Company appointed a committee of independent directors (the "Independent Committee") to thoroughly examine and review the allegations contained in the Report, and report back to the Board of Directors. The Independent Committee has retained independent legal counsel in Canada, Hong Kong and China as well as Pricewaterhouse Coopers LLP, to assist with the examination.

The Company's external auditors were initially engaged to conduct a review of the Interim Financial Statements in accordance with the Canadian standards for the auditor review of Interim Financial Statements. The Company's auditors have advised that they are unable to complete a review of the Interim Financial Statements until the completion of the examination and review by the Independent Committee and the auditors' consideration of the results thereof.

The Board of Directors and management believed that, based on information currently available to them, the Interim Financial Statements were compiled in accordance with International Financial Reporting Standards ("IFRS") and fairly depict the financial condition and results of operations of the Company. However, in the event that the allegations set forth in the Report prove to be accurate, in whole or in part, the information set forth in the Interim Financial Statements may differ materially and the Interim Financial Statements could be subject to restatement. As a result, readers should exercise caution in reviewing such financial statements.

The Interim Financial Statements are presented in United States dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and IFRS 1, *First-time adoption of IFRS* (collectively "IFRS 1") as issued by the International Accounting Standards Board ("IASB"), using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the financial year ending December 31, 2011.

The Interim Financial Statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2010. However, as the Interim Financial Statements are the Company's first financial statements prepared using IFRS, they include certain disclosures required to be included in annual financial statements prepared in accordance with IFRS, but that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS to make an explicit and unreserved statement of compliance with IFRS. The Company will make this statement when it issues the annual financial statements for the year ending December 31, 2011.

Note 22 sets out information on the impact of the transition from Canadian GAAP to IFRS.

#### Basis of consolidation

The Interim Financial Statements comprise the financial statements of Sino-Forest Corporation and its subsidiaries as at March 31, 2011.

## **Notes to the condensed interim consolidated financial statements**

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

### **2.2 Areas involving significant judgments, estimates and assumptions**

Preparing the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management continually evaluates these judgments, estimates and assumptions based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include the provision and contingency for tax-related liabilities, discussed in note 21. They also include, but are not limited to, the following:

#### **Revenue recognition of plantation fibre**

The Company sells standing timber at various stages of maturity to domestic wood dealers from its tree plantations, and this represents a significant portion of consolidated revenue. The timing of recognition of revenue from plantation fibre sales depends on the terms and conditions of our contractual arrangements with customers. A future change to the typical contractual arrangements for timber sales could materially impact the timing and manner in which the Company recognizes revenue.

#### **Valuation of timber holdings**

The Company measures planted plantations at initial recognition and at the end of each reporting period at fair value less costs to sell, by referring to valuations using a discounted cash flow model, for which it engages an independent consultant. If management's best estimate of key assumptions were to change significantly and the associated estimated future cash flows were to materially decrease, the fair value of timber holdings could potentially be reduced, generating a material loss.

#### **Impairment of property, plant and equipment, investment properties, intangible assets and goodwill**

The Company evaluates the recoverability of the carrying value of property, plant and equipment, investment properties, intangible assets and goodwill (or the cash-generating units to which they belong) whenever indicators of impairment exist. Estimates related to impairment assessments are subject to significant measurement uncertainty and are susceptible to change based on future plans and events. Any resulting impairment loss could have a material impact on the amounts reported for property, plant and equipment, investment properties, intangible assets and goodwill in the statement of financial position.

#### **Valuation of embedded derivatives**

The Company's 2013 Convertible Notes and 2016 Convertible Notes (as defined below; collectively, the "Convertible Notes") include an embedded derivative liability, measured separately at fair value at the end of each reporting period, with changes in fair value recognized in the income statement. The liability is measured using a Black-Scholes valuation model, incorporating inputs for factors which are by their nature unpredictable, and the resulting valuation of the embedded derivative will be inherently volatile. Changes in the amounts of the inputs and in the operation of the valuation model could materially increase or decrease the carrying amount of the embedded derivative liability in future periods. In particular, changes in the Company's share price will have a significant effect on the measurement of fair value, with an increasing share price generally resulting in a measurement loss and a decreasing share price generally resulting in a measurement gain.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### Business acquisitions

There is significant estimation and judgment in the recording of business acquisitions. This estimation and judgment includes the determination of the purchase price and the date of the business combination, and the allocation of the purchase price among the fair values of assets acquired and liabilities assumed. The Company frequently obtains the assistance of third parties in the determination of fair values of forestry and intangible assets.

As at March 31, 2011, the Company has completed the allocation of the fair values of the identifiable assets and liabilities for the acquisition of Mandra Forestry Holdings Limited (see note 5[b]). As part of the fair value allocation, the Company has requested a valuation by an independent valuation consultant to assist in determining the fair values of the assets and liabilities acquired. The final report of the consultant has not yet been made available to the Company and the Company is relying on preliminary estimates of value provided from the consultant as at the acquisition date. Significant risk exists that the values used by the Company may differ from those calculated by the independent valuation consultant. Any material differences between those amounts used by management and those calculated by the independent valuation consultant will be adjusted in these financial statements as the information becomes available to the Company.

### 2.3 Future accounting standards

The IASB and International Financial Reporting Interpretations Committee (“IFRIC”) have issued certain new standards, interpretations, amendments and improvements to existing standards, mandatory for future accounting periods. The most significant of these are as follows, and are all effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted:

The IASB issued IFRS 9, *Financial Instruments* in November 2009 as the first step in its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*; in particular, it introduces new requirements for classifying and measuring financial assets. The IASB intends to expand IFRS 9 before its effective date to add new requirements for classifying and measuring financial liabilities, derecognizing financial instruments, impairment and hedge accounting.

IFRS 10, 11, 12 and 13 were all issued in May 2010. IFRS 10 *Consolidated Financial Statements* replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation — Special Purpose Entities* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. IFRS 11 *Joint Arrangements* introduces new accounting requirements for joint arrangements, replacing IAS 31 *Interests in Joint Ventures*. It eliminates the option of accounting for jointly controlled entities by using proportionate consolidation. IFRS 12 *Disclosure of Interests in Other Entities* requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

IFRS 13 *Fair Value Measurement* replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

The Company has not yet determined the impact of these standards on its financial statements.

## 3 Summary of significant accounting policies

### a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Company measures the non-controlling interest in the acquiree at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in selling and administrative expenses.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### b) Foreign currency translation

The Company's consolidated financial statements are presented in US dollars, which is also the Company's functional currency. Each subsidiary of the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Company and its subsidiaries at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

#### ii) Group companies

The assets and liabilities of foreign operations are translated into US dollars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.



## Notes to the condensed interim consolidated financial statements

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### c) Revenue recognition

Revenue is recognized when it is probable that economic benefits will flow to the Company and these can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, and sales taxes or duties. The following specific recognition criteria must also be met before recognizing revenue. For contracts subject to extended payment terms, the Company discounts future receipts to their fair value using an imputed rate of interest, and recognizes the difference between fair value and the nominal amount of the consideration as interest income over the contract period.

#### *Sale of goods*

Revenue from the sale of plantation fibre is recognized when a contract is entered into which establishes a fixed and determinable price with the customer, collection is reasonably assured and the significant risks and rewards of ownership have been transferred to the customer.

Revenue from the sale of logs and other products is recognized when the significant risks and rewards of ownership of the logs and other products have transferred to the customer, usually on the delivery of the goods.

#### *Contract revenue*

Revenue from the landscaping and wood products contracts is recognized based on the percentage-of-completion method, to the extent that the contract outcome can be estimated reliably. The stage of completion is measured either by comparing total costs incurred to the expected total cost of the project, or by reference to surveys of work performed. Where the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent of expenses recognized that are recoverable. Any expected loss on a contract is recognized immediately in the income statement.

#### *Interest income*

Interest income is recognized on an accrual basis using the effective interest rate method, by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instruments or over a shorter period, where appropriate, to the net carrying amount of the financial asset.

#### *Rental income*

Rental income arising from operating leases on investment properties is recognized on a straight line basis over the lease terms.

### d) Income Taxes

The Company applies IAS 12, *Income Taxes*. Income tax consists of current and deferred income tax. Income tax is recognized in the income statement except to the extent that it relates to a business combination, or items recognized directly within equity or in other comprehensive income. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the reporting date.

The Company recognizes provisions in respect of uncertain tax positions whereby additional current tax may become payable in future periods following the audit by the tax authorities of prior taxation years. Provisions for uncertain tax positions are based upon management's assessment of the likely outcome of issues associated with assumed permanent differences, interest that may be applied to temporary differences, and the possible disallowance of tax credits and penalties. Provisions for uncertain tax positions are reviewed regularly and are adjusted to reflect events such as the expiry of limitation periods for assessing tax, administrative guidance given by the tax authorities and court decisions.

Deferred tax assets and liabilities are recognized, using the liability method of IAS 12, for the expected tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is

## Notes to the condensed interim consolidated financial statements

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not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries or associates, to the extent that they probably will not reverse in the foreseeable future and their timing of the reversal can be controlled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilized before applicable expiry dates. Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividend in the foreseeable future. Change in tax rates are reflected in the period when the change has been enacted or substantively enacted by the reporting date.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realized or liability is settled, based on tax rates and laws that been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

### e) Plant and equipment and construction in progress

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

Land is measured at fair value less impairment losses recognized after the date of the revaluation and is not depreciated. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the income statement, in which case the increase is recognized in the income statement. A revaluation deficit is recognized in the income statement, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, other than properties under construction, as follows:

Buildings	20 years
Machinery and equipment	15 years
Office furniture and equipment	5 to 10 years
Vehicles	5 to 10 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes purchase price of raw materials, consumables used, direct labour and other costs directly attributable to constructing the assets. For qualifying assets, which are assets necessarily requiring a substantial period of time to get ready for their intended use or sale, borrowing costs directly attributable to acquiring, constructing or producing, the assets are added to their cost, until the time when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in the

## Notes to the condensed interim consolidated financial statements

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income statement as incurred. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

### f) Leases

The Company classifies leases as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. It classifies all other leases as operating leases.

The Company recognizes operating lease payments as an operating expense on a straight-line basis over the lease term. Amounts paid in advance for land leases in the PRC are recorded as prepaid lease rentals.

For arrangements where it acts as a lessor, the Company recognizes lease income from operating leases in income on a straight-line basis over the lease term.

### g) Investment properties

Investment properties are stated at cost, including transaction costs, net of accumulated depreciation and/or accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives of the investment properties of 20 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

### h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

## Notes to the condensed interim consolidated financial statements

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A summary of the policies applied to the Company's intangible assets is as follows:

	<b>Licenses</b>	<b>Patents</b>	<b>Operating lease contracts</b>	<b>Timber concession licenses and cutting rights</b>
<b>Useful lives</b>	Indefinite	Finite	Finite	Finite
<b>Amortization method used</b>	No amortization	Amortized on a straight-line basis over the shorter of the useful life and the period of the patent	Amortized on a straight-line basis over the lease terms	Amortized on a unit of production basis over the estimated life of the timber concession licenses and cutting rights
<b>Internally generated or acquired</b>	Acquired	Acquired	Acquired	Acquired

### i) Financial assets and financial liabilities

#### Financial Assets

##### Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. It does not currently have any financial assets classified as held-to-maturity or derivatives designated as hedging instruments.

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

##### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

##### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that do not meet the hedge accounting criteria as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with gains or losses recognized in the income statement.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

## **Notes to the condensed interim consolidated financial statements**

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### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in other categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized in other comprehensive income until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss recorded in other comprehensive income is recognized in the income statement.

### **Financial liabilities**

Financial liabilities within the scope of IAS 39 are recognized initially at fair value (and in the case of loans and borrowings, directly attributable transaction costs) and are then classified either as financial liabilities at fair value through profit or loss, or as financial liabilities measured at amortized cost using the effective interest rate method.

The Company's financial liabilities include trade and other payables, bank overdraft and loans and borrowings, all classified as measured at amortized cost using the effective interest rate method, and the derivative financial instrument embedded within the convertible notes is classified as a financial liability through profit or loss.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### **Fair value of financial instruments**

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the end of each reporting period. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

### **Amortized cost of financial instruments**

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

### **Impairment of financial assets**

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization or observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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### *Available-for-sale financial investments*

For available-for-sale financial investments, the Company assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not subsequently reversed through the income statement; increases in their fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

### **Derecognition of financial instruments**

#### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

#### **j) Timber holdings**

Timber holdings include both planted and purchased plantations of young and mature plantations. The Company recognizes timber holdings when the Company controls the assets as a result of past events, it is probable that future economic benefits will flow to the Company, and it can measure the assets reliably.

The Company measures planted plantations in accordance with IAS 41 *Agriculture* ("IAS 41") at initial recognition and at the end of each reporting period, at fair value less costs to sell, by referring to valuations using a discounted cash flow model. Changes in the fair value less costs to sell are included in the income statement. The Company measures purchased plantations in accordance with IAS 2 *Inventories* ("IAS 2") at the lower of cost and net realizable value. Timber holdings that are sold or harvested are derecognized when the significant risks and rewards of ownership have been transferred to the buyer, based on the area of plantation sold or harvested. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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### k) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

### l) Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the income statement in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

#### Goodwill

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

#### Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash-generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

### m) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

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For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short term deposits as defined above, net of outstanding bank overdrafts.

### **n) Short-term deposits**

Short-term deposits comprise cash at banks with an original maturity over three months.

### **o) Convertible notes**

The Company's convertible notes contain an embedded derivative, since not all the settlement alternatives attaching to the holder's conversion option result in the Company delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset. Because it is not closely related to the underlying notes, the embedded derivative is measured separately at fair value at the end of each reporting period, with changes in fair value recognized in the income statement. On initial recognition, for each series of notes, the Company measured the derivative liability at fair value, and measured the carrying value of the underlying convertible notes at the difference between this amount and the proceeds of issue. Subsequent to initial recognition, it measures the derivative liability at fair value, recognizing changes in the fair value in the income statement, and accretes the carrying value of the underlying notes to their face value using the effective interest method. The transaction costs incurred for the insurance of the convertible notes are charged to the income statement.

### **p) Provisions, including reforestation and restoration obligations**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Where a provision is measured using the estimated future cash flows required to settle the present obligation, its carrying amount is the present value of those cash flows.

In particular, as a result of its ordinary activities relating to purchased and planted plantations, the Company may incur legal or constructive obligations in relation to reforestation costs or to carry out other restoration activities. It measures these obligations as provisions at its best estimate of their present value.

### **q) Share-based payment transactions**

Certain employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby employees and senior executives render services as consideration for equity instruments (equity-settled transactions). Non-employee directors are granted deferred stock units that are intended to be settled in cash (cash-settled transactions) or in the form of common shares of the Company.

### **Equity-settled transactions**

The cost of equity-settled transactions is recognized, together with a corresponding increase in contributed surplus in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in employee benefits expense.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense



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not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Company or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

### Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at the end of each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense.

### 4. Seasonality of operations

The quarterly results are not necessarily indicative of results to be expected for the entire year. Revenue is typically the lowest in the first quarter of the year and traditionally represents approximately 15% of the entire year. This reflects the preference of timber companies to take advantage of the peak growing seasons in the spring and summer before harvesting the trees, and the difficulty in the logging and hauling of timber during the rainy season in the first half of the year.

### 5. Business combinations and acquisition of non-controlling interests

#### [a] Acquisition of Homix Limited

On January 4, 2010, the Company acquired a 100% equity interest in Homix Limited and subsidiaries ("Homix") for cash consideration of \$7,100,000. Homix is principally engaged in the research & development and manufacturing of recomposed wood products in the PRC.

#### *Assets acquired and liabilities assumed*

The fair value of the identifiable assets and liabilities of Homix as at the date of acquisition were:

	Fair value recognized on acquisition \$
<b>Assets</b>	
Property, plant and equipment	5,363
Cash and cash equivalents	2,388
Trade and other receivables	242
Prepayments	63
Inventories	3,228
Patents and licences	9,808
	<u>21,092</u>
<b>Liabilities</b>	
Trade and other payables	(10,905)
Interest-bearing loans and borrowings	(1,172)
Income taxes payable	(9)
Deferred tax liability	(1,906)
	<u>(13,992)</u>
<b>Total identifiable net assets at fair value and purchase consideration transferred</b>	<b>7,100</b>

Homix contributed \$8,026,000 of revenue and \$1,345,000 from the date of acquisition of January 4, 2010 to December 31, 2010 to the loss before tax from continuing operations of the Company. If the combination had taken place at the beginning of 2010, revenue from continuing operations would have

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been \$1,923,536,000 and the profit from continuing operations for the Company would have been \$318,979,000.

<i>Analysis of cash flows on acquisition</i>	<i>\$</i>
Transaction costs of the acquisition (included in cash flows from operating activities)	(200)
Net cash acquired with the subsidiaries (included in cash flows from investing activities)	2,388
<b>Net cash flow on acquisition</b>	<b>2,188</b>

Transaction costs of \$200,000 have been expensed and are included in selling and administrative expenses.

### [b] Acquisition of Mandra

On February 5, 2010, the Company acquired an 84.99% equity interest in Mandra Forestry Holdings Limited (“Mandra”) in which the Company previously held a 15% equity interest. The Company recognized a loss of \$1,500 in the income statement on the remeasurement of the previously held equity interests to fair value at the acquisition date. Mandra is principally engaged in the operation of forest plantations in the PRC.

The Company paid an initial consideration of \$2,000,000 on February 5, 2010 and an additional fixed amount of \$2,000,000 on August 5, 2010. As part of the purchase agreement with the previous owner of Mandra, additional contingent consideration was payable to the previous owner of Mandra of up to \$5,000,000 (the “First Supplemental Payment”) and \$5,000,000 (the “Second Supplemental Payment”) based on the achievement of certain agreed milestones.

As at the acquisition date, the fair value of the contingent consideration was estimated at \$6,899,000.

In August 2010, upon completion of the First Supplemental Payment, the fair value of the contingent consideration was remeasured at \$8,929,000, recognizing a loss of \$2,030,000 in the income statement.

Concurrently on February 5, 2010, the Company completed an exchange with holders of 99.7% of the \$195,000,000 of 12% guaranteed senior notes due in 2013 issued by Mandra Forestry Finance Limited (“Mandra Notes”) and 96.7% of the warrants issued by Mandra, for an aggregate principal amount of \$187,177,375 of new guaranteed senior notes issued by the Company (the “New 2014 Senior Notes”), bearing interest at a rate of 10.25% per annum, with a maturity date of July 28, 2014. On February 11, 2010, the holders of the New 2014 Senior Notes exchanged their notes with the Company in consideration of the issuance by the Company of additional 10.25% guaranteed senior notes due 2014 (the “2014 Senior Notes”) with an aggregate principal amount of \$187,187,000. On the acquisition date, the Mandra Notes assumed by the Company was revalued at the fair value of the 2014 Senior Notes. The remaining 0.3%, or \$530,000 principal amount of the Mandra Notes was redeemed pursuant to the terms of the indenture governing the Mandra Notes on June 2, 2010.

On June 10, 2010, the Company acquired the remaining 0.01% equity interest in Mandra for a consideration of \$160. On June 29, 2010, the Company acquired the remaining 3.3% of the warrants issued by Mandra for a consideration of \$132,000.

On August 5, 2010, the Company issued 147,908 common shares representing 50% of the First Supplemental Payment at an issuance price of Cdn.\$15.60 per common share.

On April 28, 2011, the Company issued 355,037 common shares as the remaining 50% of the First Supplemental Payment and the Second Supplemental Payment at an issuance price of Cdn.\$15.60 and Cdn.\$23.53 per common share, respectively.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### *Assets acquired and liabilities assumed*

The fair values of the identifiable assets and liabilities of Mandra as at the date of acquisition were:

	Fair value recognized on acquisition \$
<b>Assets</b>	
Property, plant and equipment	797
Investment properties	496
Cash and cash equivalents	6,022
Trade and other receivables	1,472
Inventories	486
Timber holdings	120,440
Prepaid lease payments	1,958
Other assets	64,606
Favourable operating leases relative to market terms	35,163
	<b>231,440</b>
<b>Liabilities</b>	
Trade and other payables	(50,566)
Income taxes payable	(377)
Interest-bearing loans and borrowings	(198,849)
Deferred tax liability	(17,289)
	<b>(267,081)</b>
<b>Total identifiable net liabilities at fair value</b>	<b>(35,641)</b>
Non-controlling interest measured at proportionate share of identifiable net assets	(4,855)
Goodwill arising on acquisition	51,300
<b>Purchase consideration transferred</b>	<b>10,804</b>

The fair value of the operating lease contracts of \$35,163,000 was derived from an independent valuation for the operating leases of the plantation land at the acquisition date. The fair value of the timber holdings and other assets of \$120,440,000 and \$64,606,000, respectively were derived from a preliminary estimate of value from an independent valuator as at the acquisition date. The goodwill amount recognized on the acquisition primarily reflects the Company's assessment of additional value to be generated by applying its own business model and strategies to the acquired assets.

Mandra contributed \$1,363,000 of revenue and loss of \$8,629,000 from the date of acquisition of February 5, 2010 to December 31, 2010 to the profit before tax from continuing operations of the Company. If the combination had taken place at the beginning of 2010, revenue from continuing operations would have been \$1,923,536,000 and the profit from continuing operations for the Company would have been \$306,988,000.

<b><i>Purchase consideration</i></b>	<b>\$</b>
Cash paid and payable	3,905
Contingent consideration liability	6,899
<b>Total consideration</b>	<b>10,804</b>
<b><i>Analysis of cash flows on acquisition</i></b>	<b>\$</b>
Transaction costs of the acquisition (included in cash flows from operating activities)	(2,196)
Net cash acquired with the subsidiaries (included in cash flows from investing activities)	6,022
<b>Net cash flow on acquisition</b>	<b>3,826</b>

Transaction costs of \$2,196,000 have been expensed and are included in selling and administrative expenses.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### [c] Acquisition of Greenheart Group

The Company acquired control over Greenheart Group Limited (formerly known as Omnicorp Limited) (“Greenheart Group”) and Greenheart Resources Holdings Limited (“Greenheart Resources”) during 2010.

Prior to May 2010, the Company held non-controlling interests in both Greenheart Resources and Greenheart Group, acquired through various transactions. On June 1, 2010, the Company acquired 2,638,469,000 ordinary shares in Greenheart Resources, representing approximately 34.4% of its issued share capital and increasing the Company’s total holdings to approximately 39.6%. Total consideration was approximately \$33,269,000, paid by issuing 1,990,566 common shares of the Company at an issuance price of Cdn.\$17.49 per common share. The remaining 60.4% equity interest in Greenheart Resources was and continues to be held by Greenheart Group.

The Company derecognized its available-for-sale interest in Greenheart Group, recognizing the accumulated increase in fair value of \$10,606,000 in the income statement for the year ended December 31, 2010. The Company also recognized a gain of \$14,694,000 in the income statement for the year ended December 31, 2010 on remeasuring its previously held equity interests in Greenheart Group and Greenheart Resources to fair value at the acquisition date.

On August 3, 2010, the Company acquired 230,000,000 ordinary shares in Greenheart Group, increasing its voting interest to approximately 53.5% of the enlarged issued share capital. Total cash consideration, at a price per share of HK\$1.82, was HK\$418,600,000 or approximately \$53,846,000. At the same time the Company obtained control over Greenheart Group, it obtained control over Greenheart Resources.

The Company also held an aggregate principal amount of HK\$212,328,000 4% convertible bonds of Greenheart Group which were convertible into ordinary shares of Greenheart Group at a conversion price of HK\$2.00 per share. On September 27, 2010, the Company converted all of the convertible bonds, increasing its controlling equity interest in Greenheart Group to approximately 59.1%.

#### *Assets acquired and liabilities assumed*

As the Company acquired control over Greenheart Resources at the same time as it acquired control over Greenheart Group, it has aggregated the two transactions for purposes of accounting and disclosure. The fair values of the identifiable assets and liabilities of Greenheart Group as at the date of acquisition were:

	\$
<b>Assets</b>	
Cash and cash balances	55,419
Trade and other receivables	409
Inventories	578
Timber concession licenses and cutting rights	143,000
Property, plant and equipment	3,560
Other assets	59
Prepaid lease payments	186
Investment in an associate	1,508
	<u>204,719</u>
<b>Liabilities</b>	
Trade and other payables	(4,916)
Deferred tax liability	(14,181)
Interest-bearing loans and borrowings	(1,799)
	<u>(20,896)</u>
Total identifiable net assets at fair value	183,823
Non-controlling interest measured at proportionate share of identifiable net assets	(55,792)
Goodwill arising on acquisition	24,341
<b>Purchase consideration transferred</b>	<b><u>152,372</u></b>

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

<b>Purchase consideration</b>		<b>\$</b>
Cash paid		53,912
Fair values of equity interests previously held		68,017
Transfer from convertible bonds		30,443
<b>Total consideration</b>		<b>152,372</b>
<b>Analysis of cash flows on acquisition</b>		<b>\$</b>
Transaction costs of the acquisition (included in cash flows from operating activities)		(608)
Net cash acquired with the subsidiaries (included in cash flows from investing activities)		55,419
<b>Net cash flow from acquisition</b>		<b>54,811</b>

The timber concession licenses and cutting rights are accounted for as intangible assets and amortized on a unit of production basis over the estimated life of the timber concession licenses and cutting rights. The goodwill amount recognized on the acquisition primarily reflects the Company's assessment of additional value to be generated by applying its own business model and strategies to the acquired assets.

Greenheart Group contributed \$965,000 of revenue and loss of \$8,565,000 from the date of acquisition of August 3, 2010 to December 31, 2010 to the profit before tax from continuing operations of the Company. If the combination had taken place at the beginning of 2010, revenue from continuing operations would have been \$1,924,713,000 and the profit from continuing operations for the Company would have been \$310,084,000.

Transaction costs of \$608,000 have been expensed and are included in the general and administrative expenses.

### [d] Dilution of Greenheart Group

During the three months ended March 31, 2011, Greenheart Group issued approximately 98,025,000 ordinary shares under its stock-based compensation plan and acquisition of non-controlling interests. The Company recognized a debit of \$6,468,000 in retained earnings, reflecting the difference between the amount by which non-controlling interests were adjusted and the fair value of the consideration received.

## 6. Segment information

The Company's operating businesses are structured and managed separately, according to the nature of their operations. Each of the Company's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

Summary details of the operating segments are as follows:

- [a] the plantation fibre segment engages in the sales of standing timber and logs;
- [b] the other fibre segment engages in the sales of domestic and imported wood products;
- [c] the manufacturing segment engages in the sales of manufacturing operation's products and other;
- [d] the Greenheart segment engages in the ownership of concession rights or plantation in Suriname and New Zealand and the sales and export of harvested logs and other wood products.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

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

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### Three months ended March 31, 2011

By Operating Segment

	Plantation Fibre \$	Other Fibre \$	Manufacturing and other \$	Greenheart \$	Corporate \$	Adjustments and eliminations \$	Total \$
<b>Revenue</b>							
External customer	218,248	106,172	12,854	1,650	—	—	338,924
Inter-segment	259	1,291	87	4,061	—	(5,698) <sup>1</sup>	—
<b>Total revenue</b>	<b>218,507</b>	<b>107,463</b>	<b>12,941</b>	<b>5,711</b>	<b>—</b>	<b>(5,698)</b>	<b>338,924</b>
Depreciation and amortization	507	139	1,787	533	447	—	3,413
Cost of sales of timber holdings	105,721	—	—	—	—	—	105,721
Finance income	28	30	111	120	1,259	—	1,548
Finance cost	376	571	378	673	42,419	—	44,417
Gain on changes in fair value of timber holdings	9,208	—	—	1,181	—	—	10,389
Loss on changes in fair value of financial instrument	—	—	—	—	53,040	—	53,040
Income tax expense	19,202	286	49	82	167	—	19,786
<b>Results</b>							
Segment profit (loss)	92,406	4,222	(3,494)	(1,017)	(108,803)	(5,698)	(22,384)

1. Inter-segment revenues are eliminated on consolidation.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### Three months ended March 31, 2010

By Operating Segment

	Plantation Fibre	Other Fibre	Manufacturing and other	Greenheart	Corporate	Adjustments and eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>							
External customer	156,789	82,938	11,288	—	—	—	251,015
Inter-segment	329	901	—	—	—	(1,230) <sup>1</sup>	—
<b>Total revenue</b>	<b>157,118</b>	<b>83,839</b>	<b>11,288</b>	<b>—</b>	<b>—</b>	<b>(1,230)</b>	<b>251,015</b>
Depreciation and amortization	366	98	1,393	—	337	—	2,194
Cost of sales of timber holdings	75,664	—	—	—	—	—	75,664
Finance income	19	23	208	—	3,175	—	3,425
Finance cost	234	538	371	—	29,438	—	30,581
Gain on changes in fair value of timber holdings	10,418	—	—	—	—	—	10,418
Loss on changes in fair value of financial instrument	—	—	—	—	21,118	—	21,118
Income tax expense	10,263	381	7	—	8	—	10,659
<b>Results</b>							
Segment profit (loss)	75,595	1,913	(6,350)	—	(53,418)	(1,230)	16,510

1. Inter-segment revenues are eliminated on consolidation.

	Plantation Fibre	Other Fibre	Manufacturing and other	Greenheart	Corporate	Adjustments and eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Segment assets</b>							
At March 31, 2011	4,215,567	325,025	269,379	269,947	789,562	—	5,869,480
At December 31, 2010	3,876,693	379,684	245,590	333,162	961,827	—	5,796,956
At January 1, 2010	2,539,619	212,861	190,340	—	1,074,517	—	4,017,337

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 7. Income tax

The major components of income tax expense in the interim consolidated income statement are:

	Three months ended March 31,	
	2011	2010
	\$	\$
<b>Current income tax</b>		
Current income tax expense [a]	18,908	10,387
<b>Deferred income tax</b>		
Origination and reversal of temporary differences	878	772
Benefit arising from previously unrecognized tax assets	—	(500)
Change of tax rates and imposition of new legislation	—	—
<b>Income tax expense reported in the income statement</b>	<b>19,786</b>	<b>10,659</b>
Income tax recognized in other comprehensive income	—	—
	<b>19,786</b>	<b>10,659</b>

The Company's effective tax rate is different from the Company's domestic statutory income tax rate due to the differences set out below:

	Three months ended March 31,	
	2011	2010
	\$	\$
(Loss) profit before tax from continuing operations	(2,598)	27,169
Expected statutory tax rate of Canada	28.25%	31.00%
Expected income tax expense	(734)	8,422
Recovery relating to previously unrecognized tax losses	—	(500)
Expenses not deductible for tax purposes: Loss on changes in fair value of financial instruments [b]	14,984	6,547
Tax losses for which no deferred income tax asset was recognized	20,952	15,141
Income tax at lower rates in foreign jurisdiction [c]	(15,834)	(19,796)
Other	418	845
Income tax expense reported in the income statement	19,786	10,659
Effective rate [b]	(761.6%)	39.2%
Income tax expense from continuing operations	19,786	10,659
Income tax attributable to discontinued operations	(277)	442
	<b>19,509</b>	<b>11,101</b>

[a] Current income tax includes accrual for tax contingency related to PRC tax including surtax on PRC income as outlined in note 21.

[b] The effective rate calculated above is distorted by the fact that the amount of "(loss) profit before tax from continuing operations" included the "loss on changes in fair value of financial instruments" which does not affect the Company's calculation of taxable income and the amount of tax expense. If the "loss on changes in fair value of financial instruments" were excluded from the calculation of "(loss) profit before tax from continuing operations", the effective tax rates for March 31, 2011 and 2010 would be 39.2% and 22.1%, respectively.

Under IFRS, the Company has adopted the use of the probability-weighted average method in determining the accrual for tax contingency related to PRC tax including surtax on PRC income as outlined in note 21. The probability-weighted average method considers various scenarios under which the Company's tax liabilities are determined. The increase in effective tax rate is mainly due to an increase in the probability assigned to the scenarios under which the same deemed profit (i.e. 15%) is used in all provinces in the PRC in which the Company does business for years prior to 2010 and a decrease in the probability assigned to



## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

the scenario under which different deemed profit rates (10% to 15%) are used in different provinces (see note 21).

[c] See note 21 as the lower rate relates to the use of BVI Subsidiaries.

As at December 31, 2010, the Company has income tax losses of approximately \$125,188,000 based on US dollar tax reporting for which no accounting benefit has been recognized and which can be applied against future years' taxable income in Canada.

The losses will expire as follows:

	\$
<b>Year of Expiry</b>	
2010	1,031
2014	14,406
2015	21,907
2026	16,743
2028	2,372
2029	21,834
2030	46,895
	125,188

In addition, as at December 31, 2010, the Company's PRC WFOEs (Wholly foreign-owned enterprise) and CJVs (Cooperative joint venture) have incurred tax losses on a legal entity basis in aggregate of approximately \$67,417,000 [2009 – \$36,576,000]. Losses incurred by the PRC WFOEs and CJVs can be carried forward for a maximum of five years. As of March 31, 2011, benefits in amount of \$3,500,000 have been recognized as deferred tax assets from the tax losses incurred by the PRC WFOEs and CJVs.

The Company's balances of recognized deferred tax assets and liabilities are:

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Deferred income tax asset	3,500	3,500	2,900
Deferred income tax liability	(49,923)	(48,934)	(14,842)
Total net deferred income tax liability	(46,423)	(45,434)	(11,942)

Deferred income tax liabilities as at March 31, 2011, December 31, 2010 and January 1, 2010 relate to the following:

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Timber holdings, measured at fair value	(16,846)	(15,514)	(14,842)
Future tax liability on fair market value increments on acquisitions	(33,077)	(33,420)	—
Tax losses carried forward	3,500	3,500	2,900
Net deferred income tax liability	(46,423)	(45,434)	(11,942)

### 8. (Loss) earnings per share

Basic (loss) earnings per share amounts are calculated by dividing net (loss) profit for the year attributable to equity holders of the parent by the weighted average number of common shares outstanding during the year.

Diluted (loss) earnings per share amounts are calculated by dividing the net (loss) profit attributable to equity holders of the parent (after adjusting for interest on the convertible notes, if assessed as dilutive) by the weighted average number of common shares outstanding during the period plus the weighted average number of common

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

shares that would be issued on conversion of all the dilutive potential common shares into common shares.

The following reflects the (loss) income and share data used in the basic and diluted (loss) earnings per share computations:

	Three months ended March 31,	
	2011 \$	2010 \$
Net (loss) profit attributable to equity holders of the parent from continuing operations	(20,977)	16,512
Profit (loss) attributable to equity holders of the parent from discontinued operations	277	(595)
<b>Net (loss) profit attributable to equity holders of the parent for basic (loss) earnings</b>	<b>(20,700)</b>	<b>15,917</b>

	Three months ended March 31,	
	2011 '000	2010 '000
Weighted average number of common shares for basic (loss) earnings per share	245,741	242,190
Effect of dilution: Share options	—	1,972
<b>Weighted average number of common shares adjusted for the effect of dilution</b>	<b>245,741</b>	<b>244,162</b>

In respect of the diluted (loss) earnings per share amounts, the impact of the Company's outstanding Convertible Notes is not adjusted in the calculation of weighted number of common shares for the effect of dilution and net loss (profit) attributable to equity holders of the parent as they are assessed as anti-dilutive for the three months ended March 31, 2011 and 2010. In addition, the effect of the dilution of share options is anti-dilutive for the three months ended March 31, 2011.

On April 25, 2011, the Company issued 355,037 common shares as the final payment of the contingent consideration in respect of the acquisition of Mandra.

To calculate earnings (loss) per share amounts for the discontinued operation, the weighted average number of common shares for both basic and diluted amounts is as per the table above. The following table provides the earnings (loss) amount used:

	Three months ended March 31,	
	2011 \$	2010 \$
<b>Net profit (loss) from discontinued operation for basic and diluted earnings (loss) per share calculations</b>	<b>277</b>	<b>(595)</b>

### 9. Trade and other receivables (current)

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Trade receivables	410,325	636,626	282,318
Other receivables	37,579	62,767	40,200
	<b>447,904</b>	<b>699,393</b>	<b>322,518</b>

The Company reviews outstanding trade receivable and records an allowance for doubtful accounts when the

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

collections are in doubt. Trade receivable are substantially from companies located in the PRC and are denominated in Renminbi. The Renminbi is not freely remittable out of the PRC and its conversion into other currencies is restricted under the current PRC foreign exchange regulations. As a result, the majority of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi.

### 10. Prepayments

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Prepayment	86,879	62,278	16,292
Prepaid lease payments	5,623	5,861	3,302
	<b>92,502</b>	<b>68,139</b>	<b>19,594</b>

### 11. Timber holdings

#### 11.1 The Company's timber holdings consist of the following:

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Timber holdings measured at lower of cost and net realizable value	3,302,124	2,888,556	2,074,732
Timber holdings measured at fair value less estimated point-of-sale cost	260,119	249,090	167,990
	<b>3,562,243</b>	<b>3,137,646</b>	<b>2,242,722</b>

The amount of timber holdings stated at lower of cost and net realizable value recognized as expenses and included in cost of sales for the three months ended March 31, 2011 was \$103,441,000 [2010 – \$64,568,000].

#### 11.2 Timber holdings measured at fair value less estimated point-of-sale cost:

	Planted Plantations \$	Nursery \$	Total \$
At January 1, 2010	160,983	7,007	167,990
Additions	27,806	6,015	33,821
Acquisition of subsidiaries	58,860	—	58,860
Harvested as agricultural produce	(132)	—	(132)
Depletion of timber holdings	(44,924)	(4,650)	(49,574)
Gains (losses) arising from changes in fair value less estimated point-of-sale cost	32,324	—	32,324
Exchange translation difference	3,125	2,676	5,801
At December 31, 2010	238,042	11,048	249,090
Additions	5,573	1,254	6,827
Harvested as agricultural produce	(1,089)	—	(1,089)
Depletion of timber holdings	(5,851)	(191)	(6,042)
Gains (losses) arising from changes in fair value less estimated point-of-sale cost	10,389	—	10,389
Exchange translation difference	813	131	944
<b>At March 31, 2011</b>	<b>247,877</b>	<b>12,242</b>	<b>260,119</b>

The fair values at the end of each period represent the net present value of the cash flows expected to arise from the management and harvest of the existing plantations over their current rotation, after applying a pre-tax discount rate of 11.5%. The valuation methodology also refers to market transactions in other similar properties.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

In the opinion of management, the fair value of plantations of age of two years or below and the fair value of nursery approximate cost at the end of each period.

During the three months ended March 31, 2010 and 2011, the Company sold approximately 1,142 hectares [2010 – 2,249 hectares] of plantations, with a fair value less estimated point-of-sale costs of \$3,805,000 [2010 – \$7,997,000].

The carrying amount of timber holdings pledged as collateral for the Company's interest-bearing loans and borrowings was \$36,541,000, \$38,758,000 and \$45,005,000 as at January 1, 2010, December 31, 2010 and March 31, 2011, respectively.

### 12. Inventories

The amount of inventories recognized as an expense and included in cost of sales for the three months ended March 31, 2011 was \$114,030,000 [2010 – \$87,555,000].

The amount charged to the consolidated income statement and included in cost of sales for the three months ended March 31, 2011 for the reversal of previously-recognized write-downs of inventories was \$84,000 [2010 – reversal of write-down of \$369,000].

### 13. Prepaid lease payments

These represent amounts prepaid for plantation and factory land use rights in the PRC.

### 14. Financial assets and financial liabilities

#### 14.1 Other financial assets

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
<b>Financial instruments at fair value through profit or loss</b>			
Derivatives not designated as hedges			
Embedded derivatives of convertible bonds of Greenheart	—	—	8,459
<b>Total financial instruments at fair value</b>	<b>—</b>	<b>—</b>	<b>8,459</b>
<b>Loans and receivables</b>			
Convertible bonds of Greenheart	—	—	20,987
Subordinated loan and interest receivable from Mandra	—	—	20,566
Trade receivables, non-current	5,182	5,464	3,537
Other receivables, non-current	5,689	5,689	5,475
<b>Total loans and receivables</b>	<b>10,871</b>	<b>11,153</b>	<b>50,565</b>
<b>Available for sale investments</b>			
Quoted equity shares in Greenheart Group	—	—	14,672
Unquoted equity shares in Greenheart Resources	—	—	2,385
Unquoted equity shares in Mandra	—	—	2
<b>Total available for sale investments</b>	<b>—</b>	<b>—</b>	<b>17,059</b>
<b>Total other financial assets</b>	<b>10,871</b>	<b>11,153</b>	<b>76,083</b>
<b>Total current</b>	<b>—</b>	<b>—</b>	<b>29,446</b>
<b>Total non-current</b>	<b>10,871</b>	<b>11,153</b>	<b>46,637</b>

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 14.2 Derivative financial instrument

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
<b>Financial liabilities at fair value through profit or loss</b>			
Derivatives not designated as hedges			
Embedded derivatives of convertible notes	501,366	448,326	371,962
<b>Total derivative financial instruments at fair value through profit or loss</b>	<b>501,366</b>	<b>448,326</b>	<b>371,962</b>

### 14.3 Interest-bearing loans and borrowings

		March 31, 2011	December 31, 2010	January 1, 2010
	Notes	\$	\$	\$
<b>Current</b>				
Trust receipt loans	a	102,279	106,865	44,469
Bank loans	a	52,912	47,094	59,522
2011 Senior Notes		87,670	87,670	—
		<b>242,861</b>	<b>241,629</b>	<b>103,991</b>
<b>Non-current</b>				
2011 Senior Notes		—	—	87,670
2013 Convertible Notes		285,054	279,711	259,945
2014 Senior Notes		399,518	399,518	212,330
2015 Convertible Notes		24,695	24,334	—
2016 Convertible Notes		286,032	281,080	262,834
2017 Senior Notes		600,000	600,000	—
Unamortized deferred financing costs		(41,550)	(43,550)	(29,248)
		<b>1,553,749</b>	<b>1,541,093</b>	<b>793,531</b>

- (a) Certain of the Company's banking facilities are collateralized by:
- (i) charges over certain of the Company's prepaid land leases, buildings and timber holdings measured at fair value which have an aggregate net book value at March 31, 2011 of \$51,037,000 [December 31, 2010 - \$38,758,000]; and
  - (ii) certain short-term deposits at March 31, 2011 of \$13,970,000 [December 31, 2010 - \$12,996,000].
- (b) The terms of the Company's interest-bearing loans and borrowings were disclosed in note 12 to the Company's annual financial statements for the year ended December 31, 2010. As noted therein, the terms of the 2013 and 2016 Convertible Notes provide that they are convertible into common shares of the Company, at the option of the holder, at a defined conversion rate; however, the Company may elect to deliver, in lieu of its common shares, cash or a combination of cash and common shares. The Company's option to deliver cash on the conversion date in lieu of common shares gives rise to an embedded derivative financial liability, measured separately at fair value through profit or loss because it is not closely related to the underlying Convertible Notes. On initial recognition, for each series of the Convertible Notes, the Company measured the derivative financial liability at fair value, and measured the carrying value of the underlying Convertible Notes at the difference between this amount and the proceeds of issue. Subsequent to initial recognition, the Company measures the derivative financial liability at fair value at each reporting date, recognizing changes in the fair value in the income statement, and accretes the carrying value of the underlying Convertible Notes to their face value using the effective interest method.

As discussed in note 22[a], on June 13, 2011, the Board of Directors approved amendments to the indentures governing the Convertible Notes to eliminate the Company's option to settle the Convertible Notes by delivering cash or a combination of cash and common shares. The elimination of this option will change the treatment of the embedded derivative liability, removing the requirement to measure that derivative financial liability at fair value at the end of each reporting period. Instead, the Convertible

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

Notes will be treated as consisting of a liability portion amortized over the loan period, and an equity portion classified as equity.

The loss on changes in fair value of the derivative liability for the three months ended March 31, 2011 is \$53,040,000 [2010 – \$20,409,000]

The significant assumptions used in applying the Black-Scholes valuation model are as follows:

<b>2016 Convertible Notes</b>	March 31, 2011	December 31, 2010	March 31, 2010	January 1, 2010	December 17, 2009
Date of expiry	December 15, 2016	December 15, 2016	December 15, 2016	December 15, 2016	December 15, 2016
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Volatility	55.4%	55.6%	59.2%	59.1%	59.1%
Risk-free interest rate	3.04%	2.86%	3.09%	2.83%	2.83%
Expected life (in years)	5.72	5.96	6.72	6.96	7.00

<b>2013 Convertible Notes</b>	March 31, 2011	December 31, 2010	March 31, 2010	January 1, 2010	July 17, 2008
Date of expiry	August 1, 2013	August 1, 2013	August 1, 2013	August 1, 2013	August 1, 2013
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Volatility	53.1%	59.5%	61.8%	62.3%	55.8%
Risk-free interest rate	1.69%	1.70%	2.26%	2.12%	3.62%
Expected life (in years)	2.34	2.58	3.34	3.58	5.00

- 14.4 The following is an analysis of the contractual maturities of the Company's financial liabilities as at March 31, 2011:

	Payment Due by Period				Total \$
	Within one year \$	In the second and third year \$	In the fourth and fifth year \$	After the fifth year \$	
Interest-bearing loans and borrowings	242,861	345,000	424,517	1,060,000	2,072,378
Trade and other payables <sup>(1)</sup>	278,555	—	—	—	278,555
Interest obligations of non-current interest bearing loans and borrowings	119,544	221,548	129,249	72,286	542,627
	640,960	566,548	553,766	1,132,286	2,893,560

<sup>(1)</sup> Excluding the tax provision for tax related contingency.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 15. Property, plant and equipment, intangible assets and goodwill

	Property, plant and equipment \$	Intangible assets and goodwill \$
Opening net book value at January 1, 2010	47,299	850
Additions	31,161	—
Acquisition of subsidiaries	9,720	263,612
Disposals	(1,614)	—
Depreciation and amortization	(6,617)	(2,976)
Change in fair value	640	—
Exchange adjustment	1,936	2,731
Closing net book value at December 31, 2010	82,525	264,217
Additions	5,041	8,409
Disposals	(392)	—
Depreciation and amortization	(2,162)	(977)
Exchange adjustment	668	913
<b>Closing net book value at March 31, 2011</b>	<b>85,680</b>	<b>272,562</b>

### 16. Other assets

The Company's other assets consist of the following:

	March 31, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Wood logs deposit	48,300	22,500	—
Deposit paid for acquisition of property, plant and equipment	2,446	2,283	115
Prepaid plantation costs	81,353	80,361	286
Deposit paid for business acquisition	—	—	6,326
Others	6,828	5,096	266
	<b>138,927</b>	<b>110,240</b>	<b>6,993</b>

### 17. Issued capital

	March 31, 2011		December 31, 2010	
	Number of Common Shares	Issued Capital \$	Number of Common Shares	Issued Capital \$
<b>Authorized</b>				
Unlimited common shares, without par value				
Unlimited preference shares, issuable in series, without par value				
<b>Issued</b>				
Balance, beginning of period/year	245,740,889	1,261,086	242,129,062	1,213,483
Issue of shares	—	—	2,138,474	35,501
Exercise of options	—	—	1,473,353	8,353
Transfer from contributed surplus	—	—	—	3,749
Balance, end of period/year	<b>245,740,889</b>	<b>1,261,086</b>	<b>245,740,889</b>	<b>1,261,086</b>

During the three months ended March 31, 2011, no common shares were issued upon the exercise of stock options.

As at March 31, 2011, options to purchase 610,196 common shares remain available to be granted.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

During the three months ended March 31, 2011, options to acquire up to 180,702 [2010 – Nil] common shares were granted to executives and employees at an exercise price of Cdn.\$21.67. The options granted will vest over three years and expire in five years. The total fair value of the stock options granted was estimated to be \$1,838,000 on the respective dates of grant using the Black Scholes option-pricing model in respect of the three vesting with the following input:

	<b>March 17, 2011</b>
Number of options (in number)	<b>180,702</b>
Exercise price (in Cdn.\$)	<b>\$21.67</b>
Date of expiry	<b>March 17, 2016</b>
Dividend Yield	<b>0.0%</b>
Volatility	<b>57.0%, 55.8%, 56.6%</b>
Risk-free interest rate	<b>2.36%</b>
Option's expected life (in years)	<b>3.85, 4.15, 4.58</b>

For the three months ended March 31, 2011, \$118,000 was recorded in selling, general and administrative expenses as compensation expense for the re-measurement of Deferred Stock Units ("DSUs") (including \$2,000 related to the revaluation to the market value of the underlying shares as at March 31, 2010). As at March 31, 2011, there were an aggregate of 25,156 DSUs with a market value of \$655,000 recognized and outstanding.

### 18. Related party disclosures

#### 18.1 Transactions with related parties

During the period, the Company has entered into transactions with related parties as follows:

- [a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by such executive officers. The consultancy fees incurred for the period ended March 31, 2011 amounted to \$152,000 [2010 – \$153,000], and were recorded at an exchange amount as agreed by the related parties.
- [b] In addition, as at March 31, 2011, the Company had an aggregate amount of \$7,632,000 [December 31, 2010 – \$7,632,000, January 1, 2010 – \$6,958,000] accrued for consultancy fees payable to these related companies. The amount was included in trade and other payables as at March 31, 2011 and was subsequently paid in April 2011.

#### 18.2 Compensation of key management personnel of the Company

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	<b>3,400</b>	3,025
Equity compensation benefits	<b>1,478</b>	—
	<b>4,878</b>	3,025

### 19. Commitments

#### *Operating lease commitments – Company as lessee*

The Company has entered into commercial leases on certain land and buildings. These leases have an average life of between 1 and 45 years with (no) renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases.

Future minimum rental payable under non-cancellable operating leases are as follows:



## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

	March 31, 2011 \$	December 31, 2010 \$
Within one year	16,078	28,491
After one year but not more than five years	39,954	38,045
More than five years	175,192	177,260
	<u>231,224</u>	<u>243,796</u>

### *Operating lease commitments – Company as lessor*

The Company has entered into commercial property leases on its investment property portfolio, consisting of the Company's surplus office and land and buildings. These non-cancellable leases have remaining terms of between 1 and 3 years.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	March 31, 2011 \$	December 31, 2010 \$
Within one year	935	1,059
After one year but not more than five years	1,594	1,042
More than five years	—	—
	<u>2,529</u>	<u>2,101</u>

### *Capital commitments*

Capital commitments outstanding at the end of the reporting period and not provided for in the financial statements were as follows:

	March 31, 2011 \$	December 31, 2010 \$
Contracted for	155,675	146,825
Authorized but not contracted for	—	—
	<u>155,675</u>	<u>146,825</u>

The capital commitments contracted for were in respect to buildings and plant and machinery.

### *Capital contributions*

As at March 31, 2011, the Company has capital commitments in respect of capital contributions to our WFOEs of \$101,600,000 [December 31, 2010 – \$51,600,000].

### *Purchase commitments*

As at March 31, 2011, the Company has purchase commitments mainly regarding logs of \$264,819,000 [December 31, 2010 – \$193,987,000].

### *Other commitments*

Under the assignment agreement entered in May 2010, of which the former agreement was entered in July 2006 to secure at least 1.5 million m<sup>3</sup> of wood fibre annually in Inner Mongolia up to July 2018, the Company has acquired approximately 1,109,414 m<sup>3</sup> of wood fibre as at March 31, 2011.

Under the agreement entered in July 2010 to secure at least 600,000 m<sup>3</sup> of wood fibre annually for a period not longer than 10 years in Russia, the Company has acquired approximately 234,400 m<sup>3</sup> of wood fibre as at March 31, 2011.

## **Notes to the condensed interim consolidated financial statements**

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, the Company has acquired 226,300 hectares of plantation trees for \$926,507,000 as at March 31, 2011.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has actually acquired 230,200 hectares of plantation trees for \$1,193,459,000 as at March 31, 2011.

Under the master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, the Company has acquired 137,100 hectares of plantation trees for \$690,598,000 as at March 31, 2011.

Under the master agreement entered in August 2008 to acquire 200,000 hectares of plantation trees over a 10-year period in Fujian, the Company has not acquired any hectares of plantation trees as at March 31, 2011.

Under the master agreement entered in June 2009 to acquire between 150,000 and 300,000 hectares of plantation trees over a 3-year period in Jiangxi, the Company has acquired 69,100 hectares of plantation trees for \$309,614,000 as at March 31, 2011.

Under the master agreement entered in January 2010 to acquire 150,000 hectares of plantation trees over a 3-year period in Guizhou, the Company has acquired 38,200 hectares of plantation trees for \$201,438,000 as at March 31, 2011.

### **20. Capital Management**

The Company's objectives in managing capital are to maintain an optimal capital structure to reduce the overall cost of capital, to safeguard its ability to continue to deploy capital to pursue its strategy of growth, and to provide returns to shareholders and other stakeholders.

In the management of capital, the Company includes interest-bearing loans and borrowing (including short-term position) of \$1,796,610,000 and equity attributable to equity holders of the parent of \$2,933,923,000. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. There were no changes in the Company's approach to capital management during the period.

The Company is subject to externally imposed minimum capital requirements relating to the interest-bearing loans and borrowing and exceeds the minimum requirements during the period. The Company's capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As of March 31, 2011, the Company has retained earnings of approximately \$1.5 billion which may be restricted.

### **21. Provision and contingencies for tax related liabilities**

The provision for income taxes and tax related liabilities and whether tax filings are required in a particular jurisdiction is subject to a number of different factors, estimates and judgments made by management. A change in the facts or in these estimates and judgments could have a material impact on the Company's tax expense.

The Company has operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates and that are subject to audit by all relevant tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions, changes in tax laws and administrative practice in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company operates. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions.

In particular, the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and in earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

the current PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC, are probably subject to enterprise income tax on a deemed profit basis and they are probably expected to be taxed on this basis for the current year end plus three prior years instead of current year plus five prior years.

Under the terms of the agreements, relevant sales contracts and commission agreements made with the AI (collectively, the "AI Agreements"), the AI are responsible for withholding and remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are also subject to enterprise income tax because of the Authorized Sales Activities. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities for up to a period from four to six years in practice (including the current year). Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to triple amount of the tax underpaid.

Management has concluded that based on all available evidence it is appropriate to recognize in these financial statements a provision representing management's estimate, based upon a probability-weighted average, of the amounts the PRC tax authorities might seek to recover under various scenarios. As at March 31, 2011, this provision is \$189,604,000 [December 31, 2010 – \$168,914,000], which amount mainly relates to the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current three-months and in the four preceding years including discontinued operations, and is included in trade and other payables.

The PRC tax authorities issued Circular 19 in February 2010 (the "Circular") stating that the deemed profit percentage for certain activities should be a minimum of 15%. The activities subject to this minimum percentage appear to include sales of plantation fibre. The Company has been assessing the effect of the Circular on the BVI Subsidiaries and monitoring its interpretation and its application by the PRC tax authorities. Based upon the Company's analysis to date, the Company has recorded income tax based on a probability-weighted average method which considers various scenarios under which the Company's tax liabilities are determined.

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 respectively. The amount recognized as a provision is the best estimate of the consideration required to settle the liabilities at the end of the reporting period, calculated by weighting the possible outcomes flowing from the matters described above by their associated probabilities, taking into account the surrounding risks and uncertainties. The Company actively revisits and adjusts its measurement of this provision as it updates its analysis. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of related contingencies in a period.

### 22. First-time adoption of IFRS

The condensed interim consolidated financial statements are the Company's first financial statements prepared under IFRS. The date of transition to IFRS is January 1, 2010 (the "Transition Date").

The Company's IFRS accounting policies presented in note 3 have been applied in preparing the financial statements for the three months ended March 31, 2011, the comparative information and the statement of financial position at the Transition Date.

The Company has applied IFRS 1 in preparing these first condensed interim consolidated financial statements.

#### 22.1 First-time adoption exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The following items are relevant to these financial statements:

- (a) Share-based payments – IFRS 2, *Share-based Payments* ("IFRS 2"), encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.

- (b) Leases – IFRIC 4, *Determining whether an arrangement contains a lease* (“IFRIC 4”), contains specific transitional relief to first-time adopters of IFRS from going back potentially many years and making a meaningful assessment of whether the arrangement satisfied the criteria at the time. The Company elected to avail itself of the IFRS 1 exemption and apply IFRIC 4 to arrangements existing at the date of transition on the basis of facts and circumstances existing at that date.
- (c) Currency translation differences – Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates* (“IAS 21”), from the date a subsidiary or equity method investee was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date. The Company elected to reset all cumulative translation gains and losses to zero.
- (d) Business combinations – IFRS 1 provides the option to apply IFRS 3, *Business Combinations* (“IFRS 3”), retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date. As a result of this election, the classification and accounting treatment of business combinations prior to the Transition Date have not been restated.
- (e) Fair value as deemed cost – The Company has not elected to measure any item of property, plant and equipment at its fair value at the Transition Date; property, plant and equipment have been measured at cost in accordance with IFRS which approximates costs in accordance with Canadian GAAP.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 22.2 Reconciliation of equity

The Company's equity as at the Transition Date and as at December 31, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

Notes	January 1, 2010				December 31, 2010			
	Canadian GAAP \$	IFRS Adjustments \$	IFRS reclassifications \$	IFRS \$	Canadian GAAP \$	IFRS Adjustments \$	IFRS reclassifications \$	IFRS \$
<b>Current assets</b>								
Cash and cash equivalents	1,102,366	—	—	1,102,366	1,223,352	—	—	1,223,352
Short-term deposits	70,387	—	—	70,387	32,101	—	—	32,101
Accounts receivable	282,306	—	(282,306)	—	636,626	—	(636,626)	—
Trade and other receivables	—	—	322,518	322,518	—	—	699,393	699,393
Prepayments	—	227	19,367	19,594	—	(193)	68,332	68,139
Timber holdings, measured at cost	—	(8,607)	2,083,339	2,074,732	—	(59,982)	2,948,538	2,888,556
Inventories	45,978	—	(7,007)	38,971	61,978	47	(11,048)	50,977
Prepaid expenses and others	54,747	—	(54,747)	—	125,238	—	(125,238)	—
Convertible bonds	29,446	—	(29,446)	—	—	—	—	—
Other current financial assets	—	—	29,446	29,446	—	—	—	—
Assets of discontinued operations	1,531	—	(1,531)	—	—	—	—	—
	1,586,761	(8,380)	2,079,633	3,658,014	2,079,295	(60,128)	2,943,351	4,962,518
<b>Non-current assets</b>								
Timber holdings	2,183,489	—	(2,183,489)	—	3,122,517	—	(3,122,517)	—
Timber holdings, measured at fair value	—	60,834	107,156	167,990	—	64,064	185,026	249,090
Property, plant and equipment	77,377	992	(31,070)	47,299	113,150	1,549	(32,174)	82,525
Investment properties	—	—	22,653	22,653	—	—	23,498	23,498
Prepaid lease payments, non-current portion	—	—	64,001	64,001	—	—	90,215	90,215

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 22.2 Reconciliation of equity (cont'd)

	Notes	January 1, 2010				December 31, 2010			
		Canadian GAAP \$	IFRS Adjustments \$	IFRS reclassifications \$	IFRS \$	Canadian GAAP \$	IFRS Adjustments \$	IFRS reclassifications \$	IFRS \$
Other non-current financial assets		—	(2,956)	49,593	46,637	—	(2,987)	14,140	11,153
Intangible assets and goodwill		—	48	802	850	139,910	124,140	167	264,217
Other assets	b	116,272	—	(109,279)	6,993	274,161	(62,215)	(101,706)	110,240
Deferred tax assets	i	—	2,900	—	2,900	—	3,500	—	3,500
		2,377,138	61,818	(2,079,633)	359,323	3,649,738	128,051	(2,943,351)	834,438
<b>Total assets</b>		3,963,899	53,438	—	4,017,337	5,729,033	67,923	—	5,796,956
<b>Current liabilities</b>									
Current portion of long-term debt	e	—	—	—	—	87,670	—	(87,670)	—
Interest-bearing loans and borrowings	e	103,991	—	—	103,991	153,959	—	87,670	241,629
Trade and other payables		250,287	17,660	12,156	280,103	499,854	19,040	3,699	522,593
Income tax payable		7,346	—	—	7,346	10,602	377	—	10,979
Liabilities of discontinued operations		12,156	—	(12,156)	—	3,699	—	(3,699)	—
		373,780	17,660	—	391,440	755,784	19,417	—	775,201
<b>Non-current liabilities</b>									
Interest-bearing loans and borrowings	e	925,466	(131,935)	—	793,531	1,659,682	(118,589)	—	1,541,093
Derivative financial instruments	e	—	371,962	—	371,962	—	448,326	—	448,326
Deferred tax liability	i	—	14,842	—	14,842	63,906	(14,972)	—	48,934
		925,466	254,869	—	1,180,335	1,723,588	314,765	—	2,038,353
<b>Total liabilities</b>		1,299,246	272,529	—	1,571,775	2,479,372	334,182	—	2,813,554

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 22.2 Reconciliation of equity (cont'd)

Notes	January 1, 2010				December 31, 2010			
	Canadian GAAP \$	IFRS Adjustments \$	IFRS reclassifications \$	IFRS \$	Canadian GAAP \$	IFRS Adjustments \$	IFRS reclassifications \$	IFRS \$
<b>Shareholders' equity</b>								
Equity portion of convertible notes	e	158,883	(158,883)	—	158,883	(158,883)	—	—
Share capital		1,213,495	—	(1,213,495)	1,261,300	—	(1,261,300)	—
Issued capital	f	—	(12)	1,213,495	—	(214)	1,261,300	1,261,086
Contributed surplus		12,200	—	(12,200)	11,673	—	(11,673)	—
Accumulated other comprehensive income		224,148	—	(224,148)	314,912	—	(314,912)	—
Statutory reserve		1,670	—	(1,670)	1,988	—	(1,988)	—
Retained earnings	f, g	1,054,257	156,953	—	1,449,365	95,595	—	1,544,960
Other reserves		—	(217,149)	238,018	—	(213,141)	328,573	115,432
Equity attributable to equity holders of parent		2,664,653	(219,091)	—	3,198,121	(276,643)	—	2,921,478
Non-controlling interests		—	—	—	51,540	10,384	—	61,924
<b>Total shareholders' equity</b>		<b>2,664,653</b>	<b>(219,091)</b>	<b>—</b>	<b>3,249,661</b>	<b>(266,259)</b>	<b>—</b>	<b>2,983,402</b>
<b>Total liabilities and equity</b>		<b>3,963,899</b>	<b>53,438</b>	<b>—</b>	<b>5,729,033</b>	<b>67,923</b>	<b>—</b>	<b>5,796,956</b>

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 22.2 Reconciliation of equity (cont'd)

The Company's equity as at March 31, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

	Notes	March 31, 2010			IFRS \$
		Canadian GAAP \$	IFRS Adjustments \$	IFRS reclassifications \$	
<b>Current assets</b>					
Cash and cash equivalents		980,373	—	—	980,373
Short-term deposits		63,070	—	—	63,070
Accounts receivable		273,666	—	(273,666)	—
Trade and other receivables		—	—	310,905	310,905
Prepayments	b	—	227	30,490	30,717
Timber holdings, measured at cost	a	—	23,043	2,292,552	2,315,595
Inventories	d	66,422	109	(8,382)	58,149
Prepaid expenses and others		64,397	—	(64,397)	—
Convertible bonds		30,566	—	(30,566)	—
Other current financial assets		—	—	30,566	30,566
Assets of discontinued operations		9	—	(9)	—
		<u>1,478,503</u>	<u>23,379</u>	<u>2,287,493</u>	<u>3,789,375</u>
<b>Non-current assets</b>					
Timber holdings	a	2,589,362	(191,120)	(2,398,242)	—
Timber holdings, measured at fair value	a	—	61,603	112,115	173,718
Property, plant and equipment	b, c	83,760	973	(31,576)	53,157
Investment properties	c	—	—	23,107	23,107
Prepaid lease payments, non-current portion		—	—	64,269	64,269
Other non-current financial assets		—	(3,098)	30,412	27,314
Intangible assets and goodwill		8,647	87,874	165	96,686
Other assets	b	108,243	51,725	(87,743)	72,225
Deferred tax assets	i	—	3,400	—	3,400
		<u>2,790,012</u>	<u>11,357</u>	<u>(2,287,493)</u>	<u>513,876</u>
<b>Total assets</b>		<u>4,268,515</u>	<u>34,736</u>	<u>—</u>	<u>4,303,251</u>



## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 22.2 Reconciliation of equity (cont'd)

Notes	March 31, 2010			
	Canadian GAAP \$	IFRS Adjustments \$	IFRS reclassifications \$	IFRS \$
<b>Current liabilities</b>				
Current portion of long-term debt	530	—	(530)	—
Interest-bearing loans and borrowings	e 124,906	—	530	125,436
Trade and other payables	257,432	21,523	12,300	291,255
Income tax payable	7,225	377	—	7,602
Liabilities of discontinued operations	12,300	—	(12,300)	—
	402,393	21,900	—	424,293
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	e 1,113,927	(128,821)	—	985,106
Derivative financial instruments	e —	392,371	—	392,371
Deferred tax liability	i 39,222	(4,459)	—	34,763
	1,153,149	259,091	—	1,412,240
<b>Total liabilities</b>	1,555,542	280,991	—	1,836,533
<b>Shareholders' equity</b>				
Equity portion of convertible notes	e 158,883	(158,883)	—	—
Share capital	1,216,178	—	(1,216,178)	—
Issued capital	f —	(64)	1,216,178	1,216,114
Contributed surplus	12,503	—	(12,503)	—
Accumulated other comprehensive income	225,475	—	(225,475)	—
Statutory reserve	1,672	—	(1,672)	—
Retained earnings	1,097,053	130,072	—	1,227,125
Other reserves	f, g —	(217,024)	239,650	22,626
Equity attributable to equity holders of parent	2,711,764	(245,899)	—	2,465,865
Non-controlling interests	1,209	(356)	—	853
<b>Total shareholders' equity</b>	2,712,973	(246,255)	—	2,466,718
<b>Total liabilities and equity</b>	4,268,515	34,736	—	4,303,251

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 22.3 Reconciliation of total comprehensive income

The Company's comprehensive income for the year ended December 31, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

	Notes	Canadian GAAP \$	IFRS adjustments \$	IFRS reclassifications \$	IFRS \$
<b>Continuing operations</b>					
Revenue		1,923,536	—	—	1,923,536
Cost of sales	a	(1,252,023)	(11,869)	—	(1,263,892)
Gain on changes in fair value of timber holdings less estimated point-of-sale cost	a	—	32,324	—	32,324
Other operating income		2,932	25,104	—	28,036
Selling and administrative expenses		(89,712)	(17,378)	(3,529)	(110,619)
Other operating expenses		—	(2,560)	(4,702)	(7,262)
Loss on changes in fair value of financial instruments	e	(4,419)	(76,364)	—	(80,783)
Depreciation and amortization		(5,145)	—	5,145	—
Exchange gains (losses)		(3,086)	—	3,086	—
Finance income		10,609	—	—	10,609
Finance costs		(128,124)	(13,798)	—	(141,922)
Provision for income taxes	i	(70,644)	(404)	—	(71,048)
<b>Profit from continuing operations</b>		<b>383,924</b>	<b>(64,945)</b>	<b>—</b>	<b>318,979</b>
<b>Discontinued operations</b>					
Profit (loss) after tax for the year from discontinued operations		8,179	3,152	—	11,331
Non-controlling interest		3,323	435	—	3,758
<b>Profit for the year</b>		<b>395,426</b>	<b>(61,358)</b>	<b>—</b>	<b>334,068</b>
<b>Other comprehensive income</b>					
Unrealized losses on financial assets designated as available-for-sale, net of tax of nil		(6,266)	—	—	(6,266)
Currency translation differences		97,030	4,285	—	101,315
		90,764	4,285	—	95,049
<b>Total comprehensive income</b>		<b>486,190</b>	<b>(57,073)</b>	<b>—</b>	<b>429,117</b>

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 22.3 Reconciliation of total comprehensive income (cont'd)

The Company's comprehensive income for the three months ended March 31, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

	Notes	Canadian GAAP \$	IFRS adjustments \$	IFRS reclassifications \$	IFRS \$
<b>Continuing operations</b>					
Revenue		251,015	—	—	251,015
Cost of sales	a	(155,811)	(7,408)	—	(163,219)
Gain on changes in fair value of timber holdings less estimated point-of-sale cost	a	—	10,418	—	10,418
Other operating income		318	(7)	—	311
Selling and administrative expenses		(17,416)	(4,961)	(633)	(23,010)
Other operating expenses		—	446	(518)	(72)
Loss on fair value changes of financial instruments	e	(709)	(20,409)	—	(21,118)
Depreciation and amortization		(1,223)	—	1,223	—
Exchange gains (losses)		72	—	(72)	—
Finance income		3,425	—	—	3,425
Finance costs		(27,694)	(2,887)	—	(30,581)
Income tax expenses	i	(8,784)	(1,875)	—	(10,659)
<b>Profit from continuing operations</b>		<b>43,193</b>	<b>(26,683)</b>	<b>—</b>	<b>16,510</b>
<b>Discontinued operations</b>					
Loss after tax for the year from discontinued operations		(419)	(176)	—	(595)
Non-controlling interest		24	(22)	—	2
<b>Profit for the period</b>		<b>42,798</b>	<b>(26,881)</b>	<b>—</b>	<b>15,917</b>
<b>Other comprehensive income</b>					
Unrealized gains on financial assets designated as available-for-sale, net of tax of nil		1,539	—	—	1,539
Currency translation differences		(212)	594	—	382
		1,327	594	—	1,921
<b>Total comprehensive income</b>		<b>44,125</b>	<b>(26,287)</b>	<b>—</b>	<b>17,838</b>

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 22.4 Notes to the reconciliations

#### (a) Timber holdings

Under Canadian GAAP, purchased plantations and planted plantations were disclosed as a single item measured at cost and classified as a non-current asset. Certain nursery biological assets were classified as inventories and measured at the lower of cost and net realizable value.

Under IFRS, purchased plantations are analyzed as inventories (because the Company does not manage their biological transformation). They are accordingly classified as current assets and measured at the lower of cost and net realizable value. However, the determination of the cost of inventories under IFRS excludes certain expenses, in particular relating to property maintenance, which were included in this measure under Canadian GAAP.

Planted plantations are analyzed as biological assets because the Company manages their biological transformation. They are classified as non-current assets and measured at fair value less costs to sell at the end of each reporting period, recognizing changes in fair value less costs to sell in the income statement.

The effect at the Transition Date of measuring planted plantations at fair value less costs to sell is an increase in the carrying amount of timber holdings of \$60,834,000 [December 31, 2010 – \$32,324,000, March 31, 2010 – \$10,418,000]. The effect on total comprehensive income for the three months ended March 31, 2011 is a gain of \$10,389,000 [March 31, 2010 – gain of \$10,418,000] and \$32,324,000 for the year ended December 31, 2010.

The effect of the reclassification of nursery biological assets was an increase in timber holdings measured at cost and a corresponding decrease in other inventories of \$7,007,000 [December 31, 2010 – \$11,048,000, March 31, 2010 – \$8,382,000] at the Transition Date.

The effect at the Transition Date of the changes to the determination of cost for the purchased plantations was a decrease of \$8,607,000 [December 31, 2010 – \$11,879,000, March 31, 2010 – \$10,092,000]. The effect of reclassifying purchased plantations as current assets was to increase current assets and reduce non-current assets by \$2,074,732,000 at the Transition Date [December 31, 2010 – \$2,888,556,000, March 31, 2010 – \$2,315,595,000].

#### (b) Property, plant and equipment / Other assets / Capital assets

Under Canadian GAAP, the prepaid land leases in respect of land-use-rights in the PRC and prepaid land leases in respect of plantation land leases were classified as capital assets and other assets, respectively. Under IFRS, the prepaid land leases of both the land-use-rights in the PRC and plantation land leases are classified as prepaid lease payments, broken into a current portion in prepayment and a non-current portion in non-current assets. The effect is an increase in the non-current portion of prepaid lease payments of \$64,001,000 [December 31, 2010 – \$90,215,000, March 31, 2010 – \$64,269,000], an increase in prepayment of \$3,302,000 [December 31, 2010 – \$5,861,000, March 31, 2010 – \$3,324,000] included in current assets, a decrease of \$8,418,000 [December 31, 2010 – \$8,677,000, March 31, 2010 – \$8,470,000] of capital assets and a decrease of \$58,886,000 [December 31, 2010 – \$87,399,000, March 31, 2010 – \$57,164,000] of other assets at the Transition Date.

Under Canadian GAAP, any impairment loss recognized for property, plant and equipment assessed as impaired is not reversed even if the recoverable amount is subsequently assessed to be above the carrying amount of the impaired assets. Under IFRS, a previously recognized impairment loss is reversed if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. As a result of this difference, the Company reversed a previously recognized impairment loss on transition to IFRS, resulting in an increase of the carrying amount of property, plant and equipment of \$992,000 [December 31, 2010 – \$909,000, March 31, 2010 – \$965,000] at the Transition Date and a loss of \$29,000 [March 31, 2010 – loss of \$27,000] on the total comprehensive income for the three months ended March 31, 2011 and 2010 and \$84,000 for the twelve months ended December 31, 2010.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### (c) Investment properties

Under Canadian GAAP, investment properties were presented under capital assets and measured at cost net of accumulated depreciation and accumulated impairment losses. Under IFRS, investment properties are presented separately and measured either at fair value or at cost less accumulated depreciation and impairment losses. The Company has elected to measure investment properties at cost less accumulated depreciation and impairment losses. The effect is a decrease in the carrying amount of property, plant and equipment of \$22,653,000 [December 31, 2010 – \$23,498,000, March 31, 2010 – \$23,107,000] and corresponding increase in investment properties at the Transition Date.

### (d) Inventories

Under Canadian GAAP, the nursery biological assets are presented under inventories and stated at lower of cost and net realizable value. Under IFRS, the nursery biological assets are presented under timber holdings and measured at fair value. The effect is a decrease in inventories of \$7,007,000 [December 31, 2010 – \$11,048,000, March 31, 2010 – \$8,382,000] and an increase of corresponding amount in timber holdings measured in fair value at the Transition Date.

### (e) Interest bearing loans and borrowings / Derivative financial instrument / Equity portion of convertible notes / Loss on changes in fair value of financial instruments

The 2013 and 2016 Convertible Notes are convertible into common shares of the Company, at the option of the holder, at a defined conversion rate; however, the Company may elect to deliver, in lieu of its common shares, cash or a combination of cash and common shares. Under Canadian GAAP, the conversion feature was analyzed as equity, based on the Company's unconditional ability to settle the instrument on conversion by issuing its own shares. Under IFRS however, the feature is analyzed as an embedded derivative liability, measured separately at fair value through profit or loss because it is not closely related to the underlying Convertible Notes. On initial recognition, for each series of Convertible Notes, the Company measured the derivative liability at fair value, and measured the carrying value of the underlying Convertible Notes at the difference between this amount and the proceeds of issue. Subsequent to initial recognition, it measures the derivative liability at fair value, recognizing changes in the fair value in the income statement, and accretes the carrying value of the underlying Convertible Notes to their face value using the effective interest method. The effect is a decrease in the equity portion of convertible notes at the Transition Date of \$158,883,000 [December 31, 2010 – \$158,883,000, March 31, 2010 – \$158,883,000], a decrease in the non-current interest-bearing loans and borrowings of \$131,935,000 [December 31, 2010 – \$118,589,000, March 31, 2010 – \$128,821,000] and an increase in the derivative financial instrument of \$371,962,000 [December 31, 2010 – \$448,326,000, March 31, 2010 – \$392,371,000]. This reduces total comprehensive income for the three months ended March 31, 2010 and the year ended December 31, 2010 by \$23,570,000 and \$89,710,000 respectively. Retained earnings is reduced at the Transition Date by \$81,113,000 [December 31, 2010 – \$170,823,000, March 31, 2010 – \$104,684,000].

### (f) Issued capital / Contributed surplus

Under IFRS, the Company elected to apply IFRS 2 to account for the equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The effect was a decrease in issued capital of \$12,000 [December 31, 2010 – \$214,000, March 31, 2010 – \$64,000], an increase in contributed surplus of \$733,000 [December 31, 2010 – a decrease of \$184,000, March 31, 2010 – an increase of \$264,000] at the Transition Date. This increases total comprehensive income for the three months ended March 31, 2010 and the year ended December 31, 2010 by \$521,000 and \$1,118,000 respectively. Retained earnings is reduced at the Transition Date by \$721,000 [December 31, 2010 – increased by \$397,000, March 31, 2010 – decreased by \$200,000].

### (g) Foreign currency translation reserve

The Company had applied the exemption in IFRS 1 to reset the foreign currency translation reserve at the Transition Date. The effect is a decrease in foreign currency translation reserve and an increase in retained earnings of \$217,930,000.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### (h) Business acquisitions

As described in note 5, the Company acquired control during the period over Homix, Mandra, Greenheart Group and Greenheart Resources. The accounting treatment applied to these acquisitions under IFRS differs in numerous respects from the treatment previously applied under Canadian GAAP, the following being the most significant:

Transaction costs totaling \$3,004,000 were regarded as part of the purchase consideration under Canadian GAAP but were recognized in profit or loss as incurred under IFRS.

Prior to acquiring control, the Company already held equity interests in Mandra, Greenheart Group and Greenheart Resources. Under Canadian GAAP, the Company measured its interest in Greenheart Group at its fair value as an available-for-sale investment, and measured its interests in Mandra and Greenheart Resources at cost. Upon acquiring control, it did not revalue any of these interests, and eliminated the accumulated changes in the fair value of its interest in Greenheart Group against the investment's carrying amount. Under IFRS, the Company derecognized its available-for-sale interest in Greenheart Group, recognizing the accumulated increase in fair value of \$10,606,000 in the income statement for the year ended December 31, 2010. The Company also recognized a gain of \$14,694,000 in the income statement for the year ended December 31, 2010 on remeasuring its previously held equity interests in Greenheart Group and Greenheart Resources to fair value at the acquisition date.

The consideration paid to acquire Mandra included a supplemental amount of up to \$10,000,000 based on the achievement of certain agreed milestones. Under Canadian GAAP, the Company recognized the supplemental payments as an additional cost of the purchase upon resolving the contingencies and upon the consideration becoming issuable. Under IFRS, the Company reflected the contingent element of purchase consideration in the acquisition equation at its fair value at that date, recognizing any subsequent change in this fair value in the income statement. As at the acquisition date, it estimated the fair value of the contingent consideration at \$6,899,000. In August 2010, upon completion of the First Supplemental Payment, the fair value of the contingent consideration was remeasured at \$8,929,000, recognizing a loss of \$2,030,000 in the income statement.

The Company's voting interest in Greenheart Group following the acquisition (including the conversion of convertible bonds) was approximately 59.1%. Under Canadian GAAP, the Company measured the non-controlling interest with reference to its carrying value in the financial statements of Greenheart Group. Under IFRS, the Company has measured the non-controlling interest in Greenheart Group at the proportionate share of its identifiable net assets. The amount recognized in the acquisition equation under IFRS was \$55,792,000, compared to \$45,749,000 under Canadian GAAP. For similar reasons, the non-controlling interest in Mandra at the time of acquisition was \$4,855,000 under IFRS, compared to \$1,211,000 under Canadian GAAP.

In addition to the differences described above, the Company has made subsequent adjustments to the preliminary allocations which were initially disclosed under Canadian GAAP, reflecting the timing of the agreement and the extensive work required to complete the independent valuation of the assets and liabilities acquired. The aggregate impact of these differences and adjustments is as follows:

	Canadian GAAP	IFRS	Increase (decrease)
<b>Homix</b>			
Total purchase price	\$7,300,000	\$6,913,000	(\$387,000)
Goodwill on acquisition	Nil	Nil	
<b>Mandra</b>			
Total purchase price	\$11,198,000	\$10,804,000	(\$394,000)
Goodwill on acquisition	Nil	\$51,300,000	\$51,300,000
<b>Greenheart Group and Greenheart Resources</b>			
Total purchase price	\$127,681,000	\$152,372,000	\$24,691,000
Goodwill on acquisition	Nil	\$24,341,000	\$24,341,000

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

The combined effect of the differences described above decreased profit for the period ended March 31, 2010 by \$2,450,000 and increased profit for the year ended December 31, 2010 by \$16,874,000.

### (i) Income and deferred taxes

Under Canadian GAAP, the Company evaluated a tax position for uncertainty in income taxes using a two step process. It first determined whether a tax position, based solely on technical merits, had a likelihood of more than 50 percent (“more-likely-than-not”) of being sustained upon examination, assuming the appropriate tax authority had full knowledge of all relevant facts. For positions satisfying these criteria, it then measured the tax benefit as the largest amount of benefit, determined on a cumulative probability basis, that was more-likely-than-not to be realized upon ultimate settlement. Under IFRS, the Company recognizes a provision for uncertain tax positions where it identifies a present obligation based on a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. It measures the provision at its best estimate of the amount required to settle the obligation at the end of the reporting period, taking all relevant factors into account.

The effect is to increase the amount of provision for contingent tax related liabilities, which is included in trade and other payables, by \$14,791,000 at the Transition Date, by \$16,106,000 at March 31, 2010 and by \$11,973,000 at December 31, 2010.

As described above, timber holdings representing planted plantations, previously measured using the cost method, are now measured at fair value with changes in fair value recognized in profit or loss. Measuring these timber holdings at fair value generates additional temporary differences between their carrying value in the financial statements and their tax bases, and therefore results in recognizing additional deferred tax liabilities.

The effect is to increase the amount of the deferred income tax liability by \$14,842,000 at the Transition Date, by \$15,691,000 at March 31, 2010 and by \$15,514,000 at December 31, 2010.

In addition, under IFRS, the Company has started recognizing benefits on losses incurred by PRC WFOE and CJV. The amount of total benefits that have been recognized is \$2,900,000 at the Transition Date, \$3,400,000 at March 31, 2010 and \$3,500,000 at December 31, 2010.

### 22.5 Statement of cash flows

Under Canadian GAAP, interest paid and received were classified as operating cash flows. Under IFRS, interest payments and receipts are allocated to investing and financing activities where they can be identified with transactions within those categories. There are no other material adjustments to the cash flow statement except for changes resulting from the items described above. The components of cash and cash equivalents under Canadian GAAP are similar to those presented under IFRS.

### 23. Events after the reporting period

#### (a) Amendments to Convertible Note Indentures

On June 13, 2011, the Board of Directors approved the elimination of the Company’s option to settle the Convertible Notes (see note 14.3) by delivering cash or a combination of cash and common shares. The elimination of this option will change the treatment of the embedded derivative liability contained within the Convertible Notes, removing the requirement to measure that derivative financial liability at fair value at the end of each reporting period. Instead, the Convertible Notes will be treated as consisting of a liability portion amortized over the loan period, and an equity portion classified as equity.

The Company has obtained an opinion from legal counsel that the removal of the option does not adversely affect the holders’ rights in any material respect pursuant to the indentures governing the Convertible Notes and therefore does not require approval of the holders or their agents. The requisite amendments to such indentures are expected to be completed prior to the end of the second quarter of 2011, and therefore management anticipates the accounting change described above will be implemented in its interim financial statements for that quarter. As of the effective date of the removal of the option, any unrealized gain or loss will be recognized in the income statement. Based upon the closing price of the Company’s common shares on June 10, 2011, a gain of

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

approximately \$450 million would be recognized in the financial statements for the three months ended June 30, 2011.

(b) Allegations by Muddy Water, LLC

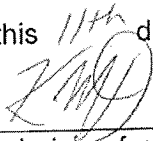
On June 2, 2011, Muddy Waters, LLC issued a report (the "Report") containing various allegations regarding the Company, its assets, operations and financial results. As a result of such report, on June 2, 2011, the Board of Directors of the Company appointed a committee of independent directors (the "Independent Committee") to thoroughly examine and review the allegations contained in Report, and report back to the Board of Directors. The Independent Committee has retained independent legal counsel in Canada, Hong Kong and China as well as independent accounting firm Pricewaterhouse Coopers LLP to assist with the examination.

On June 7, 2011, the Company formally requested that the Toronto Stock Exchange and the Investment Industry Regulatory Organization of Canada investigate the trading of the Company's shares by Muddy Waters, LLC and its principal Carson Block and anyone associated with these persons in advance of the issuance of the Report. On June 8, 2011, the Ontario Securities Commission (the "OSC") announced that it had opened an investigation into matters regarding the Company. The Company welcomes the OSC initiative and believes that the issues the OSC will seek to address will be consistent with the examination and review commenced by an Independent Committee. No formal proceedings have been commenced by the OSC against the Company or any of its directors or officers.

On June 8, 2011, a Notice of Action was filed with the Ontario Superior Court of Justice in connection with a proposed securities class action lawsuit against the Company, certain directors and officers of the Company, the Company's current and former auditors, and various underwriters involved in prior equity and debt offerings completed by the Company. Additional law firms in both the United States and Canada have announced that they are investigating the Company and certain officers and directors with respect to potential additional class action lawsuits.



This is **Exhibit "B"** referred to in  
the Affidavit of Daniel E.H. Bach  
sworn this 11<sup>th</sup> day of July, 2012



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A Commissioner for Taking Affidavits

## **SINO-FOREST CORPORATION**

### **Condensed Interim Consolidated Financial Statements**

**For the six months ended June 30, 2011**

#### **Notice of no auditor review of the condensed interim consolidated financial statements**

The accompanying unaudited condensed interim consolidated financial statements (the “Interim Financial Statements”) have not been reviewed by the Company’s external auditors.

On June 2, 2011, Muddy Waters, LLC issued a report (the “Report”) containing various allegations regarding the Company, its assets, operations and financial results. As a result of the Report, on June 2, 2011, the Board of Directors of the Company appointed a committee of independent directors (the “Independent Committee”) to thoroughly examine and review the allegations contained in the Report, and report back to the Board of Directors. The Independent Committee has retained independent legal counsel in Canada, Hong Kong and mainland China. The Independent Committee is also using the services of independent accounting firm PricewaterhouseCoopers and affiliates (“PwC”) to assist with the examination. PwC is highly familiar with the forestry industry and with the business environment in China.

The Company’s external auditors were initially engaged to conduct a review of the interim financial statements for the three months ended March 31, 2011 in accordance with Canadian standards for the auditor review of interim financial statements. The Company’s auditors have advised that they are unable to complete a review of the Interim Financial Statements until the completion of the examination and review by the Independent Committee and the auditors’ consideration of the results thereof.

The Board of Directors and management believe that, based on information currently available to them, the Interim Financial Statements were compiled in accordance with IAS 34 Interim Financial Reporting and the requirements of IFRS 1 First Time Adoption of International Financial Reporting Standards and fairly depict the financial condition and results of operations of the Company. However, in the event that the allegations set forth in the Report prove to be accurate, in whole or in part, the information set forth in the Interim Financial Statements may differ materially and the Interim Financial Statements could be subject to restatement. As a result, readers should exercise caution in relying on such financial statements. See Note 2.1 of the Interim Financial Statements.

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Income Statements**

[Expressed in thousands of United States dollars, except for earnings per share information] [unaudited]

	Notes	For the three months ended June 30,		For the six months ended June 30,	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>Continuing Operations</b>					
Wood fibre		288,216	281,322	612,636	521,049
Manufacturing and other		18,088	17,265	30,942	28,553
Greenheart		11,080	—	12,730	—
<b>Revenue</b>	5	<b>317,384</b>	298,587	<b>656,308</b>	549,602
Cost of sales		(246,874)	(185,562)	(470,387)	(348,781)
Gain on change in fair value of timber holdings less estimated point-of-sale cost		4,892	1,296	15,281	11,714
<b>Gross profit</b>		<b>75,402</b>	114,321	<b>201,202</b>	212,535
Other operating income		207	154	519	465
Selling and administrative expenses		(40,319)	(23,223)	(70,659)	(46,233)
Other operating expenses		(4,049)	(1,658)	(6,510)	(1,730)
<b>Operating profit</b>		<b>31,241</b>	89,594	<b>124,552</b>	165,037
Finance costs		(45,610)	(34,317)	(90,027)	(64,898)
Finance income		4,563	5,515	6,111	8,940
<b>(Loss) profit before changes in fair value of financial instruments</b>		<b>(9,806)</b>	60,792	<b>40,636</b>	109,079
Gain on changes in fair value of financial instruments	12, 19	469,508	150,066	416,468	128,948
<b>Profit before tax from continuing operations</b>		<b>459,702</b>	210,858	<b>457,104</b>	238,027
Income tax expense	6	(12,477)	(11,443)	(32,263)	(22,102)
<b>Profit for the period from continuing operations</b>		<b>447,225</b>	199,415	<b>424,841</b>	215,925
<b>Discontinued operations</b>					
(Loss) profit after tax for the period from discontinued operations		(104)	(455)	173	(1,050)
<b>Net profit for the period</b>		<b>447,121</b>	198,960	<b>425,014</b>	214,875
<b>Attributable to:</b>					
Equity holders of the parent		447,063	198,936	426,363	214,853
Non-controlling interests		58	24	(1,349)	22
		<b>447,121</b>	198,960	<b>425,014</b>	214,875

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Income Statements (cont'd)**

[Expressed in thousands of United States dollars, except for earnings per share information] [unaudited]

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Earnings per share, attributable to equity holders of the parent</b>				
- Basic, for profit for the period	1.82	0.82	1.73	0.88
- Diluted, for profit for the period	1.64	0.77	1.63	0.88
<b>Earnings per share for continuing operations, attributable to equity holders of the parent</b>				
- Basic, for profit from continuing operations	1.82	0.82	1.73	0.89
- Diluted, for profit from continuing operations	1.64	0.77	1.63	0.88
<b>Earnings (loss) per share for discontinued operations, attributable to equity holders of the parent</b>				
- Basic, for (loss) profit from discontinued operations	(0.00)	(0.00)	0.00	(0.00)
- Diluted, for (loss) profit from discontinued operations	(0.00)	(0.00)	0.00	(0.00)

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Statements of Comprehensive Income**  
[Expressed in thousands of United States dollars] [unaudited]

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Net profit for the period</b>	<b>447,121</b>	198,960	<b>425,014</b>	214,875
Unrealized net gains on available-for-sale financial assets, after tax impact of \$143 for the three months and six months ended June 30, 2010	—	466	—	2,005
Unrealized exchange differences on translation of foreign operations	<b>56,480</b>	16,279	<b>95,868</b>	16,661
<b>Other comprehensive income for the period, net of tax</b>	<b>56,480</b>	16,745	<b>95,868</b>	18,666
<b>Total comprehensive income for the period, net of tax</b>	<b>503,601</b>	215,705	<b>520,882</b>	233,541
<b>Attributable to:</b>				
Equity holders of the parent	<b>503,234</b>	215,681	<b>521,922</b>	233,519
Non-controlling interests	<b>367</b>	24	<b>(1,040)</b>	22
	<b>503,601</b>	215,705	<b>520,882</b>	233,541

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Statements of Financial Position**

[Expressed in thousands of United States dollars] [unaudited]

	Notes	As at June 30, 2011 \$	As at December 31, 2010 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		861,648	1,223,352
Short-term deposits		37,217	32,101
Trade and other receivables	8	428,020	699,393
Prepayments	9	97,631	68,139
Timber holdings, measured at cost	10	3,483,676	2,888,556
Inventories	11	65,775	50,977
		<b>4,973,967</b>	<b>4,962,518</b>
<b>Non-current assets</b>			
Timber holdings, measured at fair value	10	262,036	249,090
Property, plant and equipment	13	90,124	82,525
Investment properties		23,430	23,498
Other non-current financial assets	12	9,072	11,153
Intangible assets and goodwill	13	272,718	264,217
Other assets	9	266,928	200,455
Deferred tax asset	6	3,948	3,500
		<b>928,256</b>	<b>834,438</b>
<b>Total assets</b>		<b>5,902,223</b>	<b>5,796,956</b>

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Statements of Financial Position (cont'd)**  
[Expressed in thousands of United States dollars] [unaudited]

	Notes	As at June 30, 2011 \$	As at December 31, 2010 \$
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	12	204,501	241,629
Trade and other payables		297,021	338,719
Provisions	18	225,519	183,874
Income taxes payable		10,109	10,979
		<b>737,150</b>	<b>775,201</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	12	1,566,811	1,541,093
Deferred tax liability	6	49,593	48,934
Derivative financial instruments	12	31,858	448,326
		<b>1,648,262</b>	<b>2,038,353</b>
<b>Total liabilities</b>		<b>2,385,412</b>	<b>2,813,554</b>
<b>Equity</b>			
Issued capital	14	1,268,022	1,261,086
Retained earnings		1,964,854	1,544,960
Other reserves		211,773	115,432
<b>Equity attributable to equity holders of the parent</b>		<b>3,444,649</b>	<b>2,921,478</b>
<b>Non-controlling interests</b>		<b>72,162</b>	<b>61,924</b>
<b>Total equity</b>		<b>3,516,811</b>	<b>2,983,402</b>
<b>Total liabilities and equity</b>		<b>5,902,223</b>	<b>5,796,956</b>

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Statements of Changes in Equity**  
 [Expressed in thousands of United States dollars] [unaudited]

	Attributable to equity holders of the parent							Total equity	
	Issued capital	Contributed surplus	Revaluation reserve	Foreign currency translation reserve	PRC statutory reserve	Retained earnings	Total		Non-controlling interests
	\$	\$	\$	\$	\$	\$	\$	\$	
At January 1, 2011	1,261,086	11,489	640	101,315	1,988	1,544,960	2,921,478	61,924	2,983,402
Profit for the period	—	—	—	—	—	426,363	426,363	(1,349)	425,014
Other comprehensive income	—	—	—	95,559	—	—	95,559	309	95,868
<b>Total comprehensive income</b>	—	—	—	95,559	—	426,363	521,922	(1,040)	520,882
Issue of share capital	6,936	—	—	—	—	—	6,936	—	6,936
Lapse of share options of a subsidiary	—	—	—	—	—	7	7	(7)	—
Share-based payment transactions	—	1,015	—	—	—	—	1,015	—	1,015
Acquisition of non-controlling interests	—	—	(233)	—	—	(6,476)	(6,709)	11,285	4,576
<b>At June 30, 2011</b>	<b>1,268,022</b>	<b>12,504</b>	<b>407</b>	<b>196,874</b>	<b>1,988</b>	<b>1,964,854</b>	<b>3,444,649</b>	<b>72,162</b>	<b>3,516,811</b>



**SINO-FORSET CORPORATION**  
**Condensed Interim Consolidated Statements of Changes in Equity (cont'd)**

[Expressed in thousands of United States dollars] [unaudited]

	Attributable to equity holders of the parent							Total equity	
	Issued capital	Contributed surplus	Revaluation reserve	Foreign currency translation reserve	PRC statutory reserve	Retained earnings	Total		Non-controlling interests
	\$	\$	\$	\$	\$	\$	\$	\$	
At January 1, 2010	1,213,483	12,933	6,266	—	1,670	1,211,210	2,445,562	—	2,445,562
Profit for the period	—	—	—	—	—	214,853	214,853	22	214,875
Other comprehensive income	—	—	2,005	16,661	—	—	18,666	—	18,666
<b>Total comprehensive income</b>	—	—	<b>2,005</b>	<b>16,661</b>	—	<b>214,853</b>	<b>233,519</b>	<b>22</b>	<b>233,541</b>
Transfer from (to) retained earnings	—	—	—	—	(17)	17	—	—	—
Issue of share capital	33,268	—	—	—	—	—	33,268	—	33,268
Exercise of share options	6,727	(1,831)	—	—	—	—	4,896	—	4,896
Share-based payment transactions	—	1,108	—	—	—	—	1,108	—	1,108
Acquisition of subsidiaries	—	—	—	—	—	—	—	4,855	4,855
Acquisition of non-controlling interests	—	—	—	—	—	—	—	(4,000)	(4,000)
<b>At June 30, 2010</b>	<b>1,253,478</b>	<b>12,210</b>	<b>8,271</b>	<b>16,661</b>	<b>1,653</b>	<b>1,426,080</b>	<b>2,718,353</b>	<b>877</b>	<b>2,719,230</b>

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Statements of Cash Flows**  
[Expressed in thousands of United States dollars] [unaudited]

	Notes	For the three months ended June 30,		For the six months ended June 30,	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>					
Profit before tax from continuing operations		459,702	210,858	457,104	238,027
Loss before tax from discontinued operations		—	(8)	—	(161)
Profit before tax		459,702	210,850	457,104	237,866
Non-cash adjustment to reconcile profit before tax to net cash flows:					
Depreciation and amortization		3,451	2,556	6,864	4,750
Share-based compensation		882	536	1,458	1,187
Gain on change in fair value of financial instruments		(469,508)	(150,066)	(416,468)	(128,948)
Gain on changes in fair value of timber holdings less estimated point-of-sale costs	10	(4,892)	(1,296)	(15,281)	(11,714)
Unrealized exchange losses		5,390	2,538	7,200	1,869
Finance income		(4,563)	(5,515)	(6,111)	(8,940)
Finance costs		45,610	34,317	90,027	64,898
Other		472	(118)	1,736	1,413
		36,544	93,802	126,529	162,381
Working capital adjustments:					
Decrease (increase) in trade and other receivables		26,531	(44,076)	268,045	(34,226)
(Increase) decrease in prepayments		(10,960)	5,146	(35,020)	(4,836)
Increase in inventories		(11,823)	(82)	(11,432)	(15,163)
Increase in other assets		—	—	(25,800)	—
Decrease (increase) in non-current trade receivables		1,116	(1,822)	1,391	(1,690)
Increase (decrease) in trade and other payables		38,174	(2,609)	1,883	(62,190)
		79,582	50,359	325,596	44,276
Interest received		1,322	1,429	2,967	2,429
Income tax paid		(1,156)	(458)	(1,405)	(670)
Cash flows from operating activities before movement of timber holdings, measured at cost		79,748	51,330	327,158	46,035
Net increase in timber holdings, measured at cost		(170,070)	(113,770)	(539,017)	(230,455)
<b>Net cash flows used in operating activities</b>		<b>(90,322)</b>	<b>(62,440)</b>	<b>(211,859)</b>	<b>(184,420)</b>

**SINO-FOREST CORPORATION**  
**Condensed Interim Consolidated Statements of Cash Flows (cont'd)**

[Expressed in thousands of United States dollars] [unaudited]

	Notes	For the three months ended June 30,		For the six months ended June 30,	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>INVESTING ACTIVITIES</b>					
Net increase in timber holdings, measured at fair value		(5,418)	(9,411)	(5,149)	(4,322)
Purchase of property, plant and equipment		(5,341)	(3,290)	(8,515)	(12,094)
Addition of investment properties		(29)	(379)	(29)	(622)
Payment for other assets		(13,817)	(521)	(16,549)	(690)
Payment for prepaid lease payment		(5,871)	(1,621)	(7,486)	(1,689)
Payment for intangible assets		(320)	—	(5,320)	—
Proceeds from disposal of property, plant and equipment		23	96	103	133
Refunds of other non-current financial assets		1,000	—	1,000	—
Decrease of non-pledged short-term deposits		12,351	731	11,670	7,920
Acquisition of subsidiaries, net of cash acquired		(149)	—	(149)	5,638
<b>Net cash flows used in investing activities</b>		<b>(17,571)</b>	<b>(14,395)</b>	<b>(30,424)</b>	<b>(5,726)</b>
<b>FINANCING ACTIVITIES</b>					
Proceeds from interest-bearing loans and borrowings		106,159	97,297	225,462	189,901
Repayment of interest-bearing loans and borrowings		(145,130)	(69,145)	(264,987)	(142,023)
Payment of transaction cost of issue of shares		—	(411)	—	(411)
Proceeds from exercise of share options		—	3,014	—	4,896
Proceeds from exercise of share options of a subsidiary		103	—	446	—
Payment of deferred financing costs		—	—	—	(5,893)
Interest paid		(31,218)	(11,255)	(65,914)	(36,048)
Increase in pledged short-term deposits		(16,146)	(311)	(16,356)	(174)
<b>Net cash flows (used in) from financing activities</b>		<b>(86,232)</b>	<b>19,189</b>	<b>(121,349)</b>	<b>10,248</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(194,125)</b>	<b>(57,646)</b>	<b>(363,632)</b>	<b>(179,898)</b>
<b>Net foreign exchange difference</b>		<b>892</b>	<b>5</b>	<b>1,928</b>	<b>264</b>
Cash and cash equivalents, beginning of period		1,054,881	980,373	1,223,352	1,102,366
<b>Cash and cash equivalents, end of period</b>		<b>861,648</b>	<b>922,732</b>	<b>861,648</b>	<b>922,732</b>

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 1. Corporate information

The Company is a corporation continued under the *Canada Business Corporations Act* whose shares are publicly traded on the Toronto Stock Exchange. The registered office is located at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario, Canada. The principal activities of the Company are described in note 5.

### 2.1 Basis of preparation

#### Financial Statements

The accompanying unaudited condensed interim consolidated financial statements (the "Interim Financial Statements") have not been reviewed by the Company's external auditors.

On June 2, 2011, Muddy Waters, LLC issued a report (the "Report") containing various allegations regarding the Company, its assets, operations and financial results. As a result of the Report, on June 2, 2011, the Board of Directors of the Company appointed a committee of independent directors (the "Independent Committee") to thoroughly examine and review the allegations contained in the Report, and report back to the Board of Directors. The Independent Committee has retained independent legal counsel in Canada, Hong Kong and mainland China. The Independent Committee is also using the services of independent accounting firm PricewaterhouseCoopers and affiliates ("PwC") to assist with the examination. PwC is highly familiar with the forestry industry and with the business environment in China.

The Company's external auditors were initially engaged to conduct a review of the interim financial statements for the three months ended March 31, 2011 in accordance with Canadian standards for the auditor review of interim financial statements. The Company's auditors have advised that they are unable to complete a review of the Interim Financial Statements until the completion of the examination and review by the Independent Committee and the auditors' consideration of the results thereof.

The Board of Directors and management believe that, based on information currently available to them, the Interim Financial Statements were compiled in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and the requirements of IFRS 1 *First Time Adoption of International Financial Reporting Standards* and fairly depict the financial condition and results of operations of the Company. However, in the event that the allegations set forth in the Report prove to be accurate, in whole or in part, the information set forth in the Interim Financial Statements may differ materially and the Interim Financial Statements could be subject to restatement. As a result, readers should exercise caution in relying on such financial statements.

The Interim Financial Statements are presented in United States dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The Interim Financial Statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-time adoption of IFRS* (collectively "IFRS 1") as issued by the International Accounting Standards Board ("IASB"), using the same accounting policies and methods of computations the Company expects to adopt in its consolidated financial statements as at and for the financial year ending December 31, 2011 and as followed in the preparation of the interim condensed consolidated financial statements for the three months ended March 31, 2011. In addition, the interim condensed consolidated financial statements for the three months ended March 31, 2011 contain certain incremental annual IFRS disclosures not included in the annual financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP. Accordingly, these Interim Financial Statements should be read together with the annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP as well as the interim condensed consolidated financial statements for the three months ended March 31, 2011.

IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS to make an explicit and unreserved statement of compliance with IFRS. The Company will make this statement when it issues the annual financial statements for the year ending December 31, 2011.

Note 19 sets out information on the impact of the transition from Canadian GAAP to IFRS.

## **Notes to the condensed interim consolidated financial statements**

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### **Basis of consolidation**

The Interim Financial Statements comprise the financial statements of Sino-Forest Corporation and its subsidiaries as at June 30, 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

### **2.2 Areas involving significant judgments, estimates and assumptions**

Preparing the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management continually evaluates these judgments, estimates and assumptions based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include the provision and contingency for tax-related liabilities, discussed in note 18. They also include, but are not limited to, the following:

#### **Revenue recognition of plantation fibre**

The Company sells standing timber at various stages of maturity to domestic wood dealers from its tree plantations, and this represents a significant portion of consolidated revenue. The timing of recognition of revenue from plantation fibre sales depends on the terms and conditions of our contractual arrangements with customers. A future change to the typical contractual arrangements for timber sales could materially impact the timing and manner in which the Company recognizes revenue.

#### **Valuation of timber holdings**

The Company measures planted plantations at initial recognition and at the end of each reporting period at fair value less costs to sell, by referring to valuations using a discounted cash flow model, for which it engages an independent consultant. If management's best estimate of key assumptions were to change significantly and the associated estimated future cash flows were to materially decrease, the fair value of timber holdings could potentially be reduced, generating a material loss.

#### **Impairment of property, plant and equipment, investment properties, intangible assets and goodwill**

The Company evaluates the recoverability of the carrying value of property, plant and equipment, investment properties, intangible assets and goodwill (or the cash-generating units to which they belong) whenever indicators of impairment exist. Estimates related to impairment assessments are subject to significant measurement uncertainty and are susceptible to change based on future plans and events. Any resulting impairment loss could have a material impact on the amounts reported for property, plant and equipment, investment properties, intangible assets and goodwill in the statement of financial position.

#### **Valuation of embedded derivatives**

The Company's 2013 convertible notes in the aggregate principal amount of \$345,000,000 (the "2013 Convertible Notes") and 2016 convertible notes in the aggregate principal amount of \$460,000,000 (the "2016 Convertible Notes") (collectively, the "Convertible Notes") include an embedded derivative liability, measured separately at fair value at the end of each reporting period, with changes in fair value recognized in the income statement. The

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

liability is measured using a Black-Scholes valuation model, incorporating inputs for factors which are by their nature unpredictable, and the resulting valuation of the embedded derivative will be inherently volatile. Changes in the amounts of the inputs and in the operation of the valuation model could materially increase or decrease the carrying amount of the embedded derivative liability in future periods. In particular, changes in the Company's share price will have a significant effect on the measurement of fair value, with an increasing share price generally resulting in a measurement loss and a decreasing share price generally resulting in a measurement gain.

### Business acquisitions

There is significant estimation and judgment in the recording of business acquisitions. This estimation and judgment includes the determination of the purchase price and the date of the business combination, and the allocation of the purchase price among the fair values of assets acquired and liabilities assumed. The Company frequently obtains the assistance of third parties in the determination of fair values of forestry and intangible assets.

As at June 30, 2011, the Company has completed the allocation of the fair values of the identifiable assets and liabilities for the acquisition of Mandra Forestry Holdings Limited. As part of the fair value allocation, the Company has requested a valuation by an independent valuation consultant to assist in determining the fair values of the assets and liabilities acquired. The final report of the consultant has not yet been made available to the Company and the Company is relying on preliminary estimates of value provided from the consultant as at the acquisition date. Significant risk exists that the values used by the Company may differ from those calculated by the independent valuation consultant. Any material differences between those amounts used by management and those calculated by the independent valuation consultant will be adjusted in these financial statements as the information becomes available to the Company.

### 2.3 Future accounting standards

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued certain new standards, interpretations, amendments and improvements to existing standards, mandatory for future accounting periods. The most significant of these are as follows, and are all effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted:

The IASB issued IFRS 9, *Financial Instruments* in November 2009 as the first step in its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*; in particular, it introduces new requirements for classifying and measuring financial assets. The IASB intends to expand IFRS 9 before its effective date to add new requirements for classifying and measuring financial liabilities, derecognizing financial instruments, impairment and hedge accounting. The IASB has proposed to adjust the effective date of IFRS 9 to January 1, 2015.

IFRS 10, 11, 12 and 13 were all issued in May 2011. IFRS 10 *Consolidated Financial Statements* replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation — Special Purpose Entities* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. IFRS 11 *Joint Arrangements* introduces new accounting requirements for joint arrangements, replacing IAS 31 *Interests in Joint Ventures*. It eliminates the option of accounting for jointly controlled entities by using proportionate consolidation. IFRS 12 *Disclosure of Interests in Other Entities* requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

IFRS 13 *Fair Value Measurement* replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

In June 2011, the IASB amended IAS 1 *Presentation of financial statements* ("IAS 1") to require presenting items in other comprehensive income in two categories: items that might be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or as two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

The Company has not yet determined the impact of these standards and amendments on its financial statements.

### 3. Seasonality of operations

The quarterly results are not necessarily indicative of results to be expected for the entire year. Revenue for the second quarter of the year traditionally represents approximately 20% to 25% of the entire year. This reflects the preference of timber companies to take advantage of the peak growing seasons in the spring and summer before harvesting the trees, and the difficulty in the logging and hauling of timber during the rainy season in the first half of the year.

### 4. Dilution of Greenheart Group

During the six months ended June 30, 2011, Greenheart Group issued approximately 98,575,000 ordinary shares under its stock-based compensation plan and acquisition of non-controlling interests, resulting in an increase of the Company's interest in Greenheart Group from 58.6% to 63.6%. The Company recognized a debit of \$6,476,000 in retained earnings, reflecting the difference between the amount by which non-controlling interests were adjusted and the fair value of the consideration received.

### 5. Segment information

The Company's operating businesses are structured and managed separately, according to the nature of their operations. Each of the Company's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

Summary details of the operating segments are as follows:

- (a) the plantation fibre segment engages in the sales of standing timber and logs;
- (b) the other fibre segment engages in the sales of domestic and imported wood products;
- (c) the manufacturing segment engages in the sales of manufacturing operation's products and other;
- (d) the Greenheart segment engages in the ownership of concession rights or plantation in Suriname and New Zealand and the sales and export of harvested logs and other wood products.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

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

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### Six months ended June 30, 2011

By Operating Segment

	Plantation Fibre \$	Other Fibre \$	Manufacturing and other \$	Greenheart \$	Corporate \$	Adjustments and eliminations \$	Total \$
<b>Revenue</b>							
External customer	410,341	202,295	30,942	12,730	—	—	656,308
Inter-segment	1,005	1,363	153	9,384	—	(11,905) <sup>1</sup>	—
<b>Total revenue</b>	<b>411,346</b>	<b>203,658</b>	<b>31,095</b>	<b>22,114</b>	<b>—</b>	<b>(11,905)</b>	<b>656,308</b>
Depreciation and amortization	1,000	245	3,525	1,004	1,090	—	6,864
Component of timber holdings from cost of sales	231,153	—	—	—	—	—	231,153
Finance income	3,370	99	302	298	2,042	—	6,111
Finance cost	863	819	947	1,361	86,037	—	90,027
Gain on changes in fair value of timber holdings	10,754	—	—	4,527	—	—	15,281
Gain on changes in fair value of financial instruments	—	—	—	—	416,468	—	416,468
Income tax expense (recovery)	30,321	781	(278)	1,272	167	—	32,263
<b>Results</b>							
Segment profit (loss)	140,121	3,977	(7,225)	(291)	300,164	(11,905)	424,841

1. Inter-segment revenues are eliminated on consolidation.



## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### Six months ended June 30, 2010

By Operating Segment

	Plantation Fibre \$	Other Fibre \$	Manufacturing and other \$	Greenheart \$	Corporate \$	Adjustments and eliminations \$	Total \$
<b>Revenue</b>							
External customer	337,698	183,351	28,553	—	—	—	549,602
Inter-segment	486	1,409	—	—	—	(1,895) <sup>1</sup>	—
<b>Total revenue</b>	<b>338,184</b>	<b>184,760</b>	<b>28,553</b>	—	—	<b>(1,895)</b>	<b>549,602</b>
Depreciation and amortization	855	154	2,791	—	950	—	4,750
Component of timber holdings from cost of sales	147,202	—	—	—	—	—	147,202
Finance income	1,990	23	398	—	6,529	—	8,940
Finance cost	575	1,602	529	—	62,192	—	64,898
Gain on changes in fair value of timber holdings	11,714	—	—	—	—	—	11,714
Gain on changes in fair value of financial instruments	—	—	—	—	128,948	—	128,948
Income tax expense	19,353	2,164	547	—	38	—	22,102
<b>Results</b>							
Segment profit (loss)	165,770	3,404	(6,513)	—	55,159	(1,895)	215,925

1. Inter-segment revenues are eliminated on consolidation.

	Plantation Fibre \$	Other Fibre \$	Manufacturing and other \$	Greenheart \$	Corporate \$	Adjustments and eliminations \$	Total \$
<b>Segment assets</b>							
At June 30, 2011	4,325,216	583,726	298,953	331,778	362,550	—	5,902,223
At December 31, 2010	3,876,693	379,684	245,590	333,162	961,827	—	5,796,956
At January 1, 2010	2,539,619	212,861	190,340	—	1,074,517	—	4,017,337

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 6. Income tax

The major components of income tax expense in the interim consolidated income statement are:

	Notes	Three months ended		Six months ended	
		June 30, 2011	2010	June 30, 2011	2010
		\$	\$	\$	\$
<b>Current income tax</b>					
Current income tax expense	(a)	13,517	12,106	32,425	22,493
<b>Deferred income tax</b>					
Origination and reversal of temporary differences		(1,040)	(663)	(162)	109
Benefit arising from previously unrecognized tax assets		—	—	—	(500)
Change of tax rates and imposition of new legislation		—	—	—	—
<b>Income tax expense reported in the income statement</b>		<b>12,477</b>	<b>11,443</b>	<b>32,263</b>	<b>22,102</b>
Income tax recognized in other comprehensive income		—	—	—	—
		<b>12,477</b>	<b>11,443</b>	<b>32,263</b>	<b>22,102</b>

The Company's effective tax rate is different from the Company's domestic statutory income tax rate due to the differences set out below:

	Notes	Three months ended		Six months ended	
		June 30, 2011	2010	June 30, 2011	2010
		\$	\$	\$	\$
Profit before tax from continuing operations		459,702	210,858	457,104	238,027
Statutory tax rate in Canada		28.25%	31.00%	28.25%	31.00%
Expected income tax expense		129,866	65,366	129,132	73,788
Recovery relating to previously unrecognized tax losses		—	—	—	(500)
Expenses (income) not deductible (taxable) for tax purposes: Loss (gain) on changes in fair value of financial instruments	(b)	(132,636)	(46,521)	(117,652)	(39,974)
Tax losses for which no deferred income tax asset was recognized		24,650	20,292	45,602	35,433
Income tax at lower rates in foreign jurisdiction	(c)	(8,046)	(25,313)	(23,880)	(45,109)
Other		(1,357)	(2,381)	(939)	(1,536)
<b>Income tax expense reported in the income statement</b>		<b>12,477</b>	<b>11,443</b>	<b>32,263</b>	<b>22,102</b>
<b>Effective rate</b>	(b)	<b>2.7%</b>	<b>5.4%</b>	<b>7.1%</b>	<b>9.3%</b>
Income tax expense from continuing operations		12,477	11,443	32,263	22,102
Income tax attributable to discontinued operations		104	447	(173)	889
		<b>12,581</b>	<b>11,890</b>	<b>32,090</b>	<b>22,991</b>

(a) Current income tax includes accrual for tax contingency related to PRC tax including surtax on PRC income as outlined in note 18.

(b) The effective rate calculated above is distorted by the fact that the amount of "profit before tax from continuing operations" included the "gain on changes in fair value of financial instruments" which does not affect the Company's calculation of taxable income and the amount of tax expense. If the "gain on changes in fair value of financial instruments" were excluded from the calculation of "profit before tax from continuing operations", the effective tax rates for the six months ended June 30, 2011 and 2010 would be 32.8% and 26.1%, respectively.

Under IFRS, the Company has adopted the use of the probability-weighted average method in determining the accrual for tax contingency related to PRC tax including surtax on PRC income as outlined in note 18. The probability-weighted average method considers various scenarios under which

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

the Company's tax liabilities are determined. The increase in effective tax rate is mainly due to an increase in the probability assigned to the scenarios under which the same deemed profit (i.e. 15%) is used in all provinces in the PRC in which the Company does business for years prior to 2010 and a decrease in the probability assigned to the scenario under which different deemed profit rates (10% to 15%) are used in different provinces (see note 18).

(c) See note 18 as the lower rate relates to the use of BVI Subsidiaries.

As at June 30, 2011, the Company has income tax losses of approximately \$184,845,000 based on US dollar tax reporting for which no accounting benefit has been recognized and which can be applied against future years' taxable income in Canada.

The losses will expire as follows:

	\$
<b>Year of Expiry</b>	
2014	14,406
2015	21,907
2026	16,743
2028	2,372
2029	21,834
2030	46,895
2031	60,688
	184,845

In addition, as at June 30, 2011, the Company's PRC WFOEs (Wholly foreign-owned enterprise) and CJVs (Cooperative joint venture) have incurred tax losses on a legal entity basis in aggregate of approximately \$92,980,000 [December 31, 2010 – \$67,417,000]. Losses incurred by the PRC WFOEs and CJVs can be carried forward for a maximum of five years. As of June 30, 2011, benefits in the amount of \$3,500,000 have been recognized as deferred tax assets from the tax losses incurred by the PRC WFOEs and CJVs.

The Company's balances of recognized deferred tax assets and liabilities are:

	June 30, 2011	December 31, 2010
	\$	\$
Deferred income tax asset	3,948	3,500
Deferred income tax liability	(49,593)	(48,934)
<b>Total net deferred income tax liability</b>	<b>(45,645)</b>	<b>(45,434)</b>

Deferred income tax liabilities as at June 30, 2011 and December 31, 2010 relate to the following:

	June 30, 2011	December 31, 2010
	\$	\$
Timber holdings, measured at fair value	(15,403)	(15,514)
Future tax liability on fair market value increments on acquisitions	(34,190)	(33,420)
Tax losses carried forward	3,500	3,500
Inventories	448	—
<b>Net deferred income tax liability</b>	<b>(45,645)</b>	<b>(45,434)</b>

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 7. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the period/year attributable to equity holders of the parent by the weighted average number of common shares outstanding during the period/year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to equity holders of the parent (after adjusting for interest on the Convertible Notes, if assessed as dilutive) by the weighted average number of common shares outstanding during the period/year plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares.

The following reflects the income and common shares data used in the basic and diluted earnings (loss) per share computations:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Net profit attributable to equity holders of the parent from continuing operations	447,167	199,391	426,190	215,903
(Loss) profit attributable to equity holders of the parent from discontinued operations	(104)	(455)	173	(1,050)
Net profit attributable to equity holders of the parent for basic earnings	447,063	198,936	426,363	214,853
Interest on 2013 Convertible Notes	10,207	9,434	20,111	—
Interest on 2016 Convertible Notes	10,061	9,421	19,960	18,703
<b>Net profit attributable to equity holders of the parent adjusted for the effect of dilution</b>	<b>467,331</b>	<b>217,791</b>	<b>466,434</b>	<b>233,556</b>

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	'000	'000	'000	'000
Weighted average number of common shares for basic earnings (loss) per share	246,002	243,590	245,872	242,894
Effect of dilution:				
- Share options	1,008	1,219	1,249	1,290
- 2013 Convertible Notes	17,008	17,008	17,008	—
- 2016 Convertible Notes	21,740	21,740	21,740	21,740
<b>Weighted average number of common shares adjusted for the effect of dilution</b>	<b>285,758</b>	<b>283,557</b>	<b>285,869</b>	<b>265,924</b>

In respect of the diluted earnings (loss) per share amounts, the impact of the Company's outstanding 2013 Convertible Notes is not adjusted in the calculation of weighted number of common shares for the effect of dilution and net profit attributable to equity holders of the parent as they are assessed as anti-dilutive for the six months ended June 30, 2010

To calculate (loss) earnings per share amounts for the discontinued operation, the weighted average number of common shares for both basic and diluted amounts is as per the table above. The following table provides the (loss) earnings amount used:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Net (loss) profit from discontinued operation for basic and diluted (loss) earnings per share calculations</b>	<b>(104)</b>	<b>(455)</b>	<b>173</b>	<b>(1,050)</b>

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 8. Trade and other receivables (current)

	June 30, 2011 \$	December 31, 2010 \$
Trade receivables	390,041	636,626
Other receivables	37,979	62,767
	<b>428,020</b>	<b>699,393</b>

The Company reviews outstanding trade receivable and records an allowance for doubtful accounts when the collections are in doubt. Trade receivables are substantially from companies located in the PRC and are denominated in Renminbi. The Renminbi is not freely remittable out of the PRC and its conversion into other currencies is restricted under the current PRC foreign exchange regulations. As a result, the majority of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the Company's amounts payable on standing timber and other liabilities denominated in Renminbi.

### 9. Prepayments and other assets

	Notes	June 30, 2011 \$	December 31, 2010 \$
<b>Current</b>			
Prepaid lease payments	(a)	6,508	5,861
Wood logs deposit		75,707	59,593
Wood-based products deposit		3,144	740
Others		12,272	1,945
		<b>97,631</b>	<b>68,139</b>
<b>Non-current</b>			
Prepaid lease payments	(a)	94,757	90,215
Wood logs deposit		48,300	22,500
Prepaid plantation costs		94,432	80,361
Deposit for acquisition of property, plant and equipment		2,387	2,283
Others		27,052	5,096
		<b>266,928</b>	<b>200,455</b>

(a) These represent amounts prepaid for plantation and factory land use rights in the PRC.

### 10. Timber holdings

#### 10.1 The Company's timber holdings consist of the following:

	June 30, 2011 \$	December 31, 2010 \$
Timber holdings measured at lower of cost and net realizable value	3,483,676	2,888,556
Timber holdings measured at fair value less estimated point-of-sale cost	262,036	249,090
	<b>3,745,712</b>	<b>3,137,646</b>

The amount of timber holdings stated at lower of cost and net realizable value recognized as expenses and included in cost of sales for the three months ended June 30, 2011 was \$117,534,000 [three months ended June 30, 2010 - \$68,535,000] and \$221,009,000 [six months ended June 30, 2010 - \$133,324,000], respectively.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 10.2 Timber holdings measured at fair value less estimated point-of-sale cost:

	Planted Plantations \$	Nursery \$	Total \$
At January 1, 2010	160,983	7,007	167,990
Additions	27,806	6,015	33,821
Acquisition of subsidiaries	58,860	—	58,860
Harvested as agricultural produce	(132)	—	(132)
Component of timber holdings from cost of sales	(44,924)	(4,650)	(49,574)
Gains arising from changes in fair value less estimated point-of-sale cost	32,324	—	32,324
Exchange adjustment	3,125	2,676	5,801
At December 31, 2010	238,042	11,048	249,090
Additions	12,500	4,548	17,048
Harvested as agricultural produce	(2,330)	—	(2,330)
Component of timber holdings from cost of sales	(20,023)	(1,068)	(21,091)
Gains arising from changes in fair value less estimated point-of-sale cost	15,281	—	15,281
Exchange adjustment	3,759	279	4,038
<b>At June 30, 2011</b>	<b>247,229</b>	<b>14,807</b>	<b>262,036</b>

The fair values at the end of each period represent the net present value of the cash flows expected to arise from the management and harvest of the existing plantations over their current rotation, after applying a pre-tax discount rate of 11.5%. The valuation methodology also refers to market transactions in other similar properties.

In the opinion of management, the fair value of plantations of age of two years or below and the fair value of nursery approximate cost at the end of each period.

During the three months ended June 30, 2011, the Company sold approximately 3,223 hectares [2010 – 1,978 hectares] of planted plantations, with a fair value less estimated point-of-sale costs of \$15,414,000 [2010 – \$7,004,000].

During the six months ended June 30, 2011, the Company sold approximately 5,123 hectares [2010 – 4,227 hectares] of planted plantations, with a fair value less estimated point-of-sale costs of \$22,353,000 [2010 – \$17,879,000].

During the three months and six months ended June 30, 2011, the fair value less estimated point-of-sale costs of nursery sold was approximately \$877,000 [three months ended June 30, 2010 – \$446,000] and \$1,068,000 [six months ended June 30, 2010 – \$465,000].

The carrying amount of timber holdings pledged as collateral for the Company's interest-bearing loans and borrowings was \$36,541,000, \$38,758,000 and \$51,611,000 as at January 1, 2010, December 31, 2010 and June 30, 2011, respectively.

## 11. Inventories

The amount of inventories recognized as an expense and included in cost of sales for the three months and six months ended June 30, 2011 was \$113,049,000 [three months ended June 30, 2010 – \$109,577,000] and \$225,957,000 [six months ended June 30, 2010 – \$197,113,000], respectively.

The amount charged to the consolidated income statement and included in cost of sales for the three months and six months ended June 30, 2011 for write-downs of inventories was \$214,000 [three months ended June 30,

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

2010 – reversal of write-down of \$619,000] and \$130,000 [six months ended June 30, 2010 – reversal of write-down of \$988,000], respectively.

### 12. Financial assets and financial liabilities

#### 12.1 Other financial assets

	June 30, 2011	December 31, 2010
	\$	\$
<b>Loans and receivables</b>		
Trade receivables, non-current	4,353	5,464
Other receivables, non-current	4,719	5,689
<b>Total</b>	<b>9,072</b>	<b>11,153</b>

#### 12.2 Derivative financial instruments

	June 30, 2011	December 31, 2010
	\$	\$
<b>Financial liabilities at fair value through profit or loss</b>		
Derivatives not designated as hedges		
Embedded derivatives of Convertible Notes	31,858	448,326
<b>Total derivative financial instruments at fair value through profit or loss</b>	<b>31,858</b>	<b>448,326</b>

#### 12.3 Interest-bearing loans and borrowings

	Notes	June 30, 2011	December 31, 2010
		\$	\$
<b>Current</b>			
Trust receipt loans	(a)	47,813	106,865
Bank loans	(a)	69,018	47,094
2011 Senior Notes		87,670	87,670
		<b>204,501</b>	<b>241,629</b>
<b>Non-current</b>			
2013 Convertible Notes		290,611	279,711
2014 Senior Notes		399,518	399,518
2015 Convertible Notes		25,066	24,334
2016 Convertible Notes		291,093	281,080
2017 Senior Notes		600,000	600,000
Unamortized deferred financing costs		(39,477)	(43,550)
		<b>1,566,811</b>	<b>1,541,093</b>

- (a) Certain of the Company's banking facilities are collateralized by:
- (i) charges over certain of the Company's prepaid land leases, buildings and timber holdings measured at fair value which have an aggregate net book value at June 30, 2011 of \$62,661,000 [December 31, 2010 – \$38,758,000]; and
  - (ii) certain short-term deposits at June 30, 2011 of \$29,381,000 [December 31, 2010 – \$12,996,000].
- (b) The terms of the Company's interest-bearing loans and borrowings were disclosed in note 12 to the Company's annual financial statements for the year ended December 31, 2010. As noted therein, the terms of the Convertible Notes provide that they are convertible into common shares of the Company, at

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

the option of the holder, at a defined conversion rate; however, the Company may elect to deliver, in lieu of its common shares, cash or a combination of cash and common shares. The Company's option to deliver cash on the conversion date in lieu of common shares gives rise to an embedded derivative financial liability, measured separately at fair value through profit or loss because it is not closely related to the underlying Convertible Notes. On initial recognition, for each series of the Convertible Notes, the Company measured the derivative financial liability at fair value, and measured the carrying value of the underlying Convertible Notes at the difference between this amount and the proceeds of issue. Subsequent to initial recognition, the Company measures the derivative financial liability at fair value at each reporting date, recognizing changes in the fair value in the income statement, and accretes the carrying value of the underlying Convertible Notes to their face value using the effective interest method.

The gain on changes in fair value of the derivative liability for the three months and six months ended June 30, 2011 is \$469,508,000 [three months ended June 30, 2010 – \$153,344,000] and \$416,468,000 [six months ended June 30, 2010 – \$132,935,000], respectively.

The significant assumptions used in applying the Black-Scholes valuation model are as follows:

<b>2016 Convertible Notes</b>	June 30, 2011	December 31, 2010	June 30, 2010
Date of expiry	December 15, 2016	December 15, 2016	December 15, 2016
Dividend Yield	0.0%	0.0%	0.0%
Volatility	80.4%	55.6%	58.8%
Risk-free interest rate	2.68%	2.86%	2.85%
Expected life (in years)	5.46	5.96	6.46

<b>2013 Convertible Notes</b>	June 30, 2011	December 31, 2010	June 30, 2010
Date of expiry	August 1, 2013	August 1, 2013	August 1, 2013
Dividend Yield	0.0%	0.0%	0.0%
Volatility	101.9%	59.5%	61.2%
Risk-free interest rate	1.57%	1.70%	2.28%
Expected life (in years)	2.08	2.58	3.08

- 12.4 The following is an analysis of the contractual maturities of the Company's financial liabilities as at June 30, 2011:

	Payment Due by Period				Total \$
	Within one year \$	In the second and third year \$	In the fourth and fifth year \$	After the fifth year \$	
Interest-bearing loans and borrowings	204,501	345,000	424,517	1,060,000	2,034,018
Trade and other payables <sup>(1)</sup>	274,059	—	—	—	274,059
Interest obligations of non-current interest bearing loans and borrowings	117,544	217,235	118,698	58,023	511,500
	<b>596,104</b>	<b>562,235</b>	<b>543,215</b>	<b>1,118,023</b>	<b>2,819,577</b>

<sup>(1)</sup> Excluding the tax provision for tax related contingency.



## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 13. Property, plant and equipment, intangible assets and goodwill

	Property, plant and equipment \$	Intangible assets \$	Goodwill \$
Opening net book value at January 1, 2010	47,299	669	181
Additions	31,161	—	—
Acquisition of subsidiaries	9,720	187,971	75,641
Disposals	(1,614)	—	—
Depreciation and amortization	(6,617)	(2,976)	—
Change in fair value	640	—	—
Exchange adjustment	1,936	1,119	1,612
Closing net book value at December 31, 2010	82,525	186,783	77,434
Additions	10,007	8,226	—
Acquisition of subsidiaries	—	—	167
Disposals	(439)	(118)	—
Depreciation and amortization	(4,285)	(1,830)	—
Exchange adjustment	2,316	816	1,240
Closing net book value at June 30, 2011	90,124	193,877	78,841

### 14. Issued capital

	Six months ended June 30, 2011		Twelve months ended December 31, 2010	
	Number of Common Shares	Issued Capital \$	Number of Common Shares	Issued Capital \$
<b>Authorized</b>				
Unlimited common shares, without par value				
Unlimited preference shares, issuable in series, without par value				
<b>Issued</b>				
Balance, beginning of period/year	245,740,889	1,261,086	242,129,062	1,213,483
Issue of shares	355,037	6,936	2,138,474	35,501
Exercise of options	—	—	1,473,353	8,353
Transfer from contributed surplus	—	—	—	3,749
Balance, end of period/year	246,095,926	1,268,022	245,740,889	1,261,086

During the six months ended June 30, 2011, no common shares were issued upon the exercise of stock options.

As at June 30, 2011, options to purchase 610,196 common shares remain available to be granted.

During the six months ended June 30, 2011, options to acquire up to 180,702 [2010 – Nil] common shares were granted to executives and employees at an exercise price of Cdn.\$21.67. The options granted will vest over three years and expire in five years. The total fair value of the stock options granted was estimated to be \$1,838,000 on the respective dates of grant using the Black Scholes option-pricing model with the following input:

	<b>March 17, 2011</b>
Number of options (in number)	180,702
Exercise price (in Cdn.\$)	\$21.67
Date of expiry	<b>March 17, 2016</b>
Dividend Yield	0.0%
Volatility	57.0%, 55.8%, 56.6%
Risk-free interest rate	2.36%
Option's expected life (in years)	3.85, 4.15, 4.58

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(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

For the six months ended June 30, 2011, a credit of \$443,000 was recorded in selling, general and administrative expenses as compensation expense for the re-measurement of Deferred Stock Units ("DSUs") (including a credit of \$63,000 related to the revaluation to the market value of the underlying shares as at June 30, 2010). As at June 30, 2011, there were an aggregate of 28,932 DSUs with a market value of \$95,000 recognized and outstanding.

### 15. Related party disclosures

#### 15.1 Transactions with related parties

During the period, the Company entered into transactions with related parties as follows:

- [a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by such executive officers. The consultancy fees incurred for the three months and six months ended June 30, 2011 amounted to \$153,000 [three months ended June 30, 2010 – \$152,000] and \$305,000 [six months ended June 30, 2010 – \$305,000], respectively and were recorded at an exchange amount as agreed by the related parties.
- [b] In addition, as at June 30, 2011, no amount [December 31, 2010 – \$7,632,000] was payable for consultancy fees to these related companies.

#### 15.2 Compensation of key management personnel of the Company

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Short-term employee benefits	3,509	3,196	6,909	6,221
Equity compensation benefits	—	—	1,478	—
	3,509	3,196	8,387	6,221

### 16. Commitments

#### *Operating lease commitments – Company as lessee*

The Company has entered into commercial leases on certain land and buildings. These leases have an average life of between 1 and 45 years with a renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	June 30, 2011	December 31, 2010
	\$	\$
Within one year	18,474	28,491
After one year but not more than five years	61,034	38,045
More than five years	173,704	177,260
	253,212	243,796

#### *Operating lease commitments – Company as lessor*

The Company has entered into commercial property leases on its investment property portfolio, consisting of the Company's surplus office and land and buildings. These non-cancellable leases have remaining terms of between 1 and 3 years.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	June 30, 2011	December 31, 2010
	\$	\$
Within one year	983	1,059
After one year but not more than five years	1,728	1,042
More than five years	—	—
	<u>2,711</u>	<u>2,101</u>

### Capital commitments

Capital commitments outstanding at the end of the reporting period and not provided for in the financial statements were as follows:

	June 30, 2011	December 31, 2010
	\$	\$
Contracted for	292,668	146,825
Authorized but not contracted for	—	—
	<u>292,668</u>	<u>146,825</u>

The capital commitments contracted for were mainly in respect to timber holdings, buildings and plant and machinery.

### Capital contributions

As at June 30, 2011, the Company has capital commitments in respect of capital contributions to our WFOEs of \$68,110,000 [December 31, 2010 – \$51,600,000].

### Purchase commitments

As at June 30, 2011, the Company has purchase commitments mainly regarding logs of \$312,455,000 [December 31, 2010 – \$193,987,000].

### Other commitments

Under an assignment agreement entered in May 2010, pursuant to which an agreement entered into in July 2006 to secure at least 1.5 million m<sup>3</sup> of wood fibre annually in Inner Mongolia up to July 2018 was assigned to the Company, the Company has acquired approximately 1,166,000 m<sup>3</sup> of wood fibre as at June 30, 2011.

Under an agreement entered in July 2010 to secure at least 600,000 m<sup>3</sup> of wood fibre annually for a period not longer than 10 years in Russia, the Company has acquired approximately 317,700 m<sup>3</sup> of wood fibre as at June 30, 2011.

Under master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, the Company has acquired approximately 226,300 hectares of plantation trees for \$926,507,000 as at June 30, 2011.

Under a master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has actually acquired approximately 230,200 hectares of plantation trees for \$1,193,459,000 as at June 30, 2011.

Under a master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, the Company has acquired approximately 137,100 hectares of plantation trees for \$690,598,000 as at June 30, 2011.

## **Notes to the condensed interim consolidated financial statements**

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

Under a master agreement entered in August 2008 to acquire 200,000 hectares of plantation trees over a 10-year period in Fujian, the Company has not acquired any hectares of plantation trees as at June 30, 2011.

Under a master agreement entered in June 2009 to acquire between 150,000 and 300,000 hectares of plantation trees over a 3-year period in Jiangxi, the Company has acquired approximately 69,100 hectares of plantation trees for \$309,614,000 as at June 30, 2011.

Under a master agreement entered in January 2010 to acquire 150,000 hectares of plantation trees over a 3-year period in Guizhou, the Company has acquired approximately 38,200 hectares of plantation trees for \$201,438,000 as at June 30, 2011.

Under a master agreement entered in May 2011 to acquire 200,000 hectares of plantation trees over a 10-year period in Shaanxi, the Company has not acquired any hectares of plantation trees as at June 30, 2011.

Under a master agreement entered in May 2011 to acquire 66,667 hectares of plantation trees over a 10-year period in Yunnan, the Company has not acquired any hectares of plantation trees as at June 30, 2011.

### **17. Capital Management**

The Company's objectives in managing capital are to maintain an optimal capital structure to reduce the overall cost of capital, to safeguard its ability to continue to deploy capital to pursue its strategy of growth, and to provide returns to shareholders and other stakeholders.

In the management of capital, the Company includes interest-bearing loans and borrowing (including short-term position) of \$1,771,312,000 and equity attributable to equity holders of the parent of \$3,444,649,000. The Board of Directors does not establish quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. There were no changes in the Company's approach to capital management during the period.

The Company is subject to externally imposed minimum capital requirements relating to the interest-bearing loans and borrowing and exceeds the minimum requirements during the period. The Company's capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As of June 30, 2011, the Company has retained earnings of approximately \$2.0 billion which may be restricted.

### **18. Provision and contingencies for tax related liabilities**

The provision for income taxes and contingent tax related liabilities and whether tax filings are required in a particular jurisdiction is subject to a number of different factors, estimates and judgments made by management. A change in the facts or in these estimates and judgments could have a material impact on the Company's tax expense.

The Company has operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates and that are subject to audit by all relevant tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions, changes in tax laws and administrative practice in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company operates. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions.

In particular, the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. Under the terms of the relevant sales contracts and commission agreements made with the AI (collectively, the "AI Agreements"), the AI are responsible for withholding and remitting all relevant PRC taxes that arise from the Authorized Sales Activities.

Under the current PRC laws and regulations (which came into effect in 2008) relating to PRC Enterprise Income tax ("EIT"), foreign companies deriving income from sources in the PRC are subject to EIT. For EIT payable by foreign companies not having an establishment in the PRC, the payer has the duty to withhold and pay. It is

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are also subject to EIT because of the Authorized Sales Activities.

Should the PRC tax authorities recover EIT, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities for up to a period from four (current year plus three prior years) to six years (current year plus five prior years) in practice. Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to triple amount of the tax underpaid.

Management has concluded that based on all available information it is appropriate to recognize in these financial statements a provision representing management's estimate, based upon a probability-weighted average, of the amounts the PRC tax authorities might seek to recover under various scenarios. In accordance with current PRC laws, regulations and practices relating to EIT, it is probable that the PRC tax authorities would compute tax on income of BVI Subsidiaries, engaged in Authorized Sales Activities in the PRC with AI, on the deemed profit percentage basis and it is probable that basis would be applied to income of the current year plus the three prior years. Applying this aforementioned basis of computation, at June 30, 2011 this provision is \$204,722,000 [December 31, 2010 – \$168,914,000], which amount mainly relates to the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current six months and in the four preceding years including discontinued operations.

The PRC tax authorities issued Circular 19 in February 2010 (the "Circular") stating that the deemed profit percentage for certain activities should be a minimum of 15%. The activities subject to this minimum percentage appear to include sales of plantation fibre. The Company has been assessing the effect of the Circular on the BVI Subsidiaries and monitoring its interpretation and its application by the PRC tax authorities. Based upon the Company's analysis to date, the Company has recorded income tax based on a probability-weighted average method which considers various scenarios under which the Company's tax liabilities are determined.

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 respectively. The amount recognized as a provision is the best estimate of the consideration required to settle the liabilities at the end of the reporting period, calculated by weighting the possible outcomes flowing from the matters described above by their associated probabilities, taking into account the surrounding risks and uncertainties. The Company actively revisits and adjusts its measurement of this provision as it updates its analysis. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of related contingencies in a period.

### 19. First-time adoption of IFRS

The condensed interim consolidated financial statements for the three months ended March 31, 2011 were the Company's first financial statements prepared under IFRS ("First IFRS Interim Statements"). Note 22 to the First IFRS Interim Statements described the first-time adoption exemptions applied by the Company. The date of transition to IFRS was January 1, 2010.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 19.1 Reconciliation of equity

The Company's equity as at June 30, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

Notes	June 30, 2010			
	Canadian GAAP \$	IFRS Adjustments \$	IFRS Reclassifications \$	IFRS \$
<b>Current assets</b>				
Cash and cash equivalents	922,732	—	—	922,732
Short-term deposits	62,821	—	—	62,821
Accounts receivable	316,758	—	(316,758)	—
Trade and other receivables	—	(5,234)	364,356	359,122
Prepayments (b)	—	(1,500)	26,819	25,319
Timber holdings, measured at cost (a)	—	(61,871)	2,528,649	2,466,778
Inventories (d)	68,999	68	(9,606)	59,461
Prepaid expenses and others	70,646	—	(70,646)	—
Convertible notes/Other current financial assets	29,090	—	—	29,090
	<u>1,471,046</u>	<u>(68,537)</u>	<u>2,522,814</u>	<u>3,925,323</u>
<b>Non-current assets</b>				
Timber holdings (a)	2,746,883	—	(2,746,883)	—
Timber holdings, measured at fair value (a)	—	59,634	116,550	176,184
Property, plant and equipment (b), (c)	93,010	942	(32,568)	61,384
Investment properties (c)	—	—	23,310	23,310
Other non-current financial assets	—	(3,161)	66,180	63,019
Intangible assets and goodwill	8,103	88,277	167	96,547
Other assets (b)	138,078	(54,246)	50,430	134,262
Deferred tax assets (g)	—	3,400	—	3,400
	<u>2,986,074</u>	<u>94,846</u>	<u>(2,522,814)</u>	<u>558,106</u>
<b>Total assets</b>	<u>4,457,120</u>	<u>26,309</u>	<u>—</u>	<u>4,483,429</u>

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 19.1 Reconciliation of equity (cont'd)

		June 30, 2010			
		Canadian GAAP \$	IFRS Adjustments \$	IFRS Reclassifications \$	IFRS \$
Notes					
<b>Current liabilities</b>					
Interest-bearing loans and borrowings	(e)	153,891	—	—	153,891
Trade and other payables		291,439	28,007	12,543	331,989
Income tax payable		9,011	377	—	9,388
Liabilities of discontinued operations		12,543	—	(12,543)	—
		<u>466,884</u>	<u>28,384</u>	<u>—</u>	<u>495,268</u>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	(e)	1,121,480	(125,662)	—	995,818
Derivative financial instruments	(e)	—	239,027	—	239,027
Deferred tax liability	(g)	39,108	(5,022)	—	34,086
		<u>1,160,588</u>	<u>108,343</u>	<u>—</u>	<u>1,268,931</u>
<b>Total liabilities</b>		<u>1,627,472</u>	<u>136,727</u>	<u>—</u>	<u>1,764,199</u>
<b>Shareholders' equity</b>					
Equity portion of convertible notes	(e)	158,883	(158,883)	—	—
Issued capital	(f)	1,253,561	(83)	—	1,253,478
Contributed surplus	(f)	12,392	(182)	—	12,210
Accumulated other comprehensive income		241,166	—	(241,166)	—
Statutory reserve		1,653	—	(1,653)	—
Retained earnings		1,160,759	265,321	—	1,426,080
Other reserves		—	(216,234)	242,819	26,585
Equity attributable to equity holders of parent		<u>2,828,414</u>	<u>(110,061)</u>	<u>—</u>	<u>2,718,353</u>
Non-controlling interests		1,234	(357)	—	877
Total shareholders' equity		<u>2,829,648</u>	<u>(110,418)</u>	<u>—</u>	<u>2,719,230</u>
<b>Total liabilities and equity</b>		<u>4,457,120</u>	<u>26,309</u>	<u>—</u>	<u>4,483,429</u>

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 19.2 Reconciliation of total comprehensive income

The Company's comprehensive income for the three months ended June 30, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

	Notes	Canadian GAAP \$	IFRS Adjustments \$	IFRS Reclassifications \$	IFRS \$
<b>Continuing operations</b>					
Revenue		305,758	(7,171)	—	298,587
Cost of sales	(a)	(182,496)	(2,737)	(329)	(185,562)
Gain on changes in fair value of timber holdings less estimated point-of-sale cost	(a)	—	1,296	—	1,296
Other operating income		137	17	—	154
Selling and administrative expenses		(17,924)	(4,743)	(556)	(23,223)
Other operating expenses		—	(525)	(1,133)	(1,658)
(Loss) gain on fair value changes of financial instruments	(e)	(3,278)	153,344	—	150,066
Depreciation and amortization		(1,053)	—	1,053	—
Exchange losses		(965)	—	965	—
Finance income		3,567	1,948	—	5,515
Finance costs		(30,190)	(4,127)	—	(34,317)
Income tax expenses	(g)	(9,567)	(1,876)	—	(11,443)
<b>Profit from continuing operations</b>		<b>63,989</b>	<b>135,426</b>	<b>—</b>	<b>199,415</b>
<b>Discontinued operations</b>					
Loss after tax for the year from discontinued operations		(277)	(178)	—	(455)
Non-controlling interest		(25)	1	—	(24)
<b>Profit for the period</b>		<b>63,687</b>	<b>135,249</b>	<b>—</b>	<b>198,936</b>
<b>Other comprehensive income</b>					
Unrealized gains on financial assets designated as available-for-sale, net of tax of nil		466	—	—	466
Currency translation differences		15,225	1,054	—	16,279
		15,691	1,054	—	16,745
<b>Total comprehensive income</b>		<b>79,378</b>	<b>136,303</b>	<b>—</b>	<b>215,681</b>



## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 19.3 Reconciliation of total comprehensive income

The Company's comprehensive income for the six months ended June 30, 2010 can be reconciled to the amounts reported under Canadian GAAP as follows:

Notes	Canadian GAAP \$	IFRS Adjustments \$	IFRS Reclassifications \$	IFRS \$
<b>Continuing operations</b>				
	556,773	(7,171)	—	549,602
Revenue				
Cost of sales	(a) (338,307)	(10,145)	(329)	(348,781)
Gain on changes in fair value of timber holdings less estimated point-of-sale cost	(a) —	11,714	—	11,714
Other operating income	455	10	—	465
Selling and administrative expenses	(35,340)	(9,704)	(1,189)	(46,233)
Other operating expenses	—	(79)	(1,651)	(1,730)
(Loss) gain on fair value changes of financial instruments	(e) (3,987)	132,935	—	128,948
Depreciation and amortization	(2,276)	—	2,276	—
Exchange losses	(893)	—	893	—
Finance income	6,992	1,948	—	8,940
Finance costs	(57,884)	(7,014)	—	(64,898)
Income tax expenses	(g) (18,351)	(3,751)	—	(22,102)
<b>Profit from continuing operations</b>	107,182	108,743	—	215,925
<b>Discontinued operations</b>				
Loss after tax for the year from discontinued operations	(696)	(354)	—	(1,050)
Non-controlling interest	(1)	(21)	—	(22)
<b>Profit for the period</b>	106,485	108,368	—	214,853
<b>Other comprehensive income</b>				
Unrealized gains on financial assets designated as available-for-sale, net of tax of nil	2,005	—	—	2,005
Currency translation differences	15,013	1,648	—	16,661
	17,018	1,648	—	18,666
<b>Total comprehensive income</b>	123,503	110,016	—	233,519

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### 19.4 Notes to the reconciliations

#### (a) Timber holdings

Under Canadian GAAP, purchased plantations and planted plantations were disclosed as a single item measured at cost and classified as non-current assets. Certain nursery biological assets were classified as inventories and measured at the lower of cost and net realizable value.

Under IFRS, purchased plantations are analyzed as inventories because the Company does not manage their biological transformation. They are accordingly classified as current assets and measured at the lower of cost and net realizable value. However, the determination of the cost of inventories under IFRS excludes certain expenses, in particular relating to property maintenance, which were included in this measure under Canadian GAAP.

Planted plantations are analyzed as biological assets because the Company manages their biological transformation. They are classified as non-current assets and measured at fair value less costs to sell at the end of each reporting period, recognizing changes in fair value less costs to sell in the income statement.

The effect of reclassifying purchased plantations as current assets was an increase in current assets and a corresponding decrease in non-current assets by \$2,529,000 as at June 30, 2010.

The effect of the reclassification of nursery biological assets was an increase in timber holdings measured at cost and a corresponding decrease in inventories of \$9,606,000 as at June 30, 2010.

The effect on the statement of financial position of measuring planted plantations at fair value less costs to sell is an increase in the carrying amount of timber holdings measured at fair value of \$59,634,000 as at June 30, 2010. The effect on the Company's total comprehensive income of measuring plantations at fair value for the three months and six months ended June 30, 2010 is a gain of \$1,296,000 and \$11,714,000, respectively.

The effect on the statement of financial position of charging certain plantation expenses of purchased plantations was a decrease of \$12,984,000 as at June 30, 2010 and the effect of this charging on total comprehensive income for the three months and six months ended June 30, 2010 was \$2,235,000 and \$4,305,000, respectively.

#### (b) Property, plant and equipment / Other assets / Capital assets / Prepayments

Under Canadian GAAP, the prepaid land leases of land-use-rights in the PRC was classified as capital assets or property, plant and equipment while the prepaid land leases of plantation land leases were classified as other assets. Under IFRS, the prepaid land leases of both the land-use-rights in the PRC and plantation land leases are classified as prepaid lease payments. Based on the effective lease period, the current portion of prepaid lease payments are grouped under prepayment and the non-current portion are grouped under other assets in the statement of financial position.

The effect on the statement of financial position of the reclassification is an increase in the other assets of \$9,034,000, an increase in prepayment of \$216,000, a decrease of \$9,259,000 of property, plant and equipment.

Under Canadian GAAP, any impairment loss recognized for property, plant and equipment assessed as impaired is not reversed even if the recoverable amount is subsequently assessed to be above the carrying amount of the impaired assets. Under IFRS, a previously recognized impairment loss is reversed if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. As a result, the Company reversed a previously recognized impairment loss, resulting in an increase of the carrying amount of property, plant and equipment of \$942,000 as at June 30, 2010 and recognized a loss in the total comprehensive income for the three months and six months ended June 30, 2010 of \$23,000 and of \$50,000, respectively.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

### (c) Investment properties

Under Canadian GAAP, investment properties were presented under capital assets or property, plant and equipment and measured at cost net of accumulated depreciation and accumulated impairment losses. Under IFRS, investment properties are presented separately and measured either at fair value or at cost less accumulated depreciation and impairment losses. The Company has elected to measure investment properties at cost less accumulated depreciation and impairment losses. The effect of this election and reclassification on the statement of financial position is a decrease in the carrying amount of property, plant and equipment and a corresponding increase in investment properties of \$23,310,000 as at June 30, 2010.

### (d) Inventories

Under Canadian GAAP, the nursery biological assets were classified as inventories and stated at lower of cost and net realizable value. Under IFRS, the nursery biological assets are presented under timber holdings and measured at fair value less costs to sell. The effect is an increase in timber holdings measured at cost and a corresponding decrease in inventories of \$9,606,000 as at June 30, 2010.

### (e) Interest bearing loans and borrowings / Derivative financial instruments / Equity portion of convertible notes / Loss (gain) on changes in fair value of financial instruments

The Convertible Notes are convertible into common shares of the Company, at the option of the holder, at a defined conversion rate; however, the Company may elect to deliver, in lieu of its common shares, cash or a combination of cash and common shares. Under Canadian GAAP, the conversion feature was analyzed as equity, based on the Company's unconditional ability to settle the instrument on conversion by issuing its own shares. Under IFRS however, the feature is analyzed as an embedded derivative liability, measured separately at fair value through profit or loss because it is not closely related to the underlying Convertible Notes. On initial recognition, for each series of Convertible Notes, the Company measured the derivative liability at fair value, and measured the carrying value of the underlying Convertible Notes at the difference between this amount and the proceeds of issue. Subsequent to initial recognition, it measures the derivative liability at fair value, recognizing changes in the fair value in the income statement, and accretes the carrying value of the underlying Convertible Notes to their face value using the effective interest method. The effect on the statement of financial position is a decrease in the equity portion of convertible notes of \$158,883,000, a decrease in the non-current interest-bearing loans and borrowings of \$125,662,000 and an increase in the derivative financial instruments of \$239,027,000 as at June 30, 2010. The effect on the above in total comprehensive income in the three months and six months ended June 30, 2010 was a credit of \$150,234,000 and a credit \$126,663,000, respectively.

### (f) Issued capital / Contributed surplus

Under IFRS, the Company elected to apply IFRS 2 to account for the equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The effect on the statement of financial position was a decrease in issued capital of \$83,000, a decrease in contributed surplus of \$182,000 and an increase in total comprehensive income for the three months and six months ended June 30, 2010 of \$465,000 and \$986,000, respectively.

### (g) Income and deferred tax

Under Canadian GAAP, the Company evaluated a tax position for uncertainty in income taxes using a two step process. It first determined whether a tax position, based solely on technical merits, had a likelihood of more than 50 percent ("more-likely-than-not") of being sustained upon examination, assuming the appropriate tax authority had full knowledge of all relevant facts. For positions satisfying these criteria, it then measured the tax benefit as the largest amount of benefit, determined on a cumulative probability basis that was more-likely-than-not to be realized upon ultimate settlement. Under IFRS, the Company recognizes a provision for uncertain tax positions where it identifies a present obligation based on a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. It measures the provision at its best estimate of the amount required to settle the obligation at the end of the reporting period, taking all relevant factors into account.

## Notes to the condensed interim consolidated financial statements

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

The effect on the statement of financial position is to increase the amount of provision for contingent tax related liabilities by \$18,920,000 as at June 30, 2010 and a charge to the total comprehensive income in the three months and six months ended June 30, 2010 of \$2,746,000 and \$4,025,000, respectively.

As described above, timber holdings representing planted plantations, previously measured using the cost method, are now measured at fair value with changes in fair value recognized in profit or loss. Measuring these timber holdings at fair value generates additional temporary differences between their carrying value in the financial statements and their tax bases, and therefore results in recognizing additional deferred tax liabilities. The effect is to increase the amount of the deferred income tax liability by \$15,104,000 as at June 30, 2010

In addition, under IFRS, the Company has started recognizing benefits on losses incurred by PRC WFOE and CJV. The amount of total benefits that have been recognized is \$3,400,000 as at June 30, 2010.

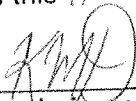
### 19.5 Statement of cash flows

Under Canadian GAAP, interest paid and received were classified as operating cash flows. Under IFRS, interest payments and receipts are allocated to investing and financing activities where they can be identified with transactions within those categories. There are no other material adjustments to the cash flow statement except for changes resulting from the items described above. The components of cash and cash equivalents under Canadian GAAP are similar to those presented under IFRS.

### 20. Events after the Reporting Period

In August 2011, the Company deposited with paying agent Citibank, N.A., for payment in cash to holders of its 9.125% Guaranteed Senior Notes due August 17, 2011 (the "2011 Notes"), the outstanding principal amount of \$87,670,000, plus accrued interest to maturity. The Company is thereby repaying the outstanding principal of the 2011 Notes. Following such repayment, the 2011 Notes will be cancelled and de-listed from the Singapore Exchange Securities Trading Limited.

This is **Exhibit "C"** referred to in  
the Affidavit of Daniel E.H. Bach  
sworn this *11<sup>th</sup>* day of July, 2012



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A Commissioner for Taking Affidavits



Sino-Forest Corporation

### Sino-Forest Announces Findings of the Independent Committee

- Independent Committee review verifies cash balances, timber assets, book values and revenues
- Final Independent Committee report expected to be submitted prior to year-end
- Q3 results delayed, pending resolution of outstanding issues
- A version of the Independent Committee's second interim report released online at [www.sedar.com](http://www.sedar.com) and [www.sinoforest.com](http://www.sinoforest.com).

**TORONTO, CANADA – November 15, 2011** - Sino-Forest Corporation ("Sino-Forest" or the "Company") (TSX:TRE) today announced the findings of the Independent Committee of the Company's Board of Directors (the "IC"). Sino-Forest also today announced that it is deferring the release of its third quarter financial 2011 results ("Q3 Results"). All references to \$ amounts contained in this press release are to United States Dollars.

Mr. Judson Martin, Vice-Chair and CEO of the Company stated "This has been an intense and challenging process and I am pleased that the Independent Committee has been able to refute the substance of the allegations made in the Muddy Waters report.

"The Independent Committee report verifies the Company's stated cash balances, confirms registered title or contractual rights to the Company's stated timber assets, as well as the book value of these assets, reconciles reported total revenue and refutes the allegation that Yuda Wood is a subsidiary of the Company. We can categorically say Sino-Forest is not the "*near total fraud*" and "*Ponzi scheme*" as alleged by Muddy Waters."

"The Independent Committee and Audit Committee are verifying information regarding certain of the Company's relationships with its suppliers and Authorized Intermediaries and addressing other issues that must be resolved before the Q3 Results can be released. We are confident this work will be carried out quickly and our current plan is to release our Q3 Results within the next 30 days. As the Independent Committee report notes, its work is substantially complete. We look forward to the Independent Committee's final report which we expect to be released prior to year-end."

"While the investigation has been difficult, we have also learned much through this process, including a better understanding of the way we need to communicate the operational and regulatory complexities of operating in our industry in China in order to give confidence to our international investor community. We also found that the Company's internal processes, infrastructure and breadth of management team have not kept pace with the growth of its operations. These shortcomings will be addressed: we have a plan to improve our governance and processes going forward, and we plan

to add further qualified staff. We are also exploring ways to simplify our business structure, which we believe will provide greater comfort to our investors."

"To say that this has been a tough time for our employees, investors and our Company as a whole would be a huge understatement. A great deal of financial and reputational damage has been caused by unfounded accusations made by a short-seller, who we understand personally profited a great deal from the losses of others. Far from being a "near total fraud" and "Ponzi scheme" as alleged by Muddy Waters, Sino-Forest is a real company, with real assets and real revenue. We are reserving our rights to respond to this matter."

## **REPORTS OF THE INDEPENDENT COMMITTEE**

### **Establishment of Independent Committee**

On June 2, 2011, in response to a report issued by Muddy Waters, LLC (the "MW Report"), the Board of Directors of the Company appointed a committee of independent directors to examine the allegations in the MW Report, and report back to the Board of Directors. The IC retained independent legal counsel in Canada, Hong Kong and mainland China and independent accounting advisors.

### **The First Interim Report**

On August 11, 2011, the IC delivered its First Interim Report to the Board of Directors. In its First Interim Report, the IC's accounting advisors confirmed the Company's cash balances as of June 13, 2011 for accounts located inside and outside of mainland China. A total of 293 accounts controlled by Sino-Forest in Hong Kong were confirmed, representing 100% of the expected cash position. The Company had 267 accounts in China. The logistics and requirements of in person/in branch verification led the IC to confirm 28 accounts, representing approximately 81% of the expected cash position in China. The IC was satisfied based on this verification that the Company's expected cash position in China existed as at the date of confirmation.

### **Work of the Independent Committee Leading to its Second Interim Report**

Since delivering its First Interim Report, the IC's focus has been principally on (i) the ownership structure of timber assets on Sino-Forest's balance sheet, (ii) verifying the Company's holdings of standing timber and plantation land use/lease rights, (iii) interviewing suppliers and authorized intermediaries ("AIs") with a view to verifying the existence and nature of the Company's relationship with its commercial counterparties, and (iv) examining the Company's relationship with Yuda Wood, historically one of the largest suppliers of standing timber to Sino-Forest.

### **Sino-Forest's Business Segments and Business Models**

Sino-Forest's business encompasses several different activities: (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 in China) and (iii) manufacturing and other operations. Sino-Forest 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. Purchased plantations are comprised of standing timber without underlying leases of land use rights. The purchased plantation model operates through two legal structures: a British Virgin Islands ("BVI")/AI legal structure and, to a lesser but growing extent, a China-incorporated Wholly Foreign Owned Enterprise ("WFOE") legal structure. The planted plantation model is operated exclusively through the WFOE legal structure, although the WFOEs are typically also held indirectly through a BVI holding structure. The planted plantation model involves the planting of seedlings on land for which Sino-Forest has plantation land use rights through leases or other similar legal instruments. As at December 31, 2010, Sino-Forest disclosed approximately 711,000 hectares of purchased plantations under management in China, with 467,000 hectares recorded as held by BVIs and approximately 244,000 hectares recorded as held by WFOEs at December 31, 2010. Sino-Forest disclosed approximately 77,700 hectares of planted plantation under management in China at December 31, 2010.

#### **Property Rights to Plantations / Timber in China**

Property rights are relatively new in China and the system for recording them continues to evolve, in the IC's experience, at different rates in different parts of the country.

There are four separate 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. Private enterprises cannot legally hold plantation land ownership but may hold plantation land use rights for a specified duration of up to 70 years, although in certain provinces foreign enterprises cannot acquire land use rights. Private enterprises also may hold timber ownership and timber use rights. This is important to clarify, because Sino-Forest has never claimed to 'own the land' on which it has standing timber.

A plantation rights certificate ("PRC") reflects plantation land ownership and plantation land use rights as registered in the registration system and is the ultimate proof of ownership. There is a nationally mandated registration system for PRCs, although there are some locations where PRCs are not yet issued. There is no system in place to record the sale and purchase of standing timber when that transaction does not also accompany the sale and purchase of land ownership or land use rights. As described above, in China, the right to own or use land is different from the right to own or use the timber on that land.

In circumstances where a PRC was not available, the Company's general practice was (and is) to require suppliers to seek and obtain "confirmation letters" or "approvals" from local forestry bureaus relating to the standing timber purchase contracts entered into by



its BVIs. These confirmation letters, although not title documents in the Western sense of that term, provide significant support as to the Company's contractual rights. The Company views these confirmations as letters of comfort which indicate that the relevant forestry bureaus do not dispute the Company's claims to the standing timber to which they relate. These confirmations are not publicly available for review at relevant forestry bureaus and, as a result, the entirety of the Company's plantation assets in China cannot be verified from publicly available sources. However, forestry bureau confirmations have been reviewed in the course of the IC work.

While confirmations provide significant comfort as to the Company's contractual rights, the purchase contracts should be regarded as the primary evidence of the Company's interest in timber assets.

### **Second Interim Report**

On November 14, 2011 the IC delivered its Second Interim Report to the Board of Directors. The executive summary of the report is attached to this release. The principal findings in the Second Interim Report are set out below.

#### **(a) Timber Ownership**

Subject to the comments in its Second Interim Report, the IC has confirmed to its satisfaction that the Company has registered title to approximately 151,000 hectares of plantations, being 17.9% of its disclosed timber holdings by area, and additional contractual rights to approximately 683,000 hectares of plantations, being 81.3% of its disclosed timber holdings by area. The IC reported that it has reviewed originals or copies of purchase contracts for the acquisition by the Company of virtually all of its disclosed timber holdings as at December 31, 2010.

The following is a chart showing the percentage of timber assets under each type of ownership that has been verified by the type of documentation that is available:

Summary of Timber Assets By Verification Source (in hectares, rounded)					
	Company Reported December 31, 2010 Timber Holdings <sup>(1)</sup>	Purchase Contracts Provided by Company & Reviewed by IC <sup>(2)</sup>	% of 12/31/10 Timber Holdings	Acquisition Confirmations Provided by Forestry Bureaus <sup>(4)</sup>	% of 12/31/10 Timber Holdings
Purchased Plantations (BVI)	467,000	467,000	100%	467,000	100%
Purchased Plantations (WFOE)	244,000	237,000	97%	89,000	36%
Planted Plantations (WFOE)	77,700	129,000 <sup>(3)</sup>	166%	50,000	64%
<b>Total</b>	<b>788,700</b>	<b>833,000</b>	<b>106%</b>	<b>606,000</b>	<b>77%</b>

*(1) Company reported timber holdings (rounded to the nearest thousand) as per Company's 2010 annual report*

*(2) Originals or copies of purchase contracts (and the corresponding set-off documentation confirming payment) for the acquisitions made by the Company*

*(3) Includes approximately 51,000 hectares of plantation land on which timber had not been planted as at December 31, 2010*

*(4) Company has original or copies of forestry bureau confirmations relating to the acquisition of this hectareage*

*Note: Plantation Rights Certificates issued by forestry bureaus are not available for BVI assets, however approximately 95,000 are available for Purchased Plantation (WFOE) and approximately 55,000 for Planted Plantation (WFOE)*

The IC has verified that the Company has registered title to approximately 151,000 hectares, as at December 31, 2010, as follows, (a) via original PRCs in the Company's name, to approximately 86,000 hectares of WFOE purchased plantations and approximately 43,000 hectares of WFOE planted plantations; and (b) via copies of PRCs in the Company's name supporting the acquisition of approximately 9,000 hectares of WFOE purchased plantations and approximately 12,000 hectares of WFOE planted plantations.

Additionally, 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 hectares of BVIs purchased plantations, 89,000 hectares of WFOE purchased plantations, and approximately 50,000 hectares of WFOE planted plantations.

As indicated above, a system of registered title through PRCs has not been implemented in the jurisdictions examined by the IC Advisors for standing timber that is held without land use/lease rights. In these circumstances, the Company sought confirmations from the relevant local forestry bureaus acknowledging its rights to the standing timber. In meetings organized by management, the IC Advisors met with a sample of forestry bureaus with a view to obtaining further verification of the Company's rights to standing timber in those jurisdictions. Such meetings to date have concluded with the forestry bureaus having issued new confirmations as to the Company's contractual rights in respect of 111,177 hectares as at December 31, 2010 and 133,040 hectares as at March 31, 2011. These forestry bureaus also have acknowledged

existing confirmations in respect of 113,058 hectares as at December 31, 2010.

The IC Advisors did not obtain significant insight into the internal authorization or diligence processes undertaken by the forestry bureaus in issuing confirmations nor did the IC have independent verification of the methods by which those confirmations were obtained. In areas where Sino-Forest has reported large timber holdings, the relevant forestry bureau has confirmed to the IC that the Company is a significant player in the forestry industry.

The Company is continuing its efforts to obtain new confirmations and/or verification of old confirmations from forestry bureaus for the balance of its inventory in those areas where such confirmations can be made available.

In summary, the IC has reviewed to its satisfaction the purchase contracts for approximately 100% of disclosed timber assets, PRCs for 17.9% of timber assets, and forestry bureau confirmations of 77% of timber assets.

**(b) Book Value of Timber**

The IC reported that it is satisfied that the book value of the BVIs timber assets of \$2.476 billion reflected on its 2010 Audited Financial Statements and of WFOE standing timber assets of \$298.6 million reflected in its 2010 Audited 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.

The IC's Advisors reviewed documentation acknowledging the execution of the set-off arrangements between the suppliers, the Company and the AIs for the 2006-2010 period. However, due to a lack of cooperation from suppliers and AIs, the IC Advisors were unable to review any documentation belonging to suppliers or AIs 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 Sino-Forest. Suppliers and AIs were under no legal obligation to provide such verification.

**(c) Revenue Reconciliation**

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, due to the unwillingness of suppliers and AIs to share detailed financial information, the IC was unable to review any documentation of suppliers or AIs 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 Sino-Forest.

**(d) Relationships**

The IC is satisfied that Mr. Huang Ran, a Yuda Wood employee, 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 between the Company and Yuda Wood. Management has offered explanations for these arrangements. Further, Mr. Ran has an ownership interest and/or directorship in a number of other suppliers.

The IC's review has identified other situations which require further review to determine the extent and particulars of the relationship between the Company and certain other suppliers. Certain suppliers and AIs may have cross-ownership and other relationships with each other, which the IC continues to investigate to determine their relevance, if any. In the interviews conducted by the IC Advisors with selected AIs and suppliers, all such parties represented that they were independent of Sino-Forest.

Management has very recently provided information and analysis to the IC intended to resolve the question around related party relationships. The IC is reviewing this material from management and intends to report its findings in this regard in its final report. Some of such information and explanations may not be capable of independent verification.

If any of Sino-Forest's material purchase and sale transactions are found to have been with related parties, the value of these transactions, as recorded on the books and records of the Company, may be impacted.

**Independent Committee Reports Available For Review**

A version of the Second Interim Report of the IC and the Process Schedule have been redacted for commercial sensitivity and filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and made available on the Company's website ([www.sinoforest.com](http://www.sinoforest.com)). A version of the First Interim Report of the IC and certain schedules to the Second Interim Report of the IC will be redacted for commercial sensitivity and will be filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and made available on the Company's website ([www.sinoforest.com](http://www.sinoforest.com)) within two days.

**Completion of the Work of the Independent Committee**

The Independent Committee has worked diligently over five months to complete its two reports. Taking into account advisor costs, the Company has incurred costs of approximately \$35 million to date on the work of the Independent Committee and matters arising as a result of the MW Report.

With the delivery of its Second Interim Report to the Board, the IC has largely completed its mandate. The remaining outstanding items are identified in the Second Interim Report. The IC expects to complete its work and deliver a final report to the Board, prior to the end of 2011.

## **ACTIONS OF THE COMPANY TO PRESERVE STAKEHOLDER VALUE**

In parallel with the appointment of the IC, the Company also instituted a series of measures designed to preserve value at the Company during the IC review process for the benefit of its stakeholders. Such measures included:

- a) The substantial curtailment of further cash investment activities in the plantation fibre business; and
- b) The institution of strict cash controls by management to ensure tighter controls over the Company's cash balances.

These measures were instituted to ensure that the Company's assets were protected for the benefit of all stakeholders pending the outcome of the IC's enquiries.

## **DEFERRAL OF Q3 RESULTS**

The Board of Directors has concluded that it is not currently in a position to authorize the release of the Company's Q3 Results by November 14, 2011 but is continuing its work on the Q3 Results and hopes to be in a position to issue them soon. Before the Q3 Results can be released, certain issues must be resolved to the satisfaction of the Board.

Although the Company is not in a position to issue its Q3 Results at this time, the Company is able to release the cash balance, and cash flow information attached to this release and can therefore confirm that as at November 4, 2011, the Company had a cash balance of \$571.1 million.

As a result of the Company's failure to file its Q3 Results on a timely basis in accordance with applicable law, it has breached certain covenants under its senior and convertible note indentures. An event of default under the note indentures will have occurred if the Company fails 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, thereby subsequently potentially entitling noteholders, through the trustees, to enforce certain rights.

In addition to its outstanding senior and convertible notes, as of October 31, 2011, the Company has loan facilities in China totaling \$67.1 million.

Mr. William Ardell, Non-Executive Chairman of the Company and Chair of the Independent Committee said, "We understand the frustration that our stakeholders are feeling. We are working diligently to address outstanding issues and allow the Q3 Results to be released. We appreciate your patience and we will continue to move forward as quickly and thoroughly as we can."

## **Ontario Securities Commission Investigation**

The Ontario Securities Commission's investigation is ongoing and its cease trade order on the Company's securities remains in effect.

### **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](http://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" 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 noteholders or other lenders to enforce their rights, the outcome of examinations currently underway by the Independent Committee and securities regulatory authorities, the outcome of class action proceedings initiated against the Company as a result of allegations made in the MW Report, 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.

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Appendix A

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

**EXECUTIVE SUMMARY**

**November 13, 2011**

## 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 the 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. The 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 the 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.

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;
- 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; 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.

The IC's work has also included:

- examining a number of specific situations which are the subject of MW allegations or critical newspaper articles;
- engaging with and assisting E&Y in its examination of various issues relevant to its reports on the Company's financial statements;
- 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;
- 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; and
- meeting with and responding to requests for information from the RCMP.

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 the Second Interim Report;
- engage an independent valuator;
- 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 the 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;<sup>1</sup> 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).

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;<sup>2</sup>
- approximately 237,000 Ha. of WFOE purchased plantations;<sup>3</sup> and
- approximately 129,000 Ha. of planted plantations<sup>4</sup>

representing approximately 106%<sup>5</sup> 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:

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<sup>1</sup> 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.

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

<sup>3</sup> 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.

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

<sup>5</sup> 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,<sup>6</sup> and approximately 43,000 Ha. of WFOE planted plantations;<sup>7</sup> 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

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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.

<sup>6</sup> 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.

<sup>7</sup> 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, 2010<sup>8</sup> and 133,040 Ha. as of March 31, 2011,<sup>9</sup> 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.<sup>10</sup>

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 the 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

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<sup>8</sup> 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.

<sup>9</sup> 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.

<sup>10</sup> 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 the Second Interim Report 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. 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.

### **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.

### **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.

### 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.

## GLOSSARY

“\$” means, unless otherwise specified, U.S. dollars;

“**2010 AIF**” means the Company’s annual information form for the year ending December 31, 2010;

“**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;

“**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;

“**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;

“**CTO**” means the cease trade order of the OSC dated August 26, 2010;

“**E&Y**” means Ernst & Young LLP, the auditor of the Company;

“**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;

“**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.);

“**Hunan Forestry Entity #1 Confirmation**” means the new forestry bureau confirmation issued by Hunan Forestry Entity #1;

“**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;

“**JH**” or “**Chinese counsel to the IC**” means Jun He Law Offices, independent Chinese IC counsel;

“**Mallesons**” means Mallesons 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;

“**MD&A**” means management discussion and analysis;

“**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;

“**RCMP**” means Royal Canadian Mounted Police;

“**RMB**” means Renminbi, the official currency of China;

“**SP**” means Sino-Panel (Asia) Inc. (BVI), a BVI;

“**Supplier**” means a supplier to the Company of plantation assets, either rights to standing timber or plantation/land use rights or both;

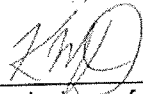
“**WFOE**” means a subsidiary of the Company incorporated in China as a “Wholly Foreign Owned Enterprise”; and

“**Yuda Wood**” means Huaihua City Yuda Wood Co. Ltd, a Supplier.

## Appendix B

Summary Cash Flow July 1, 2011 to November 4, 2011 (US\$ in millions)			
<b>Cash Balance as of June 30, 2011<sup>(1)</sup></b>			<b>\$835.8</b>
Less: Scheduled Senior Note Repayment			(87.7)
Less: Scheduled Senior / Convertible Note Interest Payments			(61.6)
Less: Other Offshore Bank Loan Repayments			(35.9)
Less: China Bank Loan Repayments			(29.9)
Less: Operating Cash Flows - China			(36.6)
Less: Operating Cash Flows - Outside China			(12.4)
Less: Professional Fees <sup>(2)</sup>			(24.5)
Plus: New Onshore Bank Loans (China)			24.0
<b>Total Cash Flow July 1, 2011 to November 4, 2011</b>			<b>(264.7)</b>
<i>Cash Flow Excluding Financing Items &amp; Professional Fees</i>			<i>(49.0)</i>
<b>Total Cash Balance as of November 4, 2011</b>			<b>\$571.1</b>
Cash Balance by Geography - November 4, 2011 (US\$ in millions)			
	<b>Restricted<sup>(3)</sup></b>	<b>Unrestricted</b>	<b>Total</b>
China Entities - Accounts in China	\$223.9	\$30.3	\$254.2
China Entities - Offshore Accounts	28.0	15.0	43.1
Hong Kong	83.0	38.6	121.6
Canada	0.0	152.0	152.0
Barbados	0.0	0.1	0.1
<b>Total Cash Balance as of November 4, 2011</b>	<b>\$335.0</b>	<b>\$236.1</b>	<b>\$571.1</b>
<i>Note: Totals may not sum due to rounding</i>			
<i>(1) Total cash balance does not include cash of US\$63.1million at Greenheart Group Limited as of June 30, 2011</i>			
<i>(2) Primarily related to the Independent Committee investigation</i>			
<i>(3) Restricted balances include funds currently held by SAFE and funds used for cash collateralization of credit facilities</i>			

This is **Exhibit "D"** referred to in  
the Affidavit of Daniel E.H. Bach  
sworn this 11<sup>th</sup> day of July, 2012



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A Commissioner for Taking Affidavits





## **Sino-Forest Updates Status of its Third Quarter Financial Results and Certain Other Matters**

**TORONTO, CANADA – December 12, 2011** - Sino-Forest Corporation ("Sino-Forest" or the "Company") (TSX:TRE) today provided an update concerning the status of the Company's efforts to release its 2011 third quarter financial results (the "Q3 Results"), and on certain other matters.

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 auditors Ernst & Young and by staff of the Ontario Securities Commission. The Company's November 15, 2011 press release stated that the Company would make efforts to release the Q3 Results within 30 days.

In the period leading up to November 15, 2011 and subsequently, Sino-Forest has also worked with its external auditors to address outstanding inquiries. These efforts continue but are not completed.

The Company has worked diligently since November 15, 2011 and believes it has made progress in resolving outstanding issues. The Board of Directors has nevertheless concluded, on the recommendation of the Audit Committee, that the Company will not be able to release the Q3 Results within the 30-day period originally indicated. 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. The circumstances that could cause the Company to be unable to release the Q3 Results also could impact the Company's historic financial statements.

The Company's November 15, 2011 press release indicated that the Independent Committee was expected to deliver its final report prior to the end of 2011. Given that the Independent Committee has oversight over some of the work necessary to the release of the Q3 Results, and that such work is now not expected to be completed prior to year end, the Company expects the Independent Committee to issue a final report in 2012.

As previously disclosed, the Company's failure to file the Q3 Results on a timely basis, in accordance with applicable laws, breached certain covenants under its senior and convertible note indentures. An event of default under the note indentures will have occurred if the Company fails 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, thereby subsequently potentially entitling note holders, through the trustees, to enforce certain rights.

As of today's date, the Company has not received any such written notice of default. However, the Company believes that it is likely to receive one or more written notices of default after note holders are informed that the Company is unable to state if or when it expects to release the Q3 Results.

In the current circumstances, the Board has determined not to make the US \$9.775 million interest payment on the 2016 convertible notes that is due on December 15, 2011 on that date. Failure to make this interest payment on this date will constitute a further breach of covenants under the relevant note indenture. If the interest payment remains unpaid for 30 days thereafter, upon the expiry of the 30-day period the relevant indenture trustee, or holders of 25% or more in aggregate principal amount of the relevant note series, can immediately accelerate the notes by sending notice in the appropriate manner.

In these circumstances, the Board has determined that it must consider all strategic options available to the Company. The Company may consider obtaining other sources of capital, including through the recapitalization of the company or the sale of some or all of its business. The Company has retained Houlihan Lokey and Bennett Jones LLP as its financial and legal advisors to assist in this regard.

The Company has already, to the extent it has been able, engaged in discussions with its stakeholders and these discussions will continue. As the Company has breached certain covenants under its note indentures, the Company's ability to continue as a going concern and avoid insolvency proceedings depends on the success of the Company's discussions with its stakeholders. Those discussions will be a key element in determining the future of the Company and the courses of action available to it.

"This is a real company with real assets and devoted employees. We will do everything within our power to maximize the return to our stakeholders and complete any work that is required" said Judson Martin, Vice-Chairman and Chief Executive Officer.

The aggregate amount of principal owing under the four series of outstanding senior and convertible notes is approximately US \$1.8 billion. In addition to its outstanding senior and convertible notes, as of September 30, 2011, the Company has loan facilities in China totaling US \$70.5 million (unaudited).

## 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](http://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" 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 noteholders or other lenders to enforce their rights, the outcome of examinations currently underway by the Independent Committee and securities regulatory authorities, 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 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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This is **Exhibit "E"** referred to in  
the Affidavit of Daniel E.H. Bach  
sworn this 11<sup>th</sup> day of July, 2012



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A Commissioner for Taking Affidavits



Sino-Forest Corporation

## **Sino-Forest Corporation Receives Notice of Default and Forms Special Restructuring Committee**

**TORONTO, CANADA – December 18, 2011** - Sino-Forest Corporation (“Sino-Forest” or the “Company”) (TSX:TRE) today announced that it has 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 Trustee under the Senior Note Indentures, 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 the Company 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 does not expect to be able to file the Q3 Results and cure the default within the 30 day cure period.

The Company and its advisors met on December 14, 2011 with an ad hoc committee of note holders and their legal counsel. The Company was informed by the ad hoc committee’s legal counsel that the note holders attending and others represented at the meeting by legal counsel hold a substantial portion of the Company’s four series of senior and convertible notes. As there is no registry of beneficial holders for the notes, the Company cannot independently verify the holdings of those who attended or were represented by counsel. The note holders and their legal counsel expressed a willingness to work cooperatively with the Company in an effort to preserve value for the benefit of the Company’s stakeholders. The Company has since been informed that the note holders present at the meeting or represented by counsel did not initiate or support the issuance of the notices of default that the Company has received from the Trustee.

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 begun discussions with its note holders with a view to obtaining waivers under the two relevant series of Senior Notes or with a view to having the Trustee withdraw the notices of default. There can be no assurance that the notices of default will be withdrawn or that any such waivers will be obtained.

If the notices are not withdrawn and the required waivers are not obtained within the 30 day cure period, and the Q3 Results are not filed within the 30 day cure period, an Event of Default will have occurred under each series of Senior Notes. Under the Senior Note Indentures, if such an Event of Default occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of a series of Senior Notes may by written notice declare the principal of, premium, if any, and accrued and unpaid interest on that series of Senior Notes to be immediately due and payable. Upon a declaration of acceleration, such amount would become immediately due and payable. Also, the trustee under the Senior Note Indentures may pursue any

available remedy to collect the payment of principal of and interest on the Senior Notes or to enforce the performance of any provision of the Senior Notes or the Senior Note Indentures. In addition, the trustee under the Senior Note Indentures may instruct the "Security Trustee" to foreclose on the collateral pledged by the Company and its affiliates in respect of the Senior Notes.

As the Company has previously disclosed, the Board has determined that it must consider all strategic options available to the Company. Those options may include the recapitalization of the company, the sale of some or all of its business or assets, as well as creditor-protection or other insolvency-related proceedings in jurisdictions in which the Company and its subsidiaries carry on business.

On December 16, 2011 the Board of Directors established a Special Restructuring Committee of the Board, comprised exclusively of directors independent of management of the Company, for the purpose of supervising, analyzing and managing the strategic options available to the Company. The members of the Committee are Mr. William Ardell, Chair of the Board of Directors, who will be Chair of the Committee, and Mr. Garry West.

The Company has commenced discussions with its stakeholders, and the success of these discussions will be a key element in determining the future of the Company and the courses of action available to it.

The aggregate amount of principal owing under the four series of outstanding senior and convertible notes is approximately US \$1.8 billion. In addition to its outstanding senior and convertible notes, as of September 30, 2011, the Company has loan facilities in China totaling US \$70.5 million (unaudited).

### **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](http://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 and securities regulatory authorities, 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**

Email: [sinoforest@brunswickgroup.com](mailto:sinoforest@brunswickgroup.com)

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Tel: +852 3512 5000

This is **Exhibit "F"** referred to in  
the Affidavit of Daniel E.H. Bach  
sworn this *11<sup>th</sup>* day of July, 2012



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A Commissioner for Taking Affidavits





## **Sino-Forest Corporation's Noteholders Waive Default under Senior Notes on Agreed Terms**

**TORONTO, CANADA – January 12, 2012** - Sino-Forest Corporation ("Sino-Forest" or the "Company") (TSX:TRE) today announced that holders of a majority in principal amount of its Senior Notes due 2014 and its Senior Notes due 2017 have agreed to waive the default arising from the Company's failure to release its 2011 third quarter financial results (the "Q3 Results") on a timely basis. The Company also announced the terms under which its noteholders agreed to waive the default.

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 two series of Senior Notes. The notices referenced the Company's previously disclosed failure to release the Q3 Results on a timely basis. The Company's breach of the Senior Note Indentures relating to the Q3 Results could be waived for a series of Senior Notes by the holders of at least a majority in principal amount of that series.

Following extensive discussions with an ad hoc committee of noteholders (the "Ad Hoc Noteholders"), holders of a majority in principal amount of the Company's two series of Senior Notes agreed to waive the default. The material terms of the waiver agreements are described below.

The Company will file the waiver agreements on SEDAR [www.sedar.com](http://www.sedar.com) and on the Company's website [www.sinoforest.com](http://www.sinoforest.com).

### **Payment of Interest on Notes, Waiver Fee and Advisor Costs**

Pursuant to the waiver agreements, the Company has agreed to make the US\$9.775 million interest payment on its 2016 Convertible Notes that was due on December 15, 2011. The Company also has agreed to continue to pay when due interest on the Convertible Notes due 2013 and 2016 and on the Senior Notes due 2014 and 2017.

The Company has agreed to pay a waiver fee of 1% of the principal amount to all holders of the Senior Notes due 2014 and 2017. The aggregate waiver fee to be paid is US\$9,991,870. In addition, the Company has agreed to pay the fees of the advisors to the Ad Hoc Noteholders (the "Ad Hoc Committee Advisors"). Goodmans LLP and Hogan Lovells LLP are acting as legal advisors to the Ad Hoc Noteholders.

### **Release of Q3 Financial Results**

Sino-Forest has agreed to use its reasonable best efforts to address outstanding issues noted in its press release dated December 12, 2011 in order to file its Q3 Results.

## **Ontario Securities Commission Cease Trade Order**

On August 26, 2011, the Ontario Securities Commission issued a temporary cease trade order against the Company and others. On September 8, 2011, the Company consented to an extension of the cease trade order against the Company to January 25, 2012. The Company has agreed to a further extension of the cease trade order, and there are ongoing discussions between the Company and staff of the Ontario Securities Commission with respect to the term of any extension. In the waiver agreements, the Company has agreed to file an application to lift the cease trade order as soon as practicable.

## **Maintenance of Cash Balances**

The Company has agreed that it and its subsidiaries will maintain in aggregate a minimum cash balance inside the People's Republic of China (excluding Hong Kong) of US\$165 million and a minimum cash balance outside of the People's Republic of China (including Hong Kong) of US\$140 million. The Company also has agreed to take steps to manage liquidity and to monetize assets for the repayment of the Company's indebtedness.

## **Strategic Plan**

The Company has agreed to provide a strategic plan to the Ad Hoc Committee Advisors on or before March 31, 2012, and to keep them informed of the progress of this effort. The strategic plan will include an indicative timeline for any sale process, capital or equity process and will address to the extent practicable such other steps that are necessary to maximize value in respect of the Company's assets.

## **Governance**

The Company also has agreed that the constitution and size of, and governance matters related to, the Board of Directors of the Company and any committees, including the Strategic Restructuring Committee of the Board of Directors, will be satisfactory to the Ad Hoc Committee Advisors, on behalf of the Ad Hoc Noteholders, by no later than March 31, 2012. Thereafter, any governance changes must be satisfactory to the Ad Hoc Committee Advisors on behalf of the Ad Hoc Noteholders. Sino-Forest has agreed that there shall be no appointment of any new members to the Board of Directors, senior officers or any chief restructuring officer unless such appointment is on terms satisfactory to the Ad Hoc Committee Advisors on behalf of the Ad Hoc Noteholders.

## **Access to Information**

To the extent permitted by law and the terms of any contractual confidentiality obligations, the Company has agreed to provide the Ad Hoc Committee Advisors with access to the Company's premises, assets, accounts, books and records, and to make

advisors to the Company and appropriate officers of the Company with relevant information available for discussions with these advisors. The Ad Hoc Committee Advisors have executed confidentiality agreements with the Company. The waiver agreements contemplate that the Ad Hoc Noteholders also may receive confidential information upon execution of confidentiality agreements in a form acceptable to the Company.

The Company has also agreed to keep the Ad Hoc Committee Advisors reasonably informed regarding any material discussions with any party with respect to any material transactions concerning the Company. Where deemed appropriate by the Company, the Company also will provide the Ad Hoc Noteholders or the Ad Hoc Committee Advisors with an opportunity to participate in such discussions.

### **Restrictions on Material Transactions and Shareholder Distributions**

The waiver agreements also contain restrictions on the Company's ability to enter into material transactions, sell all or substantially all of its assets, and to enter into transactions outside of the ordinary course of business.

The Company has agreed not to make or pay any dividend, charge, fee or other distribution to its shareholders or subsidiaries. The Company has agreed to restrictions on the additional indebtedness it may incur.

### **Final Report of the Independent Committee**

The Company has agreed that the Independent Committee of the Board of Directors will deliver its final report and that such report will be made public by January 31, 2012. Thereafter, any residual matters or issues identified in the final report or earlier reports of the Independent Committee shall be addressed by the Company and its advisors in consultation with the Ad Hoc Committee Advisors.

The Company believes that any residual matters or issues identified by the Independent Committee are best and more efficiently addressed by the Audit Committee or the Special Restructuring Committee, working in consultation with the Ad Hoc Committee Advisors.

### **Conditions to and Termination of Waiver**

The waiver will terminate on the earlier of April 30, 2012 and any earlier termination of the waiver agreements in accordance with their terms, unless extended by the parties. The waiver agreements contain covenants (many of which have to be satisfied by March 31, 2012), the breach of which would entitle the Ad Hoc Noteholders to terminate the waiver upon 30 days notice to the Company. In addition, the waivers will immediately terminate upon the Company or any of its subsidiaries becoming subject to certain insolvency, receivership or bankruptcy proceeding without the prior written

consent of holders of a majority of the principal amount of the series of notes to which the waiver relates.

### **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](http://www.sinoforest.com).

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.

<b>FOR FURTHER INFORMATION PLEASE CONTACT: BRUNSWICK GROUP LIMITED</b>	
Email: <a href="mailto:sinoforest@brunswickgroup.com">sinoforest@brunswickgroup.com</a>	
New York Stan Neve Tel: +1 212 333 3810	Hong Kong Tim Payne Cindy Leggett-Flynn Tel: +852 3512 5000

This is **Exhibit "G1"** referred to in  
the Affidavit of Daniel E.H. Bach  
sworn this *11th* day of July, 2012



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A Commissioner for Taking Affidavits

## SINO-FOREST CORPORATION

Waiver relating to

10.25% Guaranteed Senior Notes Due 2014  
CUSIP Nos. 82934HAC5 and C83912AC6

WHEREAS, pursuant to an indenture dated as of July 27, 2009 entered into by and between Sino-Forest Corporation (the “**Company**”), the subsidiary guarantors thereto (collectively, the “**Subsidiaries**”) and Law Debenture Trust Company of New York, as trustee (the “**Trustee**”) (such indenture as amended, supplemented or otherwise modified from time to time, the “**2014 Indenture**”), the Company has issued US\$399,187,000 of 10.25% Guaranteed Senior Notes Due 2014 (the “**2014 Notes**”). Capitalized terms not otherwise defined herein have the meanings given to them in the 2014 Indenture.

WHEREAS, the Company has failed to release its financial statements for the nine month period ended September 30, 2011 (the “**Third Quarter Financials**”) as required by section 4.18 of the 2014 Indenture and such failure constitutes a Default under the 2014 Indenture (the “**Financial Reporting Covenant Default**”).

WHEREAS, the Company received written notice from the Trustee of the Financial Reporting Covenant Default on December 16, 2011 (the “**Notice of Default**”).

WHEREAS, the Company’s failure to cure the Financial Reporting Covenant Default within 30 days of the date of the Notice of Default will constitute an Event of Default under the 2014 Indenture.

WHEREAS, pursuant to the terms of section 6.04 of the 2014 Indenture, Holders of at least a majority in aggregate principal amount of the outstanding 2014 Notes may waive Defaults by notice to the Company and the Trustee.

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

### 1. Waiver

On and expressly subject to the terms and conditions contained herein, including (without limitation) sections 2, 4 and 5 below, Goodmans LLP (“**Goodmans**”) and Hogan Lovells LLP (“**Hogan**”), on behalf of the Holders of a majority of the principal amount of the 2014 Notes (the “**Majority Holders**”), hereby give notice to the Company and the Trustee of the agreement of the Majority Holders to waive, on the conditions set forth herein, the Financial Reporting Covenant Default and any related cross-defaults (the “**Covenant Waiver**” or this “**Waiver**”) on the Waiver Effective Date (as defined below) pursuant to Section 6.04 of the 2014 Indenture. Each of Goodmans and Hogan represent and confirm that they have been authorized to execute and deliver this Waiver by the Majority Holders.

## **2. Conditional Waiver**

Notwithstanding any other provision of this Waiver or any provision of the 2014 Indenture, the Covenant Waiver provided for herein is a conditional waiver, which shall terminate upon the earlier of April 30, 2012 or any termination of this Waiver pursuant to section 7 hereof. Upon any such termination of this Waiver, the Trustee and/or the holders of 25% of the 2014 Notes shall have the full, complete and unconditional right and authority, exercisable at any time in their discretion, to issue a Notice of Default in respect of the Financial Reporting Covenant Default and any related cross-defaults.

## **3. Representations and Warranties of the Company**

The Company hereby represents and warrants to Goodmans and Hogan (and the Company acknowledges that each of Goodmans and Hogan is relying upon such representations and warranties in granting the Covenant Waiver) that:

- a) this Waiver has been duly executed and delivered by it, and, assuming the due authorization, execution and delivery by each of Goodmans and Hogan for the Majority Holders and delivery of this Waiver to the Trustee, this Waiver constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms, subject to laws of general application and bankruptcy, insolvency and other similar laws affecting creditors' rights generally and general principles of equity;
- b) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all necessary power and authority to execute and deliver this Waiver resulting from its acceptance hereof and to perform its obligations hereunder;
- c) the execution, delivery and performance of this Waiver by the Company will not contravene:
  - i. any law, regulation, order, decree or authorisation applicable to it;
  - ii. any provision of its constitutional documents; or
  - iii. any contractual restriction binding on or affecting it or any of its assets;  
and
- d) all authorizations required for the execution and delivery of this Waiver by the Company and the performance of its obligations hereunder have been obtained and are in full force and effect.

## **4. Covenants**

### **a) Payment of Interest**

The Company shall pay all interest when due on the notes issued under (i) the 2014 Indenture; (ii) 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 (the “**2016 Indenture**”) pursuant to which the Company issued US\$460,000,000 of 4.25% Convertible Senior Notes Due 2016 (the “**2016 Notes**”); (iii) 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 (the “**2013 Indenture**”) pursuant to which the Company issued US\$345,000,000 of 5.00% Convertible Senior Notes Due 2013 (the “**2013 Notes**”); and (iv) 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 (the “**2017 Indenture**”, and collectively with the 2014 Indenture, the 2016 Indenture and the 2013 Indenture, the “**Indentures**”, and individually an “**Indenture**”) pursuant to which the Company issued US\$600,000,000 of 6.25% Guaranteed Senior Notes Due 2017 (“**2017 Notes**”), immediately on each date on which interest becomes due under the applicable Indenture without giving effect to any cure or grace period under the applicable Indenture. The 2014 Notes, the 2016 Notes, the 2013 Notes and the 2017 Notes shall collectively be referred to as the “**Notes**”.

**b) Fee**

As consideration for the Covenant Waiver provided for herein, on or prior to the Waiver Effective Date, the Company shall pay a fee to the paying agent under the 2014 Indenture (the “**Paying Agent**”), on behalf of the Holders of the 2014 Notes, in an amount equal to one (1) % of the aggregate principal amount of the 2014 Notes then outstanding under the 2014 Indenture (the “**Waiver Fee**”), such fee to be paid in cash to the Holders of the 2014 notes by the Paying Agent promptly following the Waiver Effective Date. The Waiver Fee shall be fully earned upon Goodmans and Hogan executing this Waiver on behalf of the Majority Holders and shall be non-refundable.

**c) Filing of Financial Information**

The Company shall continue to use its reasonable best efforts to address outstanding issues noted in its press release of December 12, 2011 in order to file the Third Quarter Financials, subject to necessary qualifications, as soon as practicable and shall keep Goodmans and Hogan as the advisors to the ad hoc committee of certain holders of the 2014 Notes (together with any financial advisor to the ad hoc committee of holders of the 2014 Notes (being, the “**Ad Hoc Noteholders**”), collectively, the “**Advisors to the Ad Hoc Noteholders**”) updated on no less than a bi-weekly basis as to the status and timing of the filing the Third Quarter Financials, or shall make public statements as to the status and timing of the filings of the Third Quarter Financials.

**d) Provision of Strategic Plan**

The Company shall provide a preliminary strategic plan to the Advisors to the Ad Hoc Noteholders on or before March 31, 2012, in form and substance acceptable to the Ad Hoc Noteholders and/or the Advisors to the Ad Noteholders in their sole



discretion (the “**Strategic Plan**”). The Strategic Plan shall include an outline for the strategic plan for the Company, an indicative timeline for any sale process, capital or equity process and will address to the extent practicable such other steps that are necessary to maximize value in respect of the Company’s assets held in the People’s Republic of China (whether through the proposed BVI and/or WOFE structures or otherwise). The Company shall keep the Advisors to the Ad Hoc Noteholders updated on no less than a bi-weekly basis as to the status, draft content and timing of completion of the Strategic Plan, and shall consult and meet with the Advisors to the Ad Hoc Noteholders regarding the development and draft content of the Strategic Plan as may be reasonably requested by the Advisors to the Ad Hoc Noteholders from time to time. On or before March 31, 2012 (unless extended by the Advisors to the Ad Hoc Noteholders), the Company shall issue a press release outlining the status and any key provisions in respect of the Strategic Plan, save and except the Company shall not be required to disclose any information provided to the Advisors to the Ad Hoc Noteholders or other persons under any confidentiality agreements.

**e) Governance**

The constitution and size of, and governance matters related to, the Board of Directors of the Company and any committees, including the restructuring committee, shall be satisfactory to the Ad Hoc Noteholders and/or the Advisors to the Ad Hoc Noteholders by no later than March 31, 2012, and thereafter any amendments to the constitution and size of, and governance matters related to, the Board of Directors of the Company and any committees, including the restructuring committee, shall be satisfactory to the Ad Hoc Noteholders and/or the Advisors to the Ad Hoc Noteholders. There shall be no appointment of any new members of the Board of Directors, senior officers or any chief restructuring officer of the Company unless such appointment is on terms satisfactory to the Ad Hoc Noteholders and/or the Advisors to the Ad Hoc Noteholders.

**f) Access to Company Information**

Following reasonable advance request by the Advisors to the Ad Hoc Noteholders, the Company shall, at any time and from time to time, to the extent permitted by law and the terms of any contractual confidentiality obligations:

- i. provide the Advisors to the Ad Hoc Noteholders with access to the Company’s and its Subsidiaries’ premises, assets, accounts, books and records; and
- ii. make Bennett Jones, Houlihan Lokey, FTI Consulting, any other advisors to the Company and appropriate officers of the Company with information relevant to the enquiries of the Advisors to the Ad Hoc Noteholders available on a reasonable basis for any discussions with the Advisors to the Ad Hoc Noteholders.

**g) Material Transactions**

The Company and its Subsidiaries shall keep the Advisors to the Ad Hoc Noteholders reasonably informed regarding any material discussions with any party (other than legal and financial advisors to the Company) with respect to any material transactions concerning the Company and/or its Subsidiaries and, where deemed appropriate by the Company (after reviewing and discussing such matters in advance with the Advisors to the Ad Hoc Noteholders) shall provide the Advisors to the Ad Hoc Noteholders with an opportunity for a representative of the Advisors to the Ad Hoc Noteholders or of the Ad Hoc Noteholders (subject to any confidentiality restrictions) to participate in such discussions.

**h) Other Transactions**

The Company shall promptly advise the Advisors to the Ad Hoc Noteholders of the details of any material enquiries, proposals, offers or discussions in respect of any restructuring proposals, proposed recapitalizations, equity offerings or other material transactions concerning the Company or any of its Subsidiaries (“Proposals”), in each case when received after, or within the last six months of, the date hereof, and of each and every amendment to any such Proposal; and shall cooperate with the Advisors to the Ad Hoc Noteholders in providing information to and consulting with the Advisors to the Ad Hoc Noteholders in respect of any such Proposal, subject to any applicable confidentiality requirements imposed by the other party to any such Proposal.

**i) Limitation on Distributions to Shareholders**

Neither the Company nor any of its Subsidiaries shall, 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 the issued and outstanding shares of the Company or any of its Subsidiaries (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 Section 4.10 of the 2014 Indenture, and (y) the Company and its Subsidiaries shall be entitled to engage in intercompany transactions that are in the ordinary course of business or that are necessary and appropriate to preserve the value of the business or to carry out the repatriation of onshore cash referenced in paragraph (m) below.

**j) Amalgamation, Merger, Consolidation, Sale, Etc.**

Neither the Company nor any of its Subsidiaries shall 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 of the Company or any of its Subsidiaries.

**k) Sale, Transfer, Lease or Disposal of Property**

Neither the Company nor any of its Subsidiaries shall, outside of the ordinary course of business, 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) between the date of this Waiver and the termination of this Waiver, except on terms acceptable to the Advisors to the Ad Hoc Noteholders.

**l) Indebtedness**

On and from the date of this Waiver, neither the Company nor any of its Subsidiaries shall incur any Indebtedness other than Permitted Indebtedness, except that, notwithstanding the foregoing, the Company shall not be permitted to incur any Permitted Indebtedness under Section 4.06(b)(6) of the 2014 Indenture and shall only be entitled to incur Permitted Indebtedness under 4.06(b)(5) of the 2014 Indenture to the extent that such Permitted Indebtedness is to increase onshore debt to an amount of not more than US\$150,000,000.

**m) Cash Management**

The Company and its Subsidiaries shall, from and after the Waiver Effective Date to the termination of this waiver, maintain a minimum onshore cash balance of US\$165,000,000 and a minimum offshore cash balance of US\$140,000,000.

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 Company's Indebtedness. In this regard, and subject to the Company's need 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, 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 Company's projected operating requirements.

The Company shall use its reasonable best efforts to produce a 90-day cash flow forecast and shall discuss the receipts and disbursements for same with the Advisors to the Ad Hoc Noteholders from time to time.

The Company shall consult with the Advisors to the Ad Hoc Noteholders regarding the matters referenced in this subsection (m) on no less than a bi-weekly basis.

**n) Business in the Ordinary Course**

The Company and its Subsidiaries shall each operate their respective businesses in the ordinary course of business and in manner that preserves or enhances the value of the Company.

**o) Completion of the Final Report of the Independent Committee**

The Final Report of the Independent Committee of the Board of Directors shall be made public by the Company by January 31, 2012. Any residual matters or issues identified in the Final Report (or any previous reports) will continue to be addressed by the Company and its advisors and the Company and its advisors shall consult with the Advisors to the Ad Hoc Noteholders on no less than a bi-weekly basis concerning the Company's actions in respect of any such residual matters.

**p) Lifting of the Cease Trade Order**

The Company shall work with the Advisors to the Ad Hoc Noteholders to prepare and file as soon as practicable an application for a lifting of the Cease Trade Order issued by the Ontario Securities Commission on August 26, 2011.

**q) Fees and Expenses of the Advisors to the Ad Hoc Noteholders and the Trustee**

The Company shall pay the properly incurred fees of the Advisors to the Ad Hoc Noteholders when due, including the reasonable Fees and expenses of any financial advisor to the Advisors to the Ad Hoc Noteholders, and shall also pay the properly incurred fees and expenses of the Trustee and counsel to the Trustee.

**r) Estimates of Company's Professional Fees**

The Company shall provide the Advisors to the Ad Hoc Noteholders with monthly estimates of the anticipated fees of the professional advisors to the Company and its Subsidiaries (including, but not limited to, the Company's legal advisors, the Company's auditors Ernst & Young, and the Independent Committee's counsel and financial advisors PricewaterhouseCoopers), which shall include general descriptions of the work to be performed by each of these professionals. Within 15 days of the end of each month, the Company shall provide the Advisors to the Ad Hoc Noteholders with a report on the actual amount of each such professional's fees for the preceding month.

**5. Conditions Precedent and Effectiveness**

The Covenant Waiver shall be effective as of the date (the "**Waiver Effective Date**") that Goodmans and Hogan confirm in writing to the Company that each of the following conditions precedent have been complied with to their reasonable satisfaction:

- a) the Company shall have paid the interest due on December 15, 2011 under the 2016 Indenture by no later than the Waiver Effective Date;
- b) copies of all corporate approvals of the Company which are required for the approval of the terms of, and the transactions contemplated by, and the execution, delivery and performance of this Waiver shall have been delivered to Goodmans and Hogan;
- c) a specimen of the signature of each person authorised on behalf of the Company to execute this Waiver shall have been delivered to Goodmans and Hogan;

- d) a certificate of an authorized signatory of the Company certifying that each copy of any document provided in connection with this Waiver as a condition precedent is correct, complete and in full force and effect as at the Waiver Effective Date shall have been delivered to Goodmans and Hogan.
- e) the Advisors to the Ad Hoc Noteholders shall have received all fees and other amounts due and payable to them, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses in connection with this Waiver;
- f) the Company shall have paid the Waiver Fee to the Paying Agent; and
- g) the holders of a majority in principal amount of the Company's 6.25% Guaranteed Senior Notes due 2017, also represented by Goodmans and Hogan, shall have confirmed their agreement to deliver a waiver in substantially the same form as this Waiver, also effective as of the Waiver Effective Date.

In the event that the Waiver Effective Date has not occurred by January 14, 2012, this Waiver shall be of no force or effect and no term or condition herein shall be binding on any of the parties, unless otherwise agreed to in writing between the parties.

#### **6. Further Assurances**

The Company shall (or cause each of its Subsidiaries to) do all such things in its control, take all such actions as are commercially reasonable, deliver to the other parties hereto such further information and documents, and execute and deliver to the other parties hereto such further instruments and agreements as such other parties shall reasonably request to consummate or confirm the transactions provided for in this Waiver, to accomplish the purpose of this Waiver or to assure to the other parties the benefits of this Waiver.

#### **7. Termination**

- a) This Waiver may be terminated by the Advisors to the Ad Hoc Noteholders, on behalf of the Ad Hoc Noteholders, by the delivery to the Company of 30 days' written notice, in the exercise of its sole discretion, upon the occurrence and, if applicable, the continuation of any of the following events:
  - i. the failure by the Company or any of its Subsidiaries to comply with, or default by the Company or any of its Subsidiaries in the performance or observance of, any term, condition, covenant or agreement set forth in this Waiver; or
  - ii. any representation, warranty or other statement of the Company made or deemed to be made in this Waiver is or proves to have been untrue, incorrect or misleading as of the date when made.

Such termination notice can be rescinded by the Advisors to the Ad Hoc Noteholders, on behalf of the Ad Hoc Noteholders, at any time prior to the expiry of the 30 day period.

- b) This Waiver will immediately terminate without requiring any action whatsoever to be taken upon the occurrence of any of the following events:
- i. the Company or any of its Subsidiaries, voluntarily or involuntarily, commences or becomes subject to a receivership, arrangement, liquidation, insolvency, bankruptcy or debt enforcement proceeding or a proceeding under the *Companies' Creditors Arrangement Act* (Canada), the *Bankruptcy and Insolvency Act* (Canada) or *Winding-Up and Restructuring Act* (Canada), unless such event occurs with the prior written consent of the Majority Holders;
  - ii. 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 Majority Holders; or
  - iii. April 30, 2012, unless extended by the Advisors to the Ad Hoc Noteholders, on behalf of the Ad Hoc Noteholders.

#### **8. Mutual Termination, Amendment or Modification**

This Waiver, and the obligations of all parties hereunder, may be terminated, amended or modified by mutual written agreement between (a) the Company and (b) the Advisors to the Ad Hoc Noteholders, on behalf of the Ad Hoc Noteholders.

#### **9. No Waiver**

Except as expressly set forth in this Waiver, nothing contained herein shall constitute a waiver by the Majority Holders of any breach or default by the Company (or any other party to the 2014 Indenture) of any term or provision of the 2014 Indenture (or any other document entered into by any such party in connection therewith) except for the Financial Reporting Covenant Default, which is waived on a conditional basis pursuant to the terms and conditions hereof, and nothing contained herein shall constitute an amendment or modification of any term or provision of the 2014 Indenture or any other document entered into in connection therewith.

#### **10. Delivery of Documentation and Consents**

Any consents, documentation or extensions contemplated or required to be delivered pursuant to this Waiver by or on behalf of the Majority Holders or the Ad Hoc Noteholders shall be delivered or confirmed on their behalf by Goodmans and Hogan, and Goodmans and Hogan are authorized to deliver any such consents, documentation or extensions, and the Company and the Trustee shall be entitled to rely upon any such consents, documentation or extensions from or by Goodmans and Hogan as being duly delivered by the Majority Holders and/or the Ad Hoc Noteholders, as the case may be, without requirement for further verification.

## **11. Confidentiality**

In the event that the Company is required under this Waiver to deliver any confidential information or documents to the Majority Holders, the Ad Hoc Noteholders, or any other noteholder or person, the provision of any such information shall be subject to such person agreeing to be bound by a confidentiality agreement in form and substance acceptable to the Company and all such information and documents shall be subject to the terms and conditions if such confidentiality agreement.

The disclosure of information to the Advisors to the Ad Hoc Noteholders shall not be deemed to constitute disclosure to any Ad Hoc Noteholder and the parties hereto understand that the Advisors to the Ad Hoc Noteholders may establish information barriers or similar procedures. Neither the Company nor any of its representatives shall deliver any information to any Ad Hoc Noteholder directly and all information required to be delivered by this Waiver shall be delivered to the Advisors to the Ad Hoc Noteholders unless otherwise agreed in writing by any Ad Hoc Noteholder.

## **12. Severability**

If any term of this Waiver is or becomes illegal, invalid or unenforceable in any jurisdiction, that will not affect:

- a) the legality, validity or enforceability in that jurisdiction of any other term of the Waiver; or
- b) the legality, validity or enforceability in other jurisdictions of that term or any other term of the Waiver.

If a term of this Waiver is or becomes illegal, invalid or unenforceable in any respect under the laws of any jurisdiction, it shall be replaced by a mutually acceptable provision, which being valid, legal, enforceable and in compliance with applicable government policy comes closest to the intention of the parties to this Waiver underlying such illegal, invalid or unenforceable term.

## **13. Counterparts**

This Waiver may be executed in counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Waiver by e-mail in pdf or other format shall be effective as delivery of a manually executed counterpart of this Waiver.

## **14. Governing Law**

This Waiver shall be governed by, and construed in accordance with the law of the State of New York.

**15. Enforcement**

The courts of New York have exclusive jurisdiction to settle any dispute in connection with this Waiver.

**16. Headings**

Section headings used herein are for convenience of reference only, are not part of this Waiver and shall not affect the construction of, or be taken into consideration in interpreting, this Waiver.

**[SIGNATURE PAGE FOLLOWS]**



**ACKNOWLEDGED AND AGREED:**

SINO-FOREST CORPORATION

Per:           *"W. Judson Martin"*            
Name: W. Judson Martin  
Title: Vice Chairman & Chief Executive Officer

I/We have authority to bind the Corporation.

GOODMANS LLP, ON BEHALF OF THE MAJORITY HOLDERS, AND WITHOUT  
PERSONAL LIABILITY

Per:           *"Robert J. Chadwick"*            
Name: Robert J. Chadwick  
Title: Partner

HOGAN LOVELLS LLP, ON BEHALF OF THE MAJORITY HOLDERS, AND  
WITHOUT PERSONAL LIABILITY

Per:           *"Neil McDonald"*            
Name: Neil McDonald  
Title: Partner

16038033

This is **Exhibit "G2"** referred to in  
the Affidavit of Daniel E.H. Bach  
sworn this 11<sup>th</sup> day of July, 2012



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A Commissioner for Taking Affidavits

## SINO-FOREST CORPORATION

Waiver relating to

6.25% Guaranteed Senior Notes Due 2017  
CUSIP Nos. 82934HAF8 and C83912AF9

WHEREAS, pursuant to an indenture dated as of October 21, 2010 entered into by and between Sino-Forest Corporation (the “**Company**”), the subsidiary guarantors thereto (collectively, the “**Subsidiaries**”) and Law Debenture Trust Company of New York, as trustee (the “**Trustee**”) (such indenture as amended, supplemented or otherwise modified from time to time, the “**2017 Indenture**”), the Company has issued US\$600,000,000 of 6.25% Guaranteed Senior Notes Due 2017 (the “**2017 Notes**”). Capitalized terms not otherwise defined herein have the meanings given to them in the 2017 Indenture.

WHEREAS, the Company has failed to release its financial statements for the nine month period ended September 30, 2011 (the “**Third Quarter Financials**”) as required by section 4.18 of the 2017 Indenture and such failure constitutes a Default under the 2017 Indenture (the “**Financial Reporting Covenant Default**”).

WHEREAS, the Company received written notice from the Trustee of the Financial Reporting Covenant Default on December 16, 2011 (the “**Notice of Default**”).

WHEREAS, the Company’s failure to cure the Financial Reporting Covenant Default within 30 days of the date of the Notice of Default will constitute an Event of Default under the 2017 Indenture.

WHEREAS, pursuant to the terms of section 6.04 of the 2017 Indenture, Holders of at least a majority in aggregate principal amount of the outstanding 2017 Notes may waive Defaults by notice to the Company and the Trustee.

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

### 1. Waiver

On and expressly subject to the terms and conditions contained herein, including (without limitation) sections 2, 4 and 5 below, Goodmans LLP (“**Goodmans**”) and Hogan Lovells LLP (“**Hogan**”), on behalf of the Holders of a majority of the principal amount of the 2017 Notes (the “**Majority Holders**”), hereby give notice to the Company and the Trustee of the agreement of the Majority Holders to waive, on the conditions set forth herein, the Financial Reporting Covenant Default and any related cross-defaults (the “**Covenant Waiver**” or this “**Waiver**”) on the Waiver Effective Date (as defined below) pursuant to Section 6.04 of the 2017 Indenture. Each of Goodmans and Hogan represent and confirm that they have been authorized to execute and deliver this Waiver by the Majority Holders.

## **2. Conditional Waiver**

Notwithstanding any other provision of this Waiver or any provision of the 2017 Indenture, the Covenant Waiver provided for herein is a conditional waiver, which shall terminate upon the earlier of April 30, 2012 or any termination of this Waiver pursuant to section 7 hereof. Upon any such termination of this Waiver, the Trustee and/or the holders of 25% of the 2017 Notes shall have the full, complete and unconditional right and authority, exercisable at any time in their discretion, to issue a Notice of Default in respect of the Financial Reporting Covenant Default and any related cross-defaults.

## **3. Representations and Warranties of the Company**

The Company hereby represents and warrants to Goodmans and Hogan (and the Company acknowledges that each of Goodmans and Hogan is relying upon such representations and warranties in granting the Covenant Waiver) that:

- a) this Waiver has been duly executed and delivered by it, and, assuming the due authorization, execution and delivery by each of Goodmans and Hogan for the Majority Holders and delivery of this Waiver to the Trustee, this Waiver constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms, subject to laws of general application and bankruptcy, insolvency and other similar laws affecting creditors' rights generally and general principles of equity;
- b) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all necessary power and authority to execute and deliver this Waiver resulting from its acceptance hereof and to perform its obligations hereunder;
- c) the execution, delivery and performance of this Waiver by the Company will not contravene:
  - i. any law, regulation, order, decree or authorisation applicable to it;
  - ii. any provision of its constitutional documents; or
  - iii. any contractual restriction binding on or affecting it or any of its assets;  
and
- d) all authorizations required for the execution and delivery of this Waiver by the Company and the performance of its obligations hereunder have been obtained and are in full force and effect.

## **4. Covenants**

### **a) Payment of Interest**

The Company shall pay all interest when due on the notes issued under (i) the 2017 Indenture; (ii) 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 (the “**2016 Indenture**”) pursuant to which the Company issued US\$460,000,000 of 4.25% Convertible Senior Notes Due 2016 (the “**2016 Notes**”); (iii) 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 (the “**2013 Indenture**”) pursuant to which the Company issued US\$345,000,000 of 5.00% Convertible Senior Notes Due 2013 (the “**2013 Notes**”); and (iv) the indenture dated as of July 27, 2009, by and between the Company, the subsidiary guarantors thereto, and Law Debenture Trust Company of New York, as trustee (the “**2014 Indenture**”, and collectively with the 2017 Indenture, the 2016 Indenture and the 2013 Indenture, the “**Indentures**”, and individually an “**Indenture**”) pursuant to which the Company issued US\$399,187,000 of 10.25% Guaranteed Senior Notes Due 2014 (the “**2014 Notes**”), immediately on each date on which interest becomes due under the applicable Indenture without giving effect to any cure or grace period under the applicable Indenture. The 2017 Notes, the 2016 Notes, the 2013 Notes and the 2014 Notes shall collectively be referred to as the “**Notes**”.

**b) Fee**

As consideration for the Covenant Waiver provided for herein, on or prior to the Waiver Effective Date, the Company shall pay a fee to the paying agent under the 2017 Indenture (the “**Paying Agent**”), on behalf of the Holders of the 2017 Notes, in an amount equal to one (1) % of the aggregate principal amount of the 2017 Notes then outstanding under the 2017 Indenture (the “**Waiver Fee**”), such fee to be paid in cash to the Holders of the 2017 notes by the Paying Agent promptly following the Waiver Effective Date. The Waiver Fee shall be fully earned upon Goodmans and Hogan executing this Waiver on behalf of the Majority Holders and shall be non-refundable.

**c) Filing of Financial Information**

The Company shall continue to use its reasonable best efforts to address outstanding issues noted in its press release of December 12, 2011 in order to file the Third Quarter Financials, subject to necessary qualifications, as soon as practicable and shall keep Goodmans and Hogan as the advisors to the ad hoc committee of certain holders of the 2017 Notes (together with any financial advisor to the ad hoc committee of holders of the 2017 Notes (being, the “**Ad Hoc Noteholders**”), collectively, the “**Advisors to the Ad Hoc Noteholders**”) updated on no less than a bi-weekly basis as to the status and timing of the filing the Third Quarter Financials, or shall make public statements as to the status and timing of the filings of the Third Quarter Financials.

**d) Provision of Strategic Plan**

The Company shall provide a preliminary strategic plan to the Advisors to the Ad Hoc Noteholders on or before March 31, 2012, in form and substance acceptable to the Ad Hoc Noteholders and/or the Advisors to the Ad Noteholders in their sole

discretion (the “**Strategic Plan**”). The Strategic Plan shall include an outline for the strategic plan for the Company, an indicative timeline for any sale process, capital or equity process and will address to the extent practicable such other steps that are necessary to maximize value in respect of the Company’s assets held in the People’s Republic of China (whether through the proposed BVI and/or WOFE structures or otherwise). The Company shall keep the Advisors to the Ad Hoc Noteholders updated on no less than a bi-weekly basis as to the status, draft content and timing of completion of the Strategic Plan, and shall consult and meet with the Advisors to the Ad Hoc Noteholders regarding the development and draft content of the Strategic Plan as may be reasonably requested by the Advisors to the Ad Hoc Noteholders from time to time. On or before March 31, 2012 (unless extended by the Advisors to the Ad Hoc Noteholders), the Company shall issue a press release outlining the status and any key provisions in respect of the Strategic Plan, save and except the Company shall not be required to disclose any information provided to the Advisors to the Ad Hoc Noteholders or other persons under any confidentiality agreements.

**e) Governance**

The constitution and size of, and governance matters related to, the Board of Directors of the Company and any committees, including the restructuring committee, shall be satisfactory to the Ad Hoc Noteholders and/or the Advisors to the Ad Hoc Noteholders by no later than March 31, 2012, and thereafter any amendments to the constitution and size of, and governance matters related to, the Board of Directors of the Company and any committees, including the restructuring committee, shall be satisfactory to the Ad Hoc Noteholders and/or the Advisors to the Ad Hoc Noteholders. There shall be no appointment of any new members of the Board of Directors, senior officers or any chief restructuring officer of the Company unless such appointment is on terms satisfactory to the Ad Hoc Noteholders and/or the Advisors to the Ad Hoc Noteholders.

**f) Access to Company Information**

Following reasonable advance request by the Advisors to the Ad Hoc Noteholders, the Company shall, at any time and from time to time, to the extent permitted by law and the terms of any contractual confidentiality obligations:

- i. provide the Advisors to the Ad Hoc Noteholders with access to the Company’s and its Subsidiaries’ premises, assets, accounts, books and records; and
- ii. make Bennett Jones, Houlihan Lokey, FTI Consulting, any other advisors to the Company and appropriate officers of the Company with information relevant to the enquiries of the Advisors to the Ad Hoc Noteholders available on a reasonable basis for any discussions with the Advisors to the Ad Hoc Noteholders.

**g) Material Transactions**

The Company and its Subsidiaries shall keep the Advisors to the Ad Hoc Noteholders reasonably informed regarding any material discussions with any party (other than legal and financial advisors to the Company) with respect to any material transactions concerning the Company and/or its Subsidiaries and, where deemed appropriate by the Company (after reviewing and discussing such matters in advance with the Advisors to the Ad Hoc Noteholders) shall provide the Advisors to the Ad Hoc Noteholders with an opportunity for a representative of the Advisors to the Ad Hoc Noteholders or of the Ad Hoc Noteholders (subject to any confidentiality restrictions) to participate in such discussions.

**h) Other Transactions**

The Company shall promptly advise the Advisors to the Ad Hoc Noteholders of the details of any material enquiries, proposals, offers or discussions in respect of any restructuring proposals, proposed recapitalizations, equity offerings or other material transactions concerning the Company or any of its Subsidiaries (“Proposals”), in each case when received after, or within the last six months of, the date hereof, and of each and every amendment to any such Proposal; and shall cooperate with the Advisors to the Ad Hoc Noteholders in providing information to and consulting with the Advisors to the Ad Hoc Noteholders in respect of any such Proposal, subject to any applicable confidentiality requirements imposed by the other party to any such Proposal.

**i) Limitation on Distributions to Shareholders**

Neither the Company nor any of its Subsidiaries shall, 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 the issued and outstanding shares of the Company or any of its Subsidiaries (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 Section 4.10 of the 2017 Indenture, and (y) the Company and its Subsidiaries shall be entitled to engage in intercompany transactions that are in the ordinary course of business or that are necessary and appropriate to preserve the value of the business or to carry out the repatriation of onshore cash referenced in paragraph (m) below.

**j) Amalgamation, Merger, Consolidation, Sale, Etc.**

Neither the Company nor any of its Subsidiaries shall 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 of the Company or any of its Subsidiaries.

**k) Sale, Transfer, Lease or Disposal of Property**

Neither the Company nor any of its Subsidiaries shall, outside of the ordinary course of business, 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) between the date of this Waiver and the termination of this Waiver, except on terms acceptable to the Advisors to the Ad Hoc Noteholders.

**l) Indebtedness**

On and from the date of this Waiver, neither the Company nor any of its Subsidiaries shall incur any Indebtedness other than Permitted Indebtedness, except that, notwithstanding the foregoing, the Company shall not be permitted to incur any Permitted Indebtedness under Section 4.06(b)(6) of the 2017 Indenture and shall only be entitled to incur Permitted Indebtedness under 4.06(b)(5) of the 2017 Indenture to the extent that such Permitted Indebtedness is to increase onshore debt to an amount of not more than US\$150,000,000.

**m) Cash Management**

The Company and its Subsidiaries shall, from and after the Waiver Effective Date to the termination of this waiver, maintain a minimum onshore cash balance of US\$165,000,000 and a minimum offshore cash balance of US\$140,000,000.

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 Company's Indebtedness. In this regard, and subject to the Company's need 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, 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 Company's projected operating requirements.

The Company shall use its reasonable best efforts to produce a 90-day cash flow forecast and shall discuss the receipts and disbursements for same with the Advisors to the Ad Hoc Noteholders from time to time.

The Company shall consult with the Advisors to the Ad Hoc Noteholders regarding the matters referenced in this subsection (m) on no less than a bi-weekly basis.

**n) Business in the Ordinary Course**

The Company and its Subsidiaries shall each operate their respective businesses in the ordinary course of business and in manner that preserves or enhances the value of the Company.



**o) Completion of the Final Report of the Independent Committee**

The Final Report of the Independent Committee of the Board of Directors shall be made public by the Company by January 31, 2012. Any residual matters or issues identified in the Final Report (or any previous reports) will continue to be addressed by the Company and its advisors and the Company and its advisors shall consult with the Advisors to the Ad Hoc Noteholders on no less than a bi-weekly basis concerning the Company's actions in respect of any such residual matters.

**p) Lifting of the Cease Trade Order**

The Company shall work with the Advisors to the Ad Hoc Noteholders to prepare and file as soon as practicable an application for a lifting of the Cease Trade Order issued by the Ontario Securities Commission on August 26, 2011.

**q) Fees and Expenses of the Advisors to the Ad Hoc Noteholders and the Trustee**

The Company shall pay the properly incurred fees of the Advisors to the Ad Hoc Noteholders when due, including the reasonable Fees and expenses of any financial advisor to the Advisors to the Ad Hoc Noteholders, and shall also pay the properly incurred fees and expenses of the Trustee and counsel to the Trustee.

**r) Estimates of Company's Professional Fees**

The Company shall provide the Advisors to the Ad Hoc Noteholders with monthly estimates of the anticipated fees of the professional advisors to the Company and its Subsidiaries (including, but not limited to, the Company's legal advisors, the Company's auditors Ernst & Young, and the Independent Committee's counsel and financial advisors PricewaterhouseCoopers), which shall include general descriptions of the work to be performed by each of these professionals. Within 15 days of the end of each month, the Company shall provide the Advisors to the Ad Hoc Noteholders with a report on the actual amount of each such professional's fees for the preceding month.

**5. Conditions Precedent and Effectiveness**

The Covenant Waiver shall be effective as of the date (the "**Waiver Effective Date**") that Goodmans and Hogan confirm in writing to the Company that each of the following conditions precedent have been complied with to their reasonable satisfaction:

- a) the Company shall have paid the interest due on December 15, 2011 under the 2016 Indenture by no later than the Waiver Effective Date;
- b) copies of all corporate approvals of the Company which are required for the approval of the terms of, and the transactions contemplated by, and the execution, delivery and performance of this Waiver shall have been delivered to Goodmans and Hogan;
- c) a specimen of the signature of each person authorised on behalf of the Company to execute this Waiver shall have been delivered to Goodmans and Hogan;

- d) a certificate of an authorized signatory of the Company certifying that each copy of any document provided in connection with this Waiver as a condition precedent is correct, complete and in full force and effect as at the Waiver Effective Date shall have been delivered to Goodmans and Hogan.
- e) the Advisors to the Ad Hoc Noteholders shall have received all fees and other amounts due and payable to them, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses in connection with this Waiver;
- f) the Company shall have paid the Waiver Fee to the Paying Agent; and
- g) the holders of a majority in principal amount of the Company's 6.25% Guaranteed Senior Notes due 2017, also represented by Goodmans and Hogan, shall have confirmed their agreement to deliver a waiver in substantially the same form as this Waiver, also effective as of the Waiver Effective Date.

In the event that the Waiver Effective Date has not occurred by January 14, 2012, this Waiver shall be of no force or effect and no term or condition herein shall be binding on any of the parties, unless otherwise agreed to in writing between the parties.

#### **6. Further Assurances**

The Company shall (or cause each of its Subsidiaries to) do all such things in its control, take all such actions as are commercially reasonable, deliver to the other parties hereto such further information and documents, and execute and deliver to the other parties hereto such further instruments and agreements as such other parties shall reasonably request to consummate or confirm the transactions provided for in this Waiver, to accomplish the purpose of this Waiver or to assure to the other parties the benefits of this Waiver.

#### **7. Termination**

- a) This Waiver may be terminated by the Advisors to the Ad Hoc Noteholders, on behalf of the Ad Hoc Noteholders, by the delivery to the Company of 30 days' written notice, in the exercise of its sole discretion, upon the occurrence and, if applicable, the continuation of any of the following events:
  - i. the failure by the Company or any of its Subsidiaries to comply with, or default by the Company or any of its Subsidiaries in the performance or observance of, any term, condition, covenant or agreement set forth in this Waiver; or
  - ii. any representation, warranty or other statement of the Company made or deemed to be made in this Waiver is or proves to have been untrue, incorrect or misleading as of the date when made.

Such termination notice can be rescinded by the Advisors to the Ad Hoc Noteholders, on behalf of the Ad Hoc Noteholders, at any time prior to the expiry of the 30 day period.

- b) This Waiver will immediately terminate without requiring any action whatsoever to be taken upon the occurrence of any of the following events:
- i. the Company or any of its Subsidiaries, voluntarily or involuntarily, commences or becomes subject to a receivership, arrangement, liquidation, insolvency, bankruptcy or debt enforcement proceeding or a proceeding under the *Companies' Creditors Arrangement Act* (Canada), the *Bankruptcy and Insolvency Act* (Canada) or *Winding-Up and Restructuring Act* (Canada), unless such event occurs with the prior written consent of the Majority Holders;
  - ii. 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 Majority Holders; or
  - iii. April 30, 2012, unless extended by the Advisors to the Ad Hoc Noteholders, on behalf of the Ad Hoc Noteholders.

#### **8. Mutual Termination, Amendment or Modification**

This Waiver, and the obligations of all parties hereunder, may be terminated, amended or modified by mutual written agreement between (a) the Company and (b) the Advisors to the Ad Hoc Noteholders, on behalf of the Ad Hoc Noteholders.

#### **9. No Waiver**

Except as expressly set forth in this Waiver, nothing contained herein shall constitute a waiver by the Majority Holders of any breach or default by the Company (or any other party to the 2017 Indenture) of any term or provision of the 2017 Indenture (or any other document entered into by any such party in connection therewith) except for the Financial Reporting Covenant Default, which is waived on a conditional basis pursuant to the terms and conditions hereof, and nothing contained herein shall constitute an amendment or modification of any term or provision of the 2017 Indenture or any other document entered into in connection therewith.

#### **10. Delivery of Documentation and Consents**

Any consents, documentation or extensions contemplated or required to be delivered pursuant to this Waiver by or on behalf of the Majority Holders or the Ad Hoc Noteholders shall be delivered or confirmed on their behalf by Goodmans and Hogan, and Goodmans and Hogan are authorized to deliver any such consents, documentation or extensions, and the Company and the Trustee shall be entitled to rely upon any such consents, documentation or extensions from or by Goodmans and Hogan as being duly delivered by the Majority Holders and/or the Ad Hoc Noteholders, as the case may be, without requirement for further verification.

## **11. Confidentiality**

In the event that the Company is required under this Waiver to deliver any confidential information or documents to the Majority Holders, the Ad Hoc Noteholders, or any other noteholder or person, the provision of any such information shall be subject to such person agreeing to be bound by a confidentiality agreement in form and substance acceptable to the Company and all such information and documents shall be subject to the terms and conditions if such confidentiality agreement.

The disclosure of information to the Advisors to the Ad Hoc Noteholders shall not be deemed to constitute disclosure to any Ad Hoc Noteholder and the parties hereto understand that the Advisors to the Ad Hoc Noteholders may establish information barriers or similar procedures. Neither the Company nor any of its representatives shall deliver any information to any Ad Hoc Noteholder directly and all information required to be delivered by this Waiver shall be delivered to the Advisors to the Ad Hoc Noteholders unless otherwise agreed in writing by any Ad Hoc Noteholder.

## **12. Severability**

If any term of this Waiver is or becomes illegal, invalid or unenforceable in any jurisdiction, that will not affect:

- a) the legality, validity or enforceability in that jurisdiction of any other term of the Waiver; or
- b) the legality, validity or enforceability in other jurisdictions of that term or any other term of the Waiver.

If a term of this Waiver is or becomes illegal, invalid or unenforceable in any respect under the laws of any jurisdiction, it shall be replaced by a mutually acceptable provision, which being valid, legal, enforceable and in compliance with applicable government policy comes closest to the intention of the parties to this Waiver underlying such illegal, invalid or unenforceable term.

## **13. Counterparts**

This Waiver may be executed in counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Waiver by e-mail in pdf or other format shall be effective as delivery of a manually executed counterpart of this Waiver.

## **14. Governing Law**

This Waiver shall be governed by, and construed in accordance with the law of the State of New York.

**15. Enforcement**

The courts of New York have exclusive jurisdiction to settle any dispute in connection with this Waiver.

**16. Headings**

Section headings used herein are for convenience of reference only, are not part of this Waiver and shall not affect the construction of, or be taken into consideration in interpreting, this Waiver.

**[SIGNATURE PAGE FOLLOWS]**

**ACKNOWLEDGED AND AGREED:**

SINO-FOREST CORPORATION

Per:           *"W. Judson Martin"*            
Name: W. Judson Martin  
Title: Vice Chairman & Chief Executive Officer

I/We have authority to bind the Corporation.

GOODMANS LLP, ON BEHALF OF THE MAJORITY HOLDERS, AND WITHOUT  
PERSONAL LIABILITY

Per:           *"Robert J. Chadwick"*            
Name: Robert J. Chadwick  
Title: Partner

HOGAN LOVELLS LLP, ON BEHALF OF THE MAJORITY HOLDERS, AND  
WITHOUT PERSONAL LIABILITY

Per:           *"Neil McDonald"*            
Name: Neil McDonald  
Title: Partner

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