

## SINO-FOREST CORPORATION

Waiver relating to

10.25% Guaranteed Senior Notes Due 2014  
CUSIP Nos. 82934HAC5 and C83912AC6

WHEREAS, pursuant to an indenture dated as of July 27, 2009 entered into by and between Sino-Forest Corporation (the “**Company**”), the subsidiary guarantors thereto (collectively, the “**Subsidiaries**”) and Law Debenture Trust Company of New York, as trustee (the “**Trustee**”) (such indenture as amended, supplemented or otherwise modified from time to time, the “**2014 Indenture**”), the Company has issued US\$399,187,000 of 10.25% Guaranteed Senior Notes Due 2014 (the “**2014 Notes**”). Capitalized terms not otherwise defined herein have the meanings given to them in the 2014 Indenture.

WHEREAS, the Company has failed to release its financial statements for the nine month period ended September 30, 2011 (the “**Third Quarter Financials**”) as required by section 4.18 of the 2014 Indenture and such failure constitutes a Default under the 2014 Indenture (the “**Financial Reporting Covenant Default**”).

WHEREAS, the Company received written notice from the Trustee of the Financial Reporting Covenant Default on December 16, 2011 (the “**Notice of Default**”).

WHEREAS, the Company’s failure to cure the Financial Reporting Covenant Default within 30 days of the date of the Notice of Default will constitute an Event of Default under the 2014 Indenture.

WHEREAS, pursuant to the terms of section 6.04 of the 2014 Indenture, Holders of at least a majority in aggregate principal amount of the outstanding 2014 Notes may waive Defaults by notice to the Company and the Trustee.

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

### 1. Waiver

On and expressly subject to the terms and conditions contained herein, including (without limitation) sections 2, 4 and 5 below, Goodmans LLP (“**Goodmans**”) and Hogan Lovells LLP (“**Hogan**”), on behalf of the Holders of a majority of the principal amount of the 2014 Notes (the “**Majority Holders**”), hereby give notice to the Company and the Trustee of the agreement of the Majority Holders to waive, on the conditions set forth herein, the Financial Reporting Covenant Default and any related cross-defaults (the “**Covenant Waiver**” or this “**Waiver**”) on the Waiver Effective Date (as defined below) pursuant to Section 6.04 of the 2014 Indenture. Each of Goodmans and Hogan represent and confirm that they have been authorized to execute and deliver this Waiver by the Majority Holders.

## **2. Conditional Waiver**

Notwithstanding any other provision of this Waiver or any provision of the 2014 Indenture, the Covenant Waiver provided for herein is a conditional waiver, which shall terminate upon the earlier of April 30, 2012 or any termination of this Waiver pursuant to section 7 hereof. Upon any such termination of this Waiver, the Trustee and/or the holders of 25% of the 2014 Notes shall have the full, complete and unconditional right and authority, exercisable at any time in their discretion, to issue a Notice of Default in respect of the Financial Reporting Covenant Default and any related cross-defaults.

## **3. Representations and Warranties of the Company**

The Company hereby represents and warrants to Goodmans and Hogan (and the Company acknowledges that each of Goodmans and Hogan is relying upon such representations and warranties in granting the Covenant Waiver) that:

- a) this Waiver has been duly executed and delivered by it, and, assuming the due authorization, execution and delivery by each of Goodmans and Hogan for the Majority Holders and delivery of this Waiver to the Trustee, this Waiver constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms, subject to laws of general application and bankruptcy, insolvency and other similar laws affecting creditors' rights generally and general principles of equity;
- b) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all necessary power and authority to execute and deliver this Waiver resulting from its acceptance hereof and to perform its obligations hereunder;
- c) the execution, delivery and performance of this Waiver by the Company will not contravene:
  - i. any law, regulation, order, decree or authorisation applicable to it;
  - ii. any provision of its constitutional documents; or
  - iii. any contractual restriction binding on or affecting it or any of its assets;and
- d) all authorizations required for the execution and delivery of this Waiver by the Company and the performance of its obligations hereunder have been obtained and are in full force and effect.

## **4. Covenants**

### **a) Payment of Interest**

The Company shall pay all interest when due on the notes issued under (i) the 2014 Indenture; (ii) the indenture dated as of December 17, 2009, by and between the

Company, the entities listed as subsidiary guarantors thereto, and The Bank of New York Mellon, as trustee (the “**2016 Indenture**”) pursuant to which the Company issued US\$460,000,000 of 4.25% Convertible Senior Notes Due 2016 (the “**2016 Notes**”); (iii) the indenture dated as of July 23, 2008, by and between the Company, the entities listed as subsidiary guarantors thereto, and The Bank of New York Mellon, as trustee (the “**2013 Indenture**”) pursuant to which the Company issued US\$345,000,000 of 5.00% Convertible Senior Notes Due 2013 (the “**2013 Notes**”); and (iv) the indenture dated as of October 21, 2010, by and between the Company, the subsidiary guarantors thereto, and Law Debenture Trust Company of New York, as trustee (the “**2017 Indenture**”, and collectively with the 2014 Indenture, the 2016 Indenture and the 2013 Indenture, the “**Indentures**”, and individually an “**Indenture**”) pursuant to which the Company issued US\$600,000,000 of 6.25% Guaranteed Senior Notes Due 2017 (“**2017 Notes**”), immediately on each date on which interest becomes due under the applicable Indenture without giving effect to any cure or grace period under the applicable Indenture. The 2014 Notes, the 2016 Notes, the 2013 Notes and the 2017 Notes shall collectively be referred to as the “**Notes**”.

**b) Fee**

As consideration for the Covenant Waiver provided for herein, on or prior to the Waiver Effective Date, the Company shall pay a fee to the paying agent under the 2014 Indenture (the “**Paying Agent**”), on behalf of the Holders of the 2014 Notes, in an amount equal to one (1) % of the aggregate principal amount of the 2014 Notes then outstanding under the 2014 Indenture (the “**Waiver Fee**”), such fee to be paid in cash to the Holders of the 2014 notes by the Paying Agent promptly following the Waiver Effective Date. The Waiver Fee shall be fully earned upon Goodmans and Hogan executing this Waiver on behalf of the Majority Holders and shall be non-refundable.

**c) Filing of Financial Information**

The Company shall continue to use its reasonable best efforts to address outstanding issues noted in its press release of December 12, 2011 in order to file the Third Quarter Financials, subject to necessary qualifications, as soon as practicable and shall keep Goodmans and Hogan as the advisors to the ad hoc committee of certain holders of the 2014 Notes (together with any financial advisor to the ad hoc committee of holders of the 2014 Notes (being, the “**Ad Hoc Noteholders**”), collectively, the “**Advisors to the Ad Hoc Noteholders**”) updated on no less than a bi-weekly basis as to the status and timing of the filing the Third Quarter Financials, or shall make public statements as to the status and timing of the filings of the Third Quarter Financials.

**d) Provision of Strategic Plan**

The Company shall provide a preliminary strategic plan to the Advisors to the Ad Hoc Noteholders on or before March 31, 2012, in form and substance acceptable to the Ad Hoc Noteholders and/or the Advisors to the Ad Noteholders in their sole

discretion (the “**Strategic Plan**”). The Strategic Plan shall include an outline for the strategic plan for the Company, an indicative timeline for any sale process, capital or equity process and will address to the extent practicable such other steps that are necessary to maximize value in respect of the Company’s assets held in the People’s Republic of China (whether through the proposed BVI and/or WOFE structures or otherwise). The Company shall keep the Advisors to the Ad Hoc Noteholders updated on no less than a bi-weekly basis as to the status, draft content and timing of completion of the Strategic Plan, and shall consult and meet with the Advisors to the Ad Hoc Noteholders regarding the development and draft content of the Strategic Plan as may be reasonably requested by the Advisors to the Ad Hoc Noteholders from to time. On or before March 31, 2012 (unless extended by the Advisors to the Ad Hoc Noteholders), the Company shall issue a press release outlining the status and any key provisions in respect of the Strategic Plan, save and except the Company shall not be required to disclose any information provided to the Advisors to the Ad Hoc Noteholders or other persons under any confidentiality agreements.

**e) Governance**

The constitution and size of, and governance matters related to, the Board of Directors of the Company and any committees, including the restructuring committee, shall be satisfactory to the Ad Hoc Noteholders and/or the Advisors to the Ad Hoc Noteholders by no later than March 31, 2012, and thereafter any amendments to the constitution and size of, and governance matters related to, the Board of Directors of the Company and any committees, including the restructuring committee, shall be satisfactory to the Ad Hoc Noteholders and/or the Advisors to the Ad Hoc Noteholders. There shall be no appointment of any new members of the Board of Directors, senior officers or any chief restructuring officer of the Company unless such appointment is on terms satisfactory to the Ad Hoc Noteholders and/or the Advisors to the Ad Hoc Noteholders.

**f) Access to Company Information**

Following reasonable advance request by the Advisors to the Ad Hoc Noteholders, the Company shall, at any time and from time to time, to the extent permitted by law and the terms of any contractual confidentiality obligations:

- i. provide the Advisors to the Ad Hoc Noteholders with access to the Company’s and its Subsidiaries’ premises, assets, accounts, books and records; and
- ii. make Bennett Jones, Houlihan Lokey, FTI Consulting, any other advisors to the Company and appropriate officers of the Company with information relevant to the enquiries of the Advisors to the Ad Hoc Noteholders available on a reasonable basis for any discussions with the Advisors to the Ad Hoc Noteholders.

**g) Material Transactions**

The Company and its Subsidiaries shall keep the Advisors to the Ad Hoc Noteholders reasonably informed regarding any material discussions with any party (other than legal and financial advisors to the Company) with respect to any material transactions concerning the Company and/or its Subsidiaries and, where deemed appropriate by the Company (after reviewing and discussing such matters in advance with the Advisors to the Ad Hoc Noteholders) shall provide the Advisors to the Ad Hoc Noteholders with an opportunity for a representative of the Advisors to the Ad Hoc Noteholders or of the Ad Hoc Noteholders (subject to any confidentiality restrictions) to participate in such discussions.

**h) Other Transactions**

The Company shall promptly advise the Advisors to the Ad Hoc Noteholders of the details of any material enquiries, proposals, offers or discussions in respect of any restructuring proposals, proposed recapitalizations, equity offerings or other material transactions concerning the Company or any of its Subsidiaries (“**Proposals**”), in each case when received after, or within the last six months of, the date hereof, and of each and every amendment to any such Proposal; and shall cooperate with the Advisors to the Ad Hoc Noteholders in providing information to and consulting with the Advisors to the Ad Hoc Noteholders in respect of any such Proposal, subject to any applicable confidentiality requirements imposed by the other party to any such Proposal.

**i) Limitation on Distributions to Shareholders**

Neither the Company nor any of its Subsidiaries shall, directly or indirectly, declare, make or pay any dividend, charge, fee or other distribution, whether by way of cash or other consideration, to or with respect to any of the issued and outstanding shares of the Company or any of its Subsidiaries (or any rights issued in respect thereof), provided that (x) the foregoing shall not limit the ability of any Restricted Subsidiary to pay dividends or make other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary to the extent that such limitation would violate Section 4.10 of the 2014 Indenture, and (y) the Company and its Subsidiaries shall be entitled to engage in intercompany transactions that are in the ordinary course of business or that are necessary and appropriate to preserve the value of the business or to carry out the repatriation of onshore cash referenced in paragraph (m) below.

**j) Amalgamation, Merger, Consolidation, Sale, Etc.**

Neither the Company nor any of its Subsidiaries shall amalgamate, merge or consolidate with, or sell all or substantially all of its assets to, one or more other Persons, or enter into any other transaction of similar effect under the laws of any jurisdiction, or change the nature of its business or the corporate or capital structure of the Company or any of its Subsidiaries.

**k) Sale, Transfer, Lease or Disposal of Property**

Neither the Company nor any of its Subsidiaries shall, outside of the ordinary course of business, sell, transfer, lease, license or otherwise dispose of all or any part of its property, assets or undertaking (including, without limitation, by way of any loan transaction) with a value of over US\$10,000,000 at any one time or in any series of transactions aggregating over US\$30,000,000 (whether voluntarily or involuntarily) between the date of this Waiver and the termination of this Waiver, except on terms acceptable to the Advisors to the Ad Hoc Noteholders.

**l) Indebtedness**

On and from the date of this Waiver, neither the Company nor any of its Subsidiaries shall Incur any Indebtedness other than Permitted Indebtedness, except that, notwithstanding the foregoing, the Company shall not be permitted to incur any Permitted Indebtedness under Section 4.06(b)(6) of the 2014 Indenture and shall only be entitled to incur Permitted Indebtedness under 4.06(b)(5) of the 2014 Indenture to the extent that such Permitted Indebtedness is to increase onshore debt to an amount of not more than US\$150,000,000.

**m) Cash Management**

The Company and its Subsidiaries shall, from and after the Waiver Effective Date to the termination of this waiver, maintain a minimum onshore cash balance of US\$165,000,000 and a minimum offshore cash balance of US\$140,000,000.

The Company and its management shall identify, implement and monitor both short-term and long-term liquidity generating initiatives and all reasonable steps to monetize assets for the repayment of the Company's Indebtedness. In this regard, and subject to the Company's need to prioritize efforts relating to the orderly management of its PRC tax affairs and the reorganization of the ownership structure of its BVI purchased plantations, the Company and its management shall take all reasonable steps (including but not limited to seeking all necessary SAFE and other regulatory approvals) to repatriate to the Company or its offshore Subsidiaries in a timely manner all onshore cash in excess of the Company's projected operating requirements.

The Company shall use its reasonable best efforts to produce a 90-day cash flow forecast and shall discuss the receipts and disbursements for same with the Advisors to the Ad Hoc Noteholders from time to time.

The Company shall consult with the Advisors to the Ad Hoc Noteholders regarding the matters referenced in this subsection (m) on no less than a bi-weekly basis.

**n) Business in the Ordinary Course**

The Company and its Subsidiaries shall each operate their respective businesses in the ordinary course of business and in manner that preserves or enhances the value of the Company.

**o) Completion of the Final Report of the Independent Committee**

The Final Report of the Independent Committee of the Board of Directors shall be made public by the Company by January 31, 2012. Any residual matters or issues identified in the Final Report (or any previous reports) will continue to be addressed by the Company and its advisors and the Company and its advisors shall consult with the Advisors to the Ad Hoc Noteholders on no less than a bi-weekly basis concerning the Company's actions in respect of any such residual matters.

**p) Lifting of the Cease Trade Order**

The Company shall work with the Advisors to the Ad Hoc Noteholders to prepare and file as soon as practicable an application for a lifting of the Cease Trade Order issued by the Ontario Securities Commission on August 26, 2011.

**q) Fees and Expenses of the Advisors to the Ad Hoc Noteholders and the Trustee**

The Company shall pay the properly incurred fees of the Advisors to the Ad Hoc Noteholders when due, including the reasonable Fees and expenses of any financial advisor to the Advisors to the Ad Hoc Noteholders, and shall also pay the properly incurred fees and expenses of the Trustee and counsel to the Trustee.

**r) Estimates of Company's Professional Fees**

The Company shall provide the Advisors to the Ad Hoc Noteholders with monthly estimates of the anticipated fees of the professional advisors to the Company and its Subsidiaries (including, but not limited to, the Company's legal advisors, the Company's auditors Ernst & Young, and the Independent Committee's counsel and financial advisors PricewaterhouseCoopers), which shall include general descriptions of the work to be performed by each of these professionals. Within 15 days of the end of each month, the Company shall provide the Advisors to the Ad Hoc Noteholders with a report on the actual amount of each such professional's fees for the preceding month.

**5. Conditions Precedent and Effectiveness**

The Covenant Waiver shall be effective as of the date (the "**Waiver Effective Date**") that Goodmans and Hogan confirm in writing to the Company that each of the following conditions precedent have been complied with to their reasonable satisfaction:

- a) the Company shall have paid the interest due on December 15, 2011 under the 2016 Indenture by no later than the Waiver Effective Date;
- b) copies of all corporate approvals of the Company which are required for the approval of the terms of, and the transactions contemplated by, and the execution, delivery and performance of this Waiver shall have been delivered to Goodmans and Hogan;
- c) a specimen of the signature of each person authorised on behalf of the Company to execute this Waiver shall have been delivered to Goodmans and Hogan;

- d) a certificate of an authorized signatory of the Company certifying that each copy of any document provided in connection with this Waiver as a condition precedent is correct, complete and in full force and effect as at the Waiver Effective Date shall have been delivered to Goodmans and Hogan.
- e) the Advisors to the Ad Hoc Noteholders shall have received all fees and other amounts due and payable to them, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses in connection with this Waiver;
- f) the Company shall have paid the Waiver Fee to the Paying Agent; and
- g) the holders of a majority in principal amount of the Company's 6.25% Guaranteed Senior Notes due 2017, also represented by Goodmans and Hogan, shall have confirmed their agreement to deliver a waiver in substantially the same form as this Waiver, also effective as of the Waiver Effective Date.

In the event that the Waiver Effective Date has not occurred by January 14, 2012, this Waiver shall be of no force or effect and no term or condition herein shall be binding on any of the parties, unless otherwise agreed to in writing between the parties.

## **6. Further Assurances**

The Company shall (or cause each of its Subsidiaries to) do all such things in its control, take all such actions as are commercially reasonable, deliver to the other parties hereto such further information and documents, and execute and deliver to the other parties hereto such further instruments and agreements as such other parties shall reasonably request to consummate or confirm the transactions provided for in this Waiver, to accomplish the purpose of this Waiver or to assure to the other parties the benefits of this Waiver.

## **7. Termination**

- a) This Waiver may be terminated by the Advisors to the Ad Hoc Noteholders, on behalf of the Ad Hoc Noteholders, by the delivery to the Company of 30 days' written notice, in the exercise of its sole discretion, upon the occurrence and, if applicable, the continuation of any of the following events:
  - i. the failure by the Company or any of its Subsidiaries to comply with, or default by the Company or any of its Subsidiaries in the performance or observance of, any term, condition, covenant or agreement set forth in this Waiver; or
  - ii. any representation, warranty or other statement of the Company made or deemed to be made in this Waiver is or proves to have been untrue, incorrect or misleading as of the date when made.

Such termination notice can be rescinded by the Advisors to the Ad Hoc Noteholders, on behalf of the Ad Hoc Noteholders, at any time prior to the expiry of the 30 day period.



- b) This Waiver will immediately terminate without requiring any action whatsoever to be taken upon the occurrence of any of the following events:
- i. the Company or any of its Subsidiaries, voluntarily or involuntarily, commences or becomes subject to a receivership, arrangement, liquidation, insolvency, bankruptcy or debt enforcement proceeding or a proceeding under the *Companies' Creditors Arrangement Act* (Canada), the *Bankruptcy and Insolvency Act* (Canada) or *Winding-Up and Restructuring Act* (Canada), unless such event occurs with the prior written consent of the Majority Holders;
  - ii. the appointment of a receiver, interim receiver, receiver and manager, trustee in bankruptcy, liquidator or administrator in respect of the Company or any of its Subsidiaries, unless such event occurs with the prior written consent of the Majority Holders; or
  - iii. April 30, 2012, unless extended by the Advisors to the Ad Hoc Noteholders, on behalf of the Ad Hoc Noteholders.

#### **8. Mutual Termination, Amendment or Modification**

This Waiver, and the obligations of all parties hereunder, may be terminated, amended or modified by mutual written agreement between (a) the Company and (b) the Advisors to the Ad Hoc Noteholders, on behalf of the Ad Hoc Noteholders.

#### **9. No Waiver**

Except as expressly set forth in this Waiver, nothing contained herein shall constitute a waiver by the Majority Holders of any breach or default by the Company (or any other party to the 2014 Indenture) of any term or provision of the 2014 Indenture (or any other document entered into by any such party in connection therewith) except for the Financial Reporting Covenant Default, which is waived on a conditional basis pursuant to the terms and conditions hereof, and nothing contained herein shall constitute an amendment or modification of any term or provision of the 2014 Indenture or any other document entered into in connection therewith.

#### **10. Delivery of Documentation and Consents**

Any consents, documentation or extensions contemplated or required to be delivered pursuant to this Waiver by or on behalf of the Majority Holders or the Ad Hoc Noteholders shall be delivered or confirmed on their behalf by Goodmans and Hogan, and Goodmans and Hogan are authorized to deliver any such consents, documentation or extensions, and the Company and the Trustee shall be entitled to rely upon any such consents, documentation or extensions from or by Goodmans and Hogan as being duly delivered by the Majority Holders and/or the Ad Hoc Noteholders, as the case may be, without requirement for further verification.

## **11. Confidentiality**

In the event that the Company is required under this Waiver to deliver any confidential information or documents to the Majority Holders, the Ad Hoc Noteholders, or any other noteholder or person, the provision of any such information shall be subject to such person agreeing to be bound by a confidentiality agreement in form and substance acceptable to the Company and all such information and documents shall be subject to the terms and conditions of such confidentiality agreement.

The disclosure of information to the Advisors to the Ad Hoc Noteholders shall not be deemed to constitute disclosure to any Ad Hoc Noteholder and the parties hereto understand that the Advisors to the Ad Hoc Noteholders may establish information barriers or similar procedures. Neither the Company nor any of its representatives shall deliver any information to any Ad Hoc Noteholder directly and all information required to be delivered by this Waiver shall be delivered to the Advisors to the Ad Hoc Noteholders unless otherwise agreed in writing by any Ad Hoc Noteholder.

## **12. Severability**

If any term of this Waiver is or becomes illegal, invalid or unenforceable in any jurisdiction, that will not affect:

- a) the legality, validity or enforceability in that jurisdiction of any other term of the Waiver; or
- b) the legality, validity or enforceability in other jurisdictions of that term or any other term of the Waiver.

If a term of this Waiver is or becomes illegal, invalid or unenforceable in any respect under the laws of any jurisdiction, it shall be replaced by a mutually acceptable provision, which being valid, legal, enforceable and in compliance with applicable government policy comes closest to the intention of the parties to this Waiver underlying such illegal, invalid or unenforceable term.

## **13. Counterparts**

This Waiver may be executed in counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Waiver by e-mail in pdf or other format shall be effective as delivery of a manually executed counterpart of this Waiver.

## **14. Governing Law**

This Waiver shall be governed by, and construed in accordance with the law of the State of New York.

## **15. Enforcement**

The courts of New York have exclusive jurisdiction to settle any dispute in connection with this Waiver.

## **16. Headings**

Section headings used herein are for convenience of reference only, are not part of this Waiver and shall not affect the construction of, or be taken into consideration in interpreting, this Waiver.

**[SIGNATURE PAGE FOLLOWS]**

