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.

THIRD REPORT OF THE RECEIVER DATED SEPTEMBER 24, 2015

INTRODUCTION

1. On August 20, 2014, following an application by Hanfeng Evergreen Inc. ("**Hanfeng**" or the "**Company**"), the Ontario Superior Court of Justice (the "**Court**") issued an order (the "**Approval Order**") approving a share transfer agreement (the "**Share Transfer Agreement**") dated August 8, 2014 and the transaction contemplated therein (the "**Share Transfer Transaction**").

2. The Approval Order provides for vesting in Heilongjiang Pengcheng Fertilizer Co., Ltd. (the "**Purchaser**") all the shares of Hanfeng Slow-Release Fertilizer Co., Ltd., the Company's wholly owned subsidiary in China (the "**Chinese Subsidiary**") upon the completion of the Share Transfer Transaction. A copy of the Approval Order is attached hereto as **Appendix** "**A**".

3. Pursuant to an order issued by this Court on August 20, 2014 (the "**Appointment Order**"), Ernst & Young Inc. was appointed as receiver and manager (the "**Receiver**") of the assets, undertakings and properties of the Company, pursuant to section 101 of the Courts of Justice Act (Ontario). A copy of the Appointment Order is attached hereto as **Appendix** "**B**".

4. On July 24, 2015 and July 31, 2015, following an application by the Receiver, this Court issued two Orders (collectively, the "**Clarification Orders**"), which, among other things:

- Confirmed the Receiver's power and authority to exercise the shareholder rights of Hanfeng with respect to the Chinese Subsidiary, including to replace Mr. Yu Xinduo ("**Mr. Yu**") with Mr. Hong Rong-kai ("**Mr. Hong**") as the legal representative and a director of the Chinese Subsidiary;
- Authorized the Receiver to take any necessary steps to assert its ownership of and effect control over the Chinese Subsidiary;
- Required Mr. Yu to provide unfettered access for Mr. Hong and his designates to the Chinese Subsidiary's offices and facilities and to the Chinese Subsidiary's books and financial records;
- Required Mr. Yu to surrender the chops and certain other business and legal documents of the Chinese Subsidiary to Mr. Hong and the Receiver;
- Required Mr. Yu to provide full and timely cooperation to the Receiver with respect to the above tasks; and
- Prohibited Mr. Yu, without the Receiver's approval, from executing any agreement with respect to the Chinese Subsidiary or causing it to make any payments.

Copies of the Clarification Orders are attached hereto as **Appendix "C".**

PURPOSE

5. The purpose of this third report of the Receiver (the "**Third Report**") is to report to this Court with respect to the following:

(a) the status of the Share Transfer Transaction;
(b) actions taken by the Receiver;
(c) a summary of receipts and disbursements; and

(d) the Receiver's motion for an Order approving this Third Report and the conduct and activities of the Receiver as described in the Third Report and the Second Report.

6. This Third Report is organized as follows:

(a) Terms of Reference;
(b) General Background;
(c) Share Transfer Transaction Update;
(d) Actions Taken by the Receiver and Ongoing Investigations;
(e) Summary of Receipts and Disbursements;
(f) Next steps; and
(g) Recommendation.

TERMS OF REFERENCE

7. In preparing this Third 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 books and records of the Company and the Chinese Subsidiary, discussions with employees of the Company and the Chinese Subsidiary and information from other third-party sources (collectively, the "**Information**"). Except as described in this Third 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 Third Report in its capacity as a court-appointed officer solely for the use of this Court and the stakeholders in these proceedings.

8. The Receiver has previously filed with this Court its first report dated September 12, 2014 and supplement to the first report dated September 22, 2014 (together referred to as the "**First Report**"), its second report dated July 17, 2015 and supplement to the second report dated July 22, 2015 (together referred to as the "**Second Report**"). The Receiver has made copies of the First Report and Second Report available on the Receiver's website at www.ey.com/ca/hanfeng. A copy of this Third Report has also been posted on the Receiver's website. Copies of the First Report and the Second Report (without appendices) are attached hereto as Appendices "**D**" & "**E**".

9. All monetary amounts contained herein are expressed in Canadian dollars, unless otherwise stated.

GENERAL BACKGROUND

Hanfeng and Chinese Subsidiary

10. Hanfeng has no independent operations and exists solely as a holding company for certain fertilizer producing entities located in China. Hanfeng is incorporated under the laws of Ontario with its registered head office in Toronto. By mid-August 2014, the Company's principal remaining un-monetized asset was all the issued and outstanding shares of the Chinese Subsidiary.

11. The Chinese Subsidiary is a Wholly Foreign-Owned Enterprise ("**WFOE**") that was established and is registered in China. Mr. Yu was and, despite the Receiver's efforts described in greater detail below, still is the current legal representative of the Chinese Subsidiary, a position that, under Chinese Laws, makes him responsible for the overall activities of the Chinese Subsidiary. The Chinese Subsidiary is managed

by Mr. Yu and a team of individuals designated by him (the "**Local Management Team**").

Share Transfer Transaction

12. The Share Transfer Agreement provides that the Purchaser will pay a total purchase price of RMB 248 million (approximately $49.6 million) for all the shares of the Chinese Subsidiary. The purchase price consists of cash consideration of RMB 198.4 million (approximately $39.7 million) and a promissory note to be assigned to Mr. Yu on account of Hanfeng's shares owned or controlled by him. Set out in the table below is a summary of the timing and amount of the payments and consideration provided for in the Share Transfer Agreement.

Description	Amount (RMB)	Time
5% of the total purchase price (the "**5% Deposit**")	12,400,000	Within 7 business days of the date of the Share Transfer Agreement
15% of the total purchase price (the "**15% Interim Payment**")	37,200,000	Within 10 business days of the Court approval of the Share Transfer Transaction
60% of the total purchase price (the "**Final Payment**")	148,800,000	Within 10 days upon closing of the Share Transfer Transaction
Total Cash Consideration	**198,400,000**	
20% of the total purchase price in promissory note ("**the Promissory Note**") to be assigned to Mr. Yu Xinduo on account of approximately 20.4% of the Company's shares owned or controlled by Mr. Yu	49,600,000	Within 10 days upon closing of the Share Transfer Transaction
Total Purchase Price	**248,000,000**	

SHARE TRANSFER TRANSACTION UPDATE

13. As discussed in the First Report, the Receiver received the 5% Deposit in the amount of RMB 12,400,000 (approximately $2.2 million) on August 28, 2014, which was 9 days after the due date pursuant to the Share Transfer Agreement.

14. As discussed in the Second Report, the Purchaser failed to make the 15% Interim Payment that was due September 3, 2014 pursuant to the Share Transfer Agreement.

15. After extensive negotiations with the Purchaser, in February 2015, the Receiver authorized Mr. Yu to execute an escrow agreement (the "**Escrow Agreement**") with the Purchaser and China Minsheng bank (the "**Escrow Bank**"). The Escrow Agreement provides that the Purchaser shall deposit the 15% Interim Payment (approximately $7.4 million) within 5 days after an escrow account (the "**Escrow Account**") is opened, and that the remaining cash purchase price shall be deposited within 10 days of the closing of the Share Transfer Transaction. All funds held in the Escrow Account shall be released to the Receiver once Chinese foreign exchange clearance is completed.

16. However, the Purchaser breached the Escrow Agreement by failing to make any payment in February 2015. On March 23, 2015, the Purchaser committed, in writing, to fund the 15% Interim Payment in 3 installments by April 30, 2015 (the "**March Commitment**"), which commitment the Purchaser again failed to meet.

17. The Receiver has not been able to close or advance the Share Transfer Transaction due to the Purchaser's continuing failure to make the required payments pursuant to the Share Transfer Agreement and the Escrow Agreement.

18. To date, the only purchase price payment received by the Receiver is the 5% Deposit of RMB 12.4 million (approximately $2.2 million). The Purchaser has still not funded the 15% Interim Payment (approximately $7.4 million), of which only RMB 10 million (approximately $2 million) (the "**Escrow Funds**") has been deposited into the Escrow Account. Set out in the table below is a summary of the funds either received by the Receiver or held in the Escrow Account as well as the remaining outstanding purchase price payments.

Description	RMB	Due Date Per Share Transfer Agreement	Due Date Per Esrow Agreement	March Commitment	Received Date	Note
Initial Deposit (5% of Purchase Price)	12,400,000	19-Aug-14	N/A	N/A	28-Aug-14	Received by Receiver
2nd Interim Payment (15% of Purchase Price)	5,000,000	03-Sep-15	16-Feb-15	03-Apr-15	03-Apr-15	Depoisited into the Escrow Account in China
	2,000,000	03-Sep-15	16-Feb-15	17-Apr-15	17-Apr-15	
	3,000,000	03-Sep-15	16-Feb-15	17-Apr-15	21-Apr-15	
	27,200,000	03-Sep-15	16-Feb-15	30-Apr-15	Outstanding	
Balance of Cash Purchase Price	148,800,000	10 business days days after Closing			Outstanding	
Total Cash Purchase Price	198,400,000					

19. As discussed in the Second Report, the Receiver has uncovered certain information from its ongoing investigations which resulted in significant skepticism over the Purchaser's purported identity, intent and ability to close the Share Transfer Transaction.

20. Following the date of the Second Report, the Receiver learned from its Chinese counsel, MayorBrown JSM ("**MayorBrown**"), that starting in the week of July 13, 2015, the Purchaser has repeatedly contacted the Escrow Bank requesting the Escrow Bank to return the Escrow Funds to the Purchaser.

21. On July 22, 2015, the Receiver received from the Purchaser an email, which, among other things, alleged that the Receiver was responsible for the delay of the Share Transfer Transaction. On July 28, 2015, the Purchaser sent another email, which repeated its previous allegations and demanded the return of all payments previously made being the 5% Deposit and the Escrow Funds.

22. On July 28, 2015, the Escrow Bank sent a notice notifying the parties to the Escrow Agreement, including the Receiver, that the Escrow Agreement was to be terminated effective August 4, 2015. The notice did not, however, provide details as to how the Escrow Funds will be released. Article 8.5 of the Escrow Agreement provides that "on the termination date for the escrow, the Escrow Bank shall deal with the balance of the escrow amount in accordance with the instructions in the written notice jointly issued by the buyer and the seller".

23. The Receiver, with assistance of MayorBrown, has provided the following correspondence to the Escrow Bank opposing any release of the Escrow Funds to the Purchaser:

    (a) On July 15, 2015, the Receiver provided written notice to the Escrow Bank requesting it to abide by the terms and conditions of the Escrow Agreement and not to release the Escrow Funds to the Purchaser;
    (b) On August 5, 2015, following the receipt of the termination notice from the Escrow Bank, the Receiver sent another letter to the Escrow Bank:
        i. seeking clarification as to how the Escrow Funds will be released;
        ii. advising that Mr. Yu can no longer execute any documents with respect to the Escrow Account without the Receiver's written authorization; and
        iii. requesting to replace Mr. Yu with Mr. Guan Liu at Heilongjiang Honghui Law Firm ("**Mr. Guan**"), the Receiver's Chinese counsel in Harbin) as a signatory for any joint release instructions.

24. MayorBrown has continued to follow up with the Escrow Bank and provide it with information related to these receivership proceedings.

25. Given the Purchaser's repeated and continuing breaches under the Share Transfer Agreement and the Escrow Agreement for failure to fund the Escrow Account by the required dates, the Receiver will not consent to the designation of a successor account under the Escrow Agreement or release of the Escrow Funds back to the Purchaser.

26. The Receiver, with assistance of MayorBrown, has also notified the Purchaser that the Receiver will not return the Escrow Funds to the Purchaser.

27. On July 24, 2015, the Receiver wrote to the Purchaser to correct certain incorrect facts and false accusations contained in the Purchaser's email of July 22, 2015. In this letter, the Receiver reiterated its intent to complete the Share Transfer

Transaction. A copy of the Receiver’s letter of July 24, 2015 and its Chinese translation is attached hereto as **Appendix “F”**.

28. The Receiver is of the view that it is entitled to keep the 5% Deposit due to the Purchaser’s numerous and continuing breach and has obtained a legal opinion from Heilongjiang Honghui Law Firm (“**Honghui Law Firm**”) confirming the Receiver’s entitlement to the 5% Deposit under the Share Transfer Agreement and Chinese law. A copy of the legal opinion together with its translation is attached hereto as **Appendix “G”**.

29. On August 26, 2015, the Receiver sent a letter to the Purchaser strongly rejecting any argument the Receiver failed in any way to satisfy its obligations. The Receiver also stated that it holds the Purchaser responsible for all financial losses caused to Hanfeng and the Receiver by the Purchaser’s breach. The Receiver also gave notice to the Purchaser that the Receiver is entitled to keep the 5% Deposit and also that the Escrow Funds must remain in escrow until the share transfer is completed in accordance with the terms of the Share Transfer Agreement. The Receiver has not received any further correspondence or response from the Purchaser. A copy of the Reciever’s letter of August 26, 2015 is attached hereto as **Appendix “H”**.

ACTIONS TAKEN BY THE RECEIVER AND ONGOING INVESTIATIONS

Efforts to Take Control of the Chinese Subsidiary

30. As discussed in the Second Report, although Mr. Yu advised on several occasions that the Chinese Subsidiary has been dormant since around April 2014, the Receiver has become increasingly concerned about the status of the assets of the Chinese Subsidiary (the “**Heilongjiang Assets**”) due to:

    (a) the Chinese Subsidiary incurring significantly more disbursements than what would be expected for a dormant manufacturing facility;

(b) very limited cooperation from Mr. Yu and the Local Management Team in providing supporting detailed information for the disbursements;

(c) financial and operational information received by the Receiver being inadequate and inconsistent with explanations and supporting or collaborative information; and

(d) discovery of lawsuits related to loans of the Chinese Subsidiary that were concealed from the Company and Receiver and subsequent settlements entered into by the Chinese Subsidiary without the Receiver's knowledge or agreement. Under these settlements the Chinese Subsidiary is required to pay to China Industrial Bank ("**Industrial Bank**") approximately RMB 161 million in principal and interest (approximately $32 million) (the "**Industrial Bank Settlements**"). This amount that far exceeds the Chinese Subsidiary's currently available cash of RMB 74 million (approximately $14.4 million) as at June 30, 2015 (all as described in greater detail in the Second Report).

31. As discussed in the Second Report, in order to preserve the Heilongjiang Assets, the Receiver undertook to reorganize the board of the Chinese Subsidiary by appointing:

(a) Mr. Guan as a director of the Chinese Subsidiary to fill in a vacancy in the Chinese Subsidiary's board due to a director having passed away.

(b) Mr. Hong as the legal representative and a director of the Chinese Subsidiary to replace Mr. Yu; and

(c) an associate of Mr. Hong as a director to replace the third director.

32. When registering Mr. Guan's directorship, local authorities requested clarifications in relation to the Receiver's power and authority to appoint the directors of the Chinese Subsidiary. On August 18, 2015, Harbin Administration of Industry and Commerce ("**HAIC**"), upon a review of the translation of the Clarification Orders, has approved and completed Mr. Guan's director registration.

33. Pursuant to the Clarification Orders, Mr. Hong and Mr. Guan are in the process of preparing the submission for the registration of Mr. Hong as the legal representative and a director of the Chinese Subsidiary. Both the Receiver and Mr. Hong have repeatedly provided written demand for Mr. Yu and the Local Management to sign/seal certain documents necessary for the submission and to surrender the corporate chops. Notwithstanding the requirements under the Clarification Orders and numerous attempts both by written correspondence and phone calls, Mr. Hong and the Receiver have been unable to obtain the necessary cooperation of Mr.Yu and the Local Management Team to complete the legal representative change. Further, Mr. Yu and the Local Management Team have not surrendered the chops, bank tokens or other business documents to Mr. Hong as required by the Clarification Orders.

Unsuccessful Access to the Chinese Subsidiary and Financial Records

34. The Receiver, with the assistance of Mr. Hong, Mr. Guan, MayorBrown and Stikeman Elliott LLP (the Receiver's Canadian Counsel) (collectively, the "**Receiver's Advisors**"), continue to conduct ongoing investigations into the financial affairs of the Chinese Subsidiary. The Receiver and Mr. Hong have made repeated written and verbal requests of Mr. Yu and the Local Management Team to provide certain financial information of the Chinese Subsidiary as well as to accommodate access to its facility as provided for in the Clarification Orders. However, as of the date of this Third Report, Mr. Yu and the Local Management Team have not accommodated any of these requests and Mr. Hong and Mr. Guan were denied entry to the Chinese Subsidiary's facility by the Chinese Subsidiary's security personnel.

35. The Chinese Subsidiary holds cash primarily in an account with the Harbin Zhufang Branch of China Construction Bank ("**Construction Bank**") based on bank statements provided by the Local Management Team. In April 2015, the Receiver obtained a bank confirmation directly from Construction Bank indicating the Chinese

Subsidiary had no indebtedness or other liabilities to Construction Bank as of February 28, 2015 (the "**Bank Confirmation**").

36. As part of the ongoing investigations, Mr. Hong and Mr. Guan met with representatives of Construction Bank and Industrial Bank and have obtained limited information and cooperation with respect to the Chinese Subsidiary as summarized below.

Construction Bank

37. Representatives of Construction Bank orally indicated to Mr. Hong that it is a creditor of the Chinese Subsidiary, contradicting information shown in the Bank Confirmation and in the internal financial statements of the Chinese Subsidiary provided to Hanfeng and the Receiver by Mr. Yu and the Local Management Team.

38. Notwithstanding multiple requests made by Mr. Hong and Receiver to clarify this matter, Construction Bank has yet to provide a response either confirming or denying any indebtedness of the Chinese Subsidiary to Construction Bank.

Industrial Bank

39. With respect to the Industrial Bank Settlements, none of the loans in question are reflected in the internal financial statements of the Chinese Subsidiary, and Mr. Yu and the Local Management Team continue to deny the undisclosed loans even after the Receiver obtained certain settlement documents from the court in Harbin. At the meetings with Mr. Hong and Mr. Guan, representatives of Industrial Bank have orally confirmed the loans and the settlements it entered into with the Chinese Subsidiary as previously described in the Receiver's Second Report. The Receiver understands that Industrial Bank indicated it would consider taking enforcement actions after August 31, 2015 if no payments are made. Industrial Bank, at one recent meeting, advised that Mr. Yu negotiated with Industrial Bank to extend the settlement payment to

October 31, 2015; however, the Receiver has been unable to obtain written confirmation from the bank or Mr. Yu.

RECEIPTS AND DISBURSEMENTS

40. Attached hereto as **Appendix "I"** is the Receiver's statement of receipts and disbursements for the period August 20, 2014 to September 20, 2015, which reflects the ending balances of approximately CDN$2,313,948 and USD$34,301 as of September 20, 2015. Further, unpaid professional fees owed to the Receiver and the Receiver's Advisors amounted to approximately $260,000 as at September 20, 2015. The Receiver has been using the Company's funds, including the 5% Deposit, to fund the administration of the estate and various activities by the Receiver and its Advisors in relation to the Share Transfer Transaction and ongoing investigations, as described in the Third Report and previous reports. The Receiver will continue to utilize the Company funds, including the 5% Deposit, to administer the receivership including undertaking the actions as outlined below.

NEXT STEPS

41. The Receiver intends to continue its investigation of Mr. Yu and the Purchaser to gather further information and evidence in order to evaluate courses of action against those responsible for damages to the Company and evaluate options to enforce its rights in China and in Canada.

42. The Receiver, in consultation with the Receiver's Advisors, also intends to continue its investigation into the financial status of the Chinese Subsidiary to identify and evaluate alternatives in preserving and realizing on the Heilongjiang Assets for the benefit of Hanfeng.

43. In order to continue the investigation as described in this Third Report and in the prior reports, the Receiver will continue to incur costs which will require the

utilization of a portion, and possibly a significant portion, of the Company's remaining funds, including the 5% Deposit.

RECOMMENDATIONS

44. Based on the foregoing, the Receiver respectfully requests this Court make an Order approving this Third Report and the conduct and activities of the Receiver as described in the Third Report and the Second Report.

All of which is respectfully submitted this 24tth day of September 2015.

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

Per:

Murray A. McDonald
President