

**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**

May 11, 2012

**FRASER MILNER CASGRAIN LLP**  
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*Lawyers for Contrarian Capital Management, LLC*

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# **TAB 1**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
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**IN THE MATTER OF THE *COMPANIES*" CREDITORS  
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**NOTICE OF MOTION  
(returnable May 14, 2012)**

Contrarian Capital Management, LLC, will make a motion before a Judge presiding over the Commercial List on May 14, 2012 at 10:00 in the morning, or as soon after that time as the motion can be heard, at 330 University Avenue, in the City of Toronto.

**PROPOSED METHOD OF HEARING**

The motion will be heard orally.

**THE MOTION IS FOR:**

1. an order hereto, *inter alia*:
  - (a) abridging and validating the timing and method of service of this Notice of Motion and Motion Record so that this Motion is properly returnable;

(b) directing the Applicant to make public disclosure of the assets and financial information of Mandra Forestry Holdings Limited (BVI), Mandra Forestry Finance Limited (BVI), Mandra Forestry Anhui Limited (BVI) and Mandra Forestry Hubei Limited (HK) (collectively the “**Mandra Entities**”) by 5:00 pm EST on May 14, 2012;

2. such further and other relief as this Honourable Court may deem just.

**THE GROUNDS FOR THE MOTION ARE:**

3. The Applicant has issued approximately \$1.8 billion of notes in the following series as defined by the affidavit W. Judson Martin sworn on March 30, 2012 in these proceedings (the “**Martin Initial Affidavit**”):

(a) 2013 Convertible Notes (in the principal amount of \$354,000,000);

(b) 2014 Senior Notes (in the principal amount of \$399,187,000);

(c) 2016 Convertible Notes (in the principal amount of \$460,000,000); and

(d) 2017 Senior Notes (in the principal amount of \$600,000,000).

4. The 2014 Senior Note and the 2017 Senior Notes (collectively the “**Senior Notes**”) are guaranteed by 60 subsidiaries of the Applicant. The 2013 Convertible Notes and the 2016 Convertible Notes (the “**Convertible Notes**”) are guaranteed by 64 subsidiaries of the Applicant, including the Mandra Entities. The Mandra Entities are not guarantors of the Senior Notes.

5. The Mandra Entities were acquired by the Applicant on or about February 8, 2010 for consideration of approximately \$187,177,375.

6. The Applicant has entered into a Restructuring Support Agreement dated March 30, 2012 (the “**Support Agreement**”) with certain Initial Consenting Noteholders (as defined therein). The Support Agreement provides, among other things, that the Applicant will file a plan of compromise or arrangement (the “**Plan**”) that provides for all of the assets of the Applicant and

its subsidiaries to be conveyed to NewCo. The Support Agreement provides that the Plan is to provide that the holders of both the Senior Notes and the Convertible Notes (collectively the “**Noteholders**”) are to receive, in full and final satisfaction of all claims against the Applicant and all of its subsidiaries their pro-rata share of 92.5% of the NewCo shares. In addition, the Plan contemplated by the Support Agreement provides that all Noteholders who sign on to the Support Agreement by May 15, 2012 will receive an additional pro-rata share of 7.5% of the NewCo shares (the “**Early Consent Consideration**”).

7. The Initial Consenting Noteholders were provided with an opportunity to conduct full due diligence with respect to the Applicant and its subsidiaries. The due diligence findings have not been made public or provided to the other Noteholders.

8. To the extent that the Mandra Entities have substantial value, the Plan contemplated by the Support Agreement provides that the Convertible Noteholders will not get the benefit of that value but rather that value will be shared pro-rata among all of the Noteholders.

9. Contrarian Capital Management, LLC (“**Contrarian**”) holds a substantial amount Convertible Notes and has requested that the Applicant disclose the assets and financial position of the Mandra Entities and to explain why the Plan does not contemplate the holders of the Convertible Notes receiving value for the guarantees given to them by the Mandra Entities.

10. The Applicant has refused to provide any information on the Mandra Entities.

11. Contrarian requires the requested information by 5pm Eastern time May 14, 2012 in order to determine whether or execute the Support Agreement in time to receive the Early Consent Consideration if it chooses to do so.

12. It is manifestly unfair to require Contrarian, an other holders of Convertible Notes to elect whether to execute the Support Agreement in the absence of disclosure of the assets and financial position of the Mandra Entities so they can determine whether substantial value is being taken from the holders of the Convertible Notes for the benefit of the holders of the Senior Notes.

13. Such further and other grounds as counsel may advise and this Honourable Court may permit.

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

1. the Affidavit of Ethan Schwartz to be sworn; and
2. such further and other evidence as counsel may advise and this Honourable Court may permit.

Dated: May 11, 2012

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*Lawyers for Contrarian Capital Management, LLC*

**TO: ATTACHED SERVICE 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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*ONTARIO*

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

**PROCEEDING COMMENCED AT  
TORONTO**

**NOTICE OF MOTION**

(returnable May 14, 2012)

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Toronto-Dominion Centre  
Toronto, Ontario, M5K 0A1

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Lawyers for Contrarian Capital Management, LLC

## **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  
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**AFFIDAVIT OF ETHAN SCHWARTZ  
(Sworn May 11, 2012)**

I, ETHAN SCHWARTZ, of the City of New York, in the State of New York, **MAKE  
OATH AND SAY:**

1. I am a senior vice-president at Contrarian Capital Management, LLC ("Contrarian") and as such have knowledge of the matters to which I depose, save where stated to be on information and belief, in which case I verily believe them to be true.

2. As described in paragraphs 45-48 of the affidavit of W. Judson Martin, sworn March 30, 2012 and filed by the Applicant in support of their motion for an Initial Order under the CCAA (the "**Martin Initial Affidavit**"), a copy of which (without Exhibits) is attached to my affidavit as Exhibit "A", the Applicant has issued approximately \$1.8 billion of notes in the following series (as defined in the Martin Initial Affidavit):

- (a) 2013 Convertible Notes (in the principal amount of \$354,000,000);
- (b) 2014 Senior Notes (in the principal amount of \$399,187,000);

(c) 2016 Convertible Notes (in the principal amount of \$460,000,000); and

(d) 2017 Senior Notes (in the principal amount of \$600,000,000).

3. From my review of publically available information, including the Martin Initial Affidavit, I understand that the 2014 Senior Note and the 2017 Senior Notes (collectively the "**Senior Notes**") are guaranteed by 60 subsidiaries of the Applicant. The 2013 Convertible Notes and the 2016 Convertible Notes (the "**Convertible Notes**") are guaranteed by 64 subsidiaries of the Applicant, including the Mandra Entities. The Mandra Entities are not guarantors of the Senior Notes.

4. The Mandra Entities were acquired by the Applicant on or about February 8, 2010 for consideration of approximately \$187,177,375. Annexed hereto and marked as Exhibit "**B**" is a true copy of a press release issued by the Applicant dated February 8, 2010 confirming the Applicant's completion of the acquisition of Mandra Forestry.

5. As set out in the Martin Initial Affidavit, the Applicant has entered into a Restructuring Support Agreement dated March 30, 2012 (the "**Support Agreement**") with certain Initial Consenting Noteholders (as defined therein). The Support Agreement provides, among other things, that the Applicant will file a plan of compromise or arrangement (the "**Plan**") that provides for all of the assets of the Applicant and its subsidiaries to be conveyed to NewCo. The Support Agreement provides that the Plan is to provide that the holders of both the Senior Notes and the Convertible Notes (collectively the "**Noteholders**") are to receive, in full and final satisfaction of all claims against the Applicant and all of its subsidiaries their pro-rata share of 92.5% of the NewCo shares. In addition, the Plan contemplated by the Support Agreement provides that all Noteholders who sign on to the Support Agreement by May 15, 2012 will receive an additional pro-rata share of 7.5% of the NewCo shares (the "**Early Consent Consideration**"). Annexed hereto and marked as Exhibit "**C**" is a true copy of the Support Agreement.

6. The Initial Consenting Noteholders were provided with an opportunity to conduct full due diligence with respect to the Applicant and its subsidiaries. The due diligence findings have not been made public or provided to the other Noteholders.

7. To the extent that the Mandra Entities have substantial value, the Plan contemplated by the Support Agreement provides that the Convertible Noteholders will not get the exclusive benefit of that value but rather that value will be shared pro-rata among all of the Noteholders.

8. Contrarian is advisor to certain privately managed accounts that hold a substantial amount of Convertible Notes.

9. By letter dated May 10, 2012, counsel for Contrarian wrote to counsel for the Applicant requesting that the Applicant disclose the assets and financial position of the Mandra Entities and any estimates of value of the Mandra Entities. Counsel for Contrarian also requested that the Company explain why the Plan does not contemplate that the holders of the Convertible Notes, who are the exclusive beneficiaries of guarantees from the Mandra Entities, be the exclusive recipients of all value attributable to the Mandra entities, but rather contemplates that the Senior Noteholders, who do not benefit from guarantees from the Mandra Entities and are not creditors of the Mandra Entities, should share in the value of the Mandra Entities pro-rata with the Convertible Noteholders. Annexed hereto and marked as Exhibit "D" is a true copy of such correspondence.

10. To date, the Applicant has not provided any information on the assets or value of the Mandra Entities.

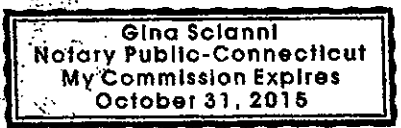
11. Contrarian requires the requested information by 5pm Eastern time May 14, 2012 in order to determine whether to execute the Support Agreement in time to receive the Early Consent Consideration if it chooses to do so.

12. It is manifestly unfair to require Contrarian, and other holders of Convertible Notes to elect whether to execute the Support Agreement in the absence of disclosure of the assets of the Mandra Entities and estimated values of the Mandra Entities so they can determine whether substantial value is being taken from the holders of the Convertible Notes, as creditors of the Mandra Entities, for the benefit of the holders of the Senior Notes, who are not creditors of the Mandra Entities.

13. I swear this Affidavit in support of the motion for the relief set out in the Notice of Motion and for no other or improper purpose.

SWORN before me at the City of  
Greenwich in the State of Connecticut this  
11th day of May, 2012  
*Gina Scianni*  
A Notary for the State of Connecticut

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)  
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)  
)  
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)  
*Ethan Schwartz*  
ETHAN SCHWARTZ

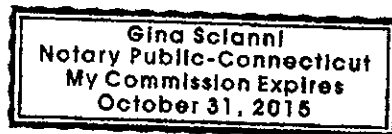


**TAB A**

Exhibit "A" to the Affidavit of ETHAN  
SCHWARTZ, sworn before me this 11<sup>th</sup> day of  
May, 2012.



A Notary for the State of Connecticut





Court File No.

ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS*  
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AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
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AFFIDAVIT OF W. JUDSON MARTIN  
(Sworn March 30, 2012)

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

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

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

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

#### **I. OVERVIEW**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23. This application has been authorized by the Board.

## II. PERSONAL BACKGROUND

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

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

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

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

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

### III. SINO-FOREST CORPORATION

#### A. Overview

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

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

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



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

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

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

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

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

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

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

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

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

## **B. Corporate Structure**

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

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

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

## **C. Capital Structure**

### **1. Equity**

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

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

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

## **2. Debt**

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

### **(a) 2017 Senior Notes**

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

### **(b) 2016 Convertible Notes**

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

**(c) 2014 Senior Notes**

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

**(d) 2013 Convertible Notes**

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

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

**D. The Business Model**

**1. Plantation / Timber Rights in the PRC**

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

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

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

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

## **2. The BVI Model**

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

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

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

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

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

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

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

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

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

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

### **3. The WFOE Model**

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



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

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

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

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

#### **4. On-shoring Plan**

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

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

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

## **E. Operations**

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

### **1. Wood Fibre Operations**

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

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

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

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

**(a) Purchased Plantation Model**

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

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

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

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

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

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

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

**(b) Planted Plantation Model**

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

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

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

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

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

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

## **2. Log Trading Operations**

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

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

### **3. Manufacturing and Other Operations**

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

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

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

#### **F. Sales**

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

#### **G. Suppliers**

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

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



## H. Employees

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

## I. Assets & Liabilities

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

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

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

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

<sup>3</sup> Mainly represents prepaid legal and professional fees and insurance.

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

<sup>5</sup> Mainly represents HST receivables, staff advances and deposits.

<sup>6</sup> Non-interest bearing with no fixed date of repayment.

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

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

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

<sup>7</sup> Mainly represents office equipment.

<sup>8</sup> Historical cost for interests in subsidiaries.

<sup>9</sup> Interest bearing with defined terms of repayment date.

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

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

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

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

**J. Importance of Relationships to Doing Business in the PRC**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **IV. THE MUDDY WATERS ALLEGATIONS: CHRONOLOGY AND RESPONSES**

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

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

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

##### **A. The IC, OSC, RCMP and HKSFC Investigations**

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **C. The Waiver Agreements**

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

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

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



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

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

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

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

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

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

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

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

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

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

**E. Gating Issues to an Audit**

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

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

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

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

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

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

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

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

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

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

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

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

## V. IMPACT OF MUDDY WATERS ALLEGATIONS ON SINO-FOREST

### A. Class Action Lawsuits

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

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

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

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

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

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

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

**B. Effects of MW Report and Related Events**

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

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

**1. Diversion of Operational Resources & Effects on Operations**

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

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

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



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

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

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

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

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

## **2. Fees and Expenses**

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

## **3. Value of Common Shares and Credit Rating**

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

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

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

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

## VI. CLAIM AGAINST MUDDY WATERS

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

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

## VII. PROPOSED RESTRUCTURING TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

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

## VIII. THE SALE PROCESS

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

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

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

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

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

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

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

#### **IX. SFC MEETS CCAA STATUTORY REQUIREMENTS**

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



**A. SFC is a "Company" Under the CCAA**

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

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

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

**C. SFC is Insolvent**

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

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

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

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

## **X. RELIEF SOUGHT**

### **A. Stay of Proceedings**

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

### **B. Appointment of Monitor**

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

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

### **C. Payments During CCAA Proceeding**

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

**D. Administration Charge**

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

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

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

**E. Directors' Charge**

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

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

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

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

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

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

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

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

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

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

**F. Postponement of Annual Shareholders' Meeting**

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

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

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

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

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

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

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

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

#### **G. Foreign Proceedings**

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

## **H. Financial Advisor Agreement**

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

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

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

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



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

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

#### **XI. 13 WEEK CASH FLOW FORECAST**

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

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


**XII. CONCLUSION**

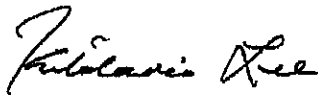
248. I am confident that granting the Initial Order and Sale Process Order sought by SFC is in the best interests of SFC and its stakeholders. SFC requires the stay of proceedings to pursue and implement the Restructuring Transaction in an attempt to complete a going concern restructuring of its businesses.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

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

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

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\_\_\_\_\_  
W. Judson Martin



LEE HONG KU KILDARIA

Solicitor, Hong Kong SAR

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

Proceedings commenced in Toronto

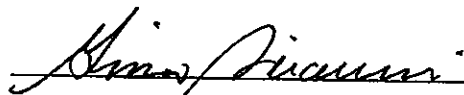
**AFFIDAVIT OF W. JUDSON MARTIN**  
**(Sworn March 30, 2012)**

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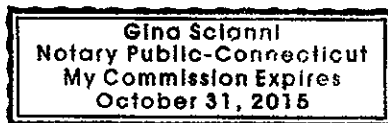
**TAB B**

Exhibit "B" to the Affidavit of ETHAN  
SCHWARTZ, sworn before me this 11<sup>th</sup> day of  
May, 2012.



*Gina Scionni*

A Notary for the State of Connecticut



**NOT FOR DISTRIBUTION TO ANY PERSON LOCATED OR RESIDENT IN THE REPUBLIC OF ITALY**

This news release is not an offer to purchase or sale or a solicitation of an offer to purchase or sell securities in the United States. The securities referenced herein have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States absent registration or an exemption from registration under the Securities Act. The Company does not intend to register any of the securities in the United States or to conduct a public offering of securities in the United States.

Nothing in this announcement constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so.



**Sino-Forest Corporation**

**FOR IMMEDIATE RELEASE**

## **SINO-FOREST COMPLETES ACQUISITION OF MANDRA FORESTRY**

**TORONTO, CANADA, February 8, 2010** – Sino-Forest Corporation (TSX: TRE) ("Sino-Forest") today announced that it has completed the acquisition of substantially all of the outstanding common shares of Mandra Forestry Holdings Limited.

Concurrently with the Mandra Forestry acquisition, Sino-Forest completed an exchange with holders of 99.7% of the US\$195 million 12% guaranteed senior notes due 2013 issued by Mandra Forestry and 96.7% of warrants issued by Mandra Forestry, for new guaranteed senior notes issued by Sino-Forest in the aggregate principal amount of US\$187,177,375 bearing interest at a rate of 10.25% per annum with a maturity date of July 28, 2014 (the "New 2014 Senior Notes"). The New 2014 Senior Notes have substantially the same terms and conditions as Sino-Forest's outstanding US\$212,330,000 10.25% guaranteed senior notes due 2014 (the "Existing 2014 Senior Notes"). Subject to certain conditions, Sino-Forest will exchange the New 2014 Senior Notes for additional Existing 2014 Senior Notes in approximately the same aggregate principal amount as the New 2014 Senior Notes.

Allen Chan, Chairman & CEO said, "We are very pleased to have acquired Mandra as it extends our geographical reach eastward and immediately adds 155,600 hectares of trees to our portfolio with an estimated standing volume of 14 million cubic metres of fibre. Mandra's plantations will be sustainably harvest, while generating sustainable cash flow. Anhui is located in eastern China, close to the Greater Shanghai region, which is experiencing economically robust growth, yet has low forest coverage. Therefore, after harvesting, we will introduce advanced silviculture technologies and practices to improve the productive yield of the plantations."

The Province borders Jiangsu to the east, Zhejiang to the southeast, Jiangxi to the south, Hubei to the southwest and Henan to the northwest.

### **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 forest plantation trees, the sale of standing timber and wood logs, and the complementary manufacturing of downstream engineered-wood products. Sino-Forest's common shares have traded on the Toronto Stock Exchange under the symbol TRE since 1995.

**NOT FOR DISTRIBUTION TO ANY PERSON LOCATED OR RESIDENT IN THE REPUBLIC OF ITALY**

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Please note: This press release contains projections and forward-looking statements regarding future events. Such forward-looking statements are not guarantees of future performance of Sino-Forest and are subject to risks and uncertainties that could cause actual results and company plans and objectives to differ materially from those expressed in the forward-looking statements. Such risks and uncertainties include, but not limited to, changes in China and international economies; changes in currency exchange rates; changes in worldwide demand for Sino-Forest's products; changes in worldwide production and production capacity in the forest products industry; competitive pricing pressures for Sino-Forest's products and changes in wood and timber costs.

The press release is subject to offer and distribution restrictions in, among other countries, the United States, the Republic of Italy, Belgium, Canada, the European Economic Area, France, Germany, Hong Kong, Switzerland, the United Kingdom and Singapore.

This announcement does not constitute an offer or an invitation to participate in an offer in any jurisdiction in or from which, or to any person to whom, it is unlawful to make such offer or invitation under applicable laws. The distribution of this announcement in certain jurisdictions may be restricted by law. Persons into whose possession this announcement comes are required by Sino-Forest to inform themselves about, and to observe, any such restrictions.

**TAB C**



Exhibit "C" to the Affidavit of ETHAN  
SCHWARTZ, sworn before me this 11<sup>th</sup> day of  
May, 2012.



A Notary for the State of Connecticut

Gina Scianni  
Notary Public-Connecticut  
My Commission Expires  
October 31, 2016

**RESTRUCTURING SUPPORT AGREEMENT**

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

**1. Transaction**

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

**Restructuring Transaction:**

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

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

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

**Early Consent Consideration:**

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

**Other Plan Matters:**

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

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

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

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

**Alternative Sale Transaction:**

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

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

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

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

## 2. The Consenting Noteholder's Representations and Warranties

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

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

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

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



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

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

### **3. The Company’s and the Direct Subsidiaries’ Representations and Warranties**

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

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

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

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

Each Consenting Noteholder covenants and agrees as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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



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

(B) such Other Transaction provides for either:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 7. Conditions Precedent to Restructuring

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

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

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



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

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

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

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

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

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

**9. Press Releases and Public Disclosure Concerning Transaction**

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

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

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

#### **10. Further Assurances**

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

#### **11. Consenting Noteholders' Termination Events**

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

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

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

## 12. Companies' Termination Events

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

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

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

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

### 13. Mutual Termination

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

### 14. Effect of Termination

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

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

## **15. Termination Upon the Implementation Date**

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

## **16. Confidentiality**

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

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

#### 17. **Miscellaneous**

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



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

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

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

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

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

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

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

Attention: Mr. Judson Martin, Executive Vice-Chairman and Chief  
Executive Officer  
Fax: +852-2877-0062;

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

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

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

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

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

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

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

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

Hogan Lovells LLP  
 11<sup>th</sup> Floor, One Pacific Place, 88 Queensway  
 Hong Kong China

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

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

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

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

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

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

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

**SINO-FOREST CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SINO-PANEL HOLDINGS LIMITED**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SINO-GLOBAL HOLDINGS INC.**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SINO-PANEL CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SINO-WOOD PARTNERS, LIMITED**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SINO-CAPITAL GLOBAL INC.**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

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

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:



**SINO-FOREST RESOURCES INC.**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**STRICTLY CONFIDENTIAL**

Name of Consenting Noteholder:

\_\_\_\_\_

Per:

\_\_\_\_\_

Name:

Title:

Jurisdiction of residence for legal purposes:

\_\_\_\_\_

Email:

Address:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**STRICTLY CONFIDENTIAL**

**SCHEDULE A****DIRECT SUBSIDIARIES**

Sino-Panel Holdings Limited

Sino-Global Holdings Inc.

Sino-Panel Corporation

Sino-Wood Partners, Limited

Sino-Capital Global Inc.

Sino-Forest International (Barbados) Corporation)

Sino-Forest Resources Inc. [Preferred shares held by SFC]

**SCHEDULE B****DEFINITIONS**

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

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

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

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

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

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

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

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

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

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

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

pursuant to the 2017 Note Indenture.

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

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

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

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

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

**“AIs”** means the authorized intermediaries of the Company and/or any of its Subsidiaries.

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

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

**“BVI”** means the British Virgin Islands.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**“Goodmans”** means Goodmans LLP.

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

**“Hogan Lovells”** means Hogan Lovells LLP.

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

individual holder of any of the Notes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**SCHEDULE C****JOINDER AGREEMENT**

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

**WITNESSETH:**

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

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

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

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

**1. Joinder and Assumption of Obligations**

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

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

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

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

## **2. Binding Effect**

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

## **3. Miscellaneous**

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

*[Signature Pages Follow]*

STRICTLY CONFIDENTIAL

Name of Consenting Noteholder:

[Redacted]Per: [Redacted]Name: [Redacted]Title: [Redacted]Jurisdiction of residence for legal  
purposes: [Redacted][Redacted]  
Email: [Redacted][Redacted]  
Address: [Redacted][Redacted]  
[Redacted]  
[Redacted]  
[Redacted]STRICTLY CONFIDENTIAL



**STRICTLY CONFIDENTIAL**

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

**SINO-FOREST CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SINO-PANEL HOLDINGS LIMITED**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SINO-GLOBAL HOLDINGS INC.**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SINO-PANEL CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SINO-WOOD PARTNERS, LIMITED**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SINO-CAPITAL GLOBAL INC.**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

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

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**SINO-FOREST RESOURCES INC.**

By: \_\_\_\_\_  
Name:  
Title:

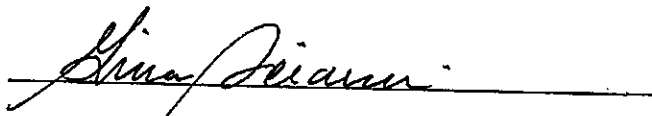
By: \_\_\_\_\_  
Name:  
Title:

**SCHEDULE D**

**FORM OF SALE PROCESS ORDER**

**TAB D**

Exhibit "D" to the Affidavit of ETHAN  
SCHWARTZ, sworn before me this 11<sup>th</sup> day of  
May, 2012.



A Notary for the State of Connecticut

Gina Solari  
Notary Public-Connecticut  
My Commission Expires  
October 31, 2015



**Fraser Milner Casgrain LLP**  
77 King Street West, Suite 400  
Toronto-Dominion Centre  
Toronto, ON, Canada M5K 0A1

MAIN 416 863 4511  
FAX 416 863 4592

**Neil Rabinovitch**  
neil.rabinovitch@fmc-law.com  
DIRECT 416 483 4656

May 10, 2012

**SENT VIA E-MAIL**

Bennett Jones LLP  
3400 One First Canadian Place, P.O. Box 130  
Toronto, Ontario  
M5X 1A4

Attention: Robert W. Staley  
Kevin J. Zych

Dear Sirs,

**RE: Sino Forest Corporation ("SFC")**

We have been retained by a significant holder of certain notes referred to in the Affidavit of Judson Martin (sworn March 30, 2012) (the "**Martin Affidavit**"), including those described as the 2016 Convertible Notes and the 2013 Convertible Notes.

It is our understanding that the 2016 Convertible Notes and the 2013 Convertible Notes (collectively, the "**Convertible Notes**") are guaranteed by 64 subsidiaries of SFC, while the 2017 Senior Notes and the 2014 Senior Notes (both as defined in the Martin Affidavit and collectively, the "**Senior Notes**") are only guaranteed by 60 subsidiaries of SFC. This point is acknowledged in paragraph 37 of the Martin Affidavit.

The four subsidiaries which are guarantors of the Convertible Notes (but not guarantors of the Senior Notes) are: Mandra Forestry Holdings Limited (BVI), Mandra Forestry Finance Limited (BVI), Mandra Forestry Anhui Limited (BVI) and Mandra Forestry Hubei Limited (HK) (collectively, the "**Mandra Entities**"). It is our understanding that the assets of the Mandra Entities were previously valued at approximately \$200 million.

Despite the additional guarantees of the Mandra Entities provided to the holders of the Convertible Notes, the Support Agreement (as defined in the Martin Affidavit) contemplates a plan of arrangement or compromise (the "**Proposed Plan**") which sees both holders of the Convertible Notes and the Senior Notes treated the same. Can you please provide an explanation as to why no value is given in the Proposed Plan to the guarantees given by the Mandra Entities in favour of the holders of the Convertible Notes? This information is critical in order to assist our clients in deciding what position should be taken in respect of the Support Agreement and the SFC CCAA proceedings, so a prompt response is required.

Further, please provide an update on the status of the Noteholders who have signed on to the Support Agreement and in particular a break down between the four tranches of notes.

We look forward to receiving a timely response given the May 15, 2012 Consent Date.

Yours truly,  
Fraser Milner Casgrain LLP

A handwritten signature in black ink, appearing to be "Neil Rabinovitch", written over a horizontal line.

Neil Rabinovitch  
Partner  
NSR/lbd

c.c. Derrick C. Tay, Ogilvy Renault  
Stuart Brotman, Fasken Martineau DuMoulin  
Jane Dietrich, Fraser Milner

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

AFFIDAVIT OF ETHAN  
SCHWARTZ

Fraser Milner Casgrain LLP  
77 King Street West, Suite 400  
Toronto-Dominion Centre  
Toronto, Ontario  
M5K 0A1

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Telephone:  
Facsimile:

416 863-4740 /416 863-4467  
416 863-4592

Lawyers for Contrarian Capital Management, LLC



**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

**MOTION RECORD**

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Toronto, Ontario, M5K 0A1

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jane.dietrich@fmc-law.com  
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Lawyers for Contrarian Capital Management, LLC