

Court File No. CV-14-10667-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

**IN THE MATTER OF AN APPLICATION UNDER SECTION 101 OF THE
COURTS OF JUSTICE ACT, R.S.O. c. C.43 (as amended)**

AND IN THE MATTER OF HANFENG EVERGREEN INC.

**FIRST REPORT OF THE RECEIVER
DATED SEPTEMBER 12, 2014**

INTRODUCTION

1. On August 20, 2014, pursuant to an order issued by the Ontario Superior Court of Justice, Ernst & Young Inc. was appointed as receiver and manager (the "Receiver") of the assets, undertakings and properties of the Hanfeng Evergreen Inc. ("Hanfeng" or the "Company"), pursuant to section 101 of the Courts of Justice Act (Ontario).

PURPOSE

2. The purpose of this first report of the Receiver (the "First Report") is to provide this Court with information in respect of the following:
 - status of the sale of the Company's wholly owned subsidiary, Hanfeng Slow-Release Fertilizer Co., Ltd.; and
 - the Receiver's request for an order establishing a process to resolve any claims against Hanfeng and establishing a claims bar date by which such claims must be filed.

TERMS OF REFERENCE

3. In preparing this First Report and making the comments herein, the Receiver has been provided with, and has relied upon, certain unaudited, draft and/or internal financial information, prepared by the Company's books and records, discussions with employees of the Company and information from other third-party sources (collectively, the "Information"). Except as described in this First Report:
 - (a) The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with the Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook and, accordingly, the Receiver expresses no opinion or other form of assurance in respect of the Information; and
 - (b) The Receiver has prepared this First Report in its capacity as a court-appointed officer solely for the use of this Court and the stakeholders in these proceedings and will make a copy of this First Report available on the Receiver's website at www.ey.com/ca/hanfeng.
4. All monetary amounts contained herein are expressed in Canadian dollars, unless otherwise stated.

GENERAL BACKGROUND

5. The Company, through its wholly-owned subsidiaries, was a developer and producer of value-added fertilizers in the People's Republic of China ("China"). The Company is incorporated under the laws of Ontario with its registered head office in Toronto.
6. The Company has no independent operations and exists solely as a holding company for certain operating entities located in China. By mid-August 2014, the Company's principal remaining un-monetized asset was all the issued and outstanding shares of

Hanfeng Slow-Release Fertilizer Co., Ltd., a company legally registered and established in China (the “Chinese Subsidiary”).

7. On August 20, 2014, following an application by the Company, this Court:
 - issued an order appointing Ernst & Young Inc. as the receiver and manager of the Company (the “Receivership Order”); and
 - approved a share transfer agreement between the Company and Heilongjiang Harbin Pengcheng Fertilizer Co., Ltd. (the “Purchaser”) dated August 8, 2014 (the “Share Transfer Agreement”) in respect of the shares of the Chinese Subsidiary (the “Shares”) and the transaction contemplated therein (the “Share Transfer Transaction”) and provided for the vesting of all of the Shares in the Purchaser free and clear of any encumbrances upon the completion of the Share Transfer Transaction (the “Vesting Order”).
8. The Receiver has made various materials relating to the receivership available on its website at www.ey.com/ca/hanfeng.

SHARE TRANSFER TRANSACTION UPDATE

9. The Receivership Order provides, among other things, for the Receiver to close the Share Transfer Transaction and collect the purchase price payable thereunder.
10. The Receiver is proceeding to complete any necessary steps required for the closing of the Share Transfer Transaction, including coordinating with the Company’s Chinese counsel as needed.
11. Pursuant to the terms of the Share Transfer Agreement, RMB 12,400,000 (approximately \$2.2 million) has already been received from the Purchaser.
12. A further RMB 37,200,000 (approximately \$6.6 million) was due ten business days after the date of approval of the Share Transfer Transaction by this Court. The

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Receiver understands that the payment was delayed on account of regulatory clearance from China's State Administration of Foreign Exchange ("SAFE"). The Receiver further understands that SAFE clearance has now been obtained and expects receipt of the payment in the week ending September 19, 2014.

HANFENG CLAIMS PROCESS

General

13. The Receiver seeks an order for the establishment and resolution of any claims against the Company (the "Claims Procedure Order").
14. The purpose of the proposed Claims Procedure Order is to:
 - establish a process to ensure that all parties with a claim or an alleged claim be called upon to advance their claim expeditiously;
 - to permit such claims to be processed and adjudicated efficiently; and
 - to analyze and consider the effect of any such alleged claims prior to any distribution of the remaining assets to Hanfeng's shareholders.
15. The Claims Procedure Order establishes a Claims Bar Date (as defined below) and sets out the procedures for the calling of proofs of claims and a process to lead to the final determination of the Claims (as defined in the Claims Procedure Order).

Claims Bar Date

16. The Receiver proposes that any Person (as defined in the Claims Procedure Order) asserting a Claim be required to file a proof of claim with the Receiver prior to 5:00 pm (prevailing Eastern time) on November 10, 2014 (the "Claims Bar Date").
17. Any Person that fails to file a Proof of Claim (as defined in the Claims Procedure Order) with the Receiver on or before the Claims Bar Date shall:

- be forever barred from making or enforcing any Claim against the Company; and
 - not be entitled to any further notice in these proceedings, and shall not be entitled to participate as a Claimant (as defined the Claims Procedure Order) in these proceedings.
18. The Receiver submits that the Claims Bar Date is reasonable. It provides parties with a claim or an alleged claim with 45 calendar days from the date of the proposed Claims Procedure Order to evaluate their Claims against Hanfeng and submit the necessary Proofs of Claim.

Notice of Claims Procedure

19. The Receiver will publish a Notice of Claims Procedure and Claims Bar Date (as defined in the Claims Procedure Order) in the Globe and Mail (National Edition), the National Post (National Edition) and a local newspaper in Heilongjiang province in China no later than September 30, 2014. A copy of the Notice of Claims Procedure and Claims Bar Date is attached as Schedule A to the Claims Procedure Order.
20. The Receiver will post an electronic copy of the Notice of Claims Procedure and Claims Bar Date on its website www.ey.com/ca/hanfeng as soon as practicable but by no later than September 30, 2014.
21. The Receiver will send a copy of the Claims Package (as defined in the Claims Procedure Order), which includes among other things, a Proof of Claim to each Known Creditor (as defined in the Claims Procedure Order) by regular mail, courier, facsimile, or electronic mail as soon as practicable but by no later than September 30, 2014. A copy of the Proof of Claim is attached as Schedule B to the Claims Procedure Order.

22. In addition, provided that such request is received by the Receiver prior to the Claims Bar Date, the Receiver will send a copy of the Claims Package to any Claimant as soon as reasonably possible after receipt of such a request for a package.
23. In the Receiver's view, the identification of Known Creditors, the mailing of the Claims Package, the publication of the Notice of Claims Procedure and Claims Bar Date described above will provide sufficient and timely notification to allow parties with a claim or an alleged claim to submit their Proofs of Claim prior to the Claims Bar Date.

Adjudication of Claims

24. The Receiver will review each Proof of Claim filed and at any time may:
 - a) request additional information from a Claimant;
 - b) attempt to consensually resolve the amount of the Proof of Claim with the Claimant;
 - c) accept (in whole or in part) the amount and/or status of the Claim;
 - d) by notice in writing, no later than 20 calendar days after receipt of the Proof of Claim, revise or disallow (in whole or in part) the amount and/or status of any Claim by delivering to the Claimant a notice of revision or disallowance (the "Notice of Revision or Disallowance"). A copy of the Notice of Revision or Disallowance is attached as Schedule C to the Claims Procedure Order; and/or
 - e) refer the Claim to a Claims Officer (as defined in the Claims Procedure Order) or to this Court for resolution;
25. Any Claimant who intends to dispute the amount of its Claim as set out in the Notice of Revision or Disallowance must file a Dispute Notice with the Receiver no later than 20 calendar days after the date of the Notice of Revision or Disallowance. A copy of the Dispute Notice is attached as Schedule D to the Claims Procedure Order.

26. The Receiver submits that the period of time to file a Dispute Notice is reasonable as most Claimants will have performed an evaluation of their Claim prior to submitting a Proof of Claim and therefore should be in a position to respond within the time period established.
27. The Receiver believes the appointment of Claims Officers (as defined in the Claims Procedure Order) to the extent necessary will greatly assist with the administration of the provisions of the Claims Procedure Order and provide an efficient and timely means of determining those claims that are disputed and which the Receiver is unable to resolve.
28. Upon receipt of a Dispute Notice, the Receiver may
 - a) attempt to consensually resolve the amount of the Claim with the Claimant;
 - b) refer the dispute to a Claims Officer for determination; and / or
 - c) bring the dispute before this Court for determination
29. If the Receiver refers the dispute to a Claims Officer for determination, the Claims Officer will determine the manner, if any, in which evidence may be brought before the Claims Officer by the parties as well as any other procedural or substantive manners.
30. The Claims Officer shall schedule and conduct a hearing to determine the validity, amount and/or classification of the Claim and as soon as practicable thereafter notify the Receiver and Claimant of his or her determination.
31. The Claimant and the Receiver each have the ability to appeal a determination of the Claims Officer by way of motion to this Court filed within 15 calendar days of delivery of such determination. If an appeal is not filed within such 15-day period, then the Claims Officer's determination shall, subject to a further order of this

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Court, be deemed to be final and binding and shall be a Proven Claim (as defined in the Claim Procedure Order).

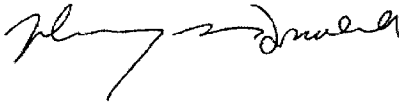
Conclusion

32. The Receiver believes that the Claim Procedure Order establishes a robust overall procedural framework that provides for an efficient mechanism for claims to be processed and adjudicated.

All of which is respectfully submitted this 12th day of September 2014.

ERNST & YOUNG INC.
In its capacity as Receiver of
Hanfeng and not in its personal or corporate capacity

Per:

A handwritten signature in black ink, appearing to read "Murray A. McDonald", written over a horizontal line.

Murray A. McDonald
President