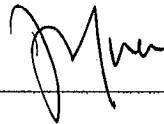


THIS IS EXHIBIT "F" TO  
THE AFFIDAVIT OF W. JUDSON MARTIN  
SWORN APRIL 23, 2012



---

A Commissioner, etc.

**Yuan Tik Yan Joyce**  
Solicitor  
Road Smith  
Richard's Butler  
20/F Alexandra House  
Hong Kong SAR

( )  
**CANADA  
PROVINCE OF QUEBEC  
DISTRICT OF QUÉBEC  
NO: 200-06-000132-111**

**(Class Action)  
SUPERIOR COURT**

**GUINING LIU**, residing at 6580  
Monkland Ave, Unit 103, Montreal,  
Quebec, H4B 2N4;

Petitioner;

V.

**SINO-FOREST CORPORATION**, legal  
person established pursuant to the Canada  
Business Corporations Act, having its head  
office at 1208-90 Burnhamthorpe Rd W,  
Mississauga, Ontario, L5B 3C3 ;

and

**ERNST & YOUNG LLP**, legal person  
having its head office at 222 Bay Street,  
Toronto, Ontario, M5K 1J7 ;

and

**ALLEN T.Y. CHAN**, Sino-Forest  
Corporation, 1208-90 Burnhamthorpe Rd  
W, Mississauga, Ontario, L5B 3C3 ;

and

**W. JUDSON MARTIN**, Sino-Forest  
Corporation, 1208-90 Burnhamthorpe Rd  
W, Mississauga, Ontario, L5B 3C3 ;

and

**KAI KIT POON**, Sino-Forest Corporation,  
1208-90 Burnhamthorpe Rd W,  
Mississauga, Ontario, L5B 3C3 ;

and

**DAVID J. HORSLEY**, Sino-Forest  
Corporation, 1208-90 Burnhamthorpe Rd  
W, Mississauga, Ontario, L5B 3C3 ;

and

**WILLIAM E. ARDELL**, Sino-Forest Corporation, 1208-90 Burnhamthorpe Rd W, Mississauga, Ontario, L5B 3C3 ;

and

**JAMES P. BOWLAND**, Sino-Forest Corporation, 1208-90 Burnhamthorpe Rd W, Mississauga, Ontario, L5B 3C3 ;

and

**JAMES M.E. HYDE**, Sino-Forest Corporation, 1208-90 Burnhamthorpe Rd W, Mississauga, Ontario, L5B 3C3 ;

and

**EDMUND MAK**, Sino-Forest Corporation, 1208-90 Burnhamthorpe Rd W, Mississauga, Ontario, L5B 3C3 ;

and

**SIMON MURRAY**, Sino-Forest Corporation, 1208-90 Burnhamthorpe Rd W, Mississauga, Ontario, L5B 3C3 ;

**PETER WANG**, Sino-Forest Corporation, 1208-90 Burnhamthorpe Rd W, Mississauga, Ontario, L5B 3C3 ;

and

**GARRY J. WEST**, Sino-Forest Corporation, 1208-90 Burnhamthorpe Rd W, Mississauga, Ontario, L5B 3C3 ;

and

**PÖYRY (BEIJING) CONSULTING COMPANY LIMITED**, legal person having its head office at 2208-2210 Cloud 9 Plaza, No. 1118 West Yan'an Road, Shanghai 200052, PR China ;

Defendants;

**MOTION TO AUTHORIZE THE BRINGING OF A CLASS ACTION AND TO OBTAIN THE  
STATUS OF REPRESENTATIVE  
(Article 1002 C.C.P. and following)**

---

**TO ONE OF THE HONOURABLE JUSTICES OF THE QUEBEC SUPERIOR COURT,  
SITTING IN AND FOR THE DISTRICT OF QUEBEC, YOUR PETITIONER STATES AS  
FOLLOWS :**

**General presentation**

1. The Petitioner wishes to institute a class action on behalf of the following group, of which he is a member (the "Group"):

"All persons or entities domiciled in Quebec (other than the Defendants, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any Individual who is an immediate member of the families of the individual named defendants) who purchased or otherwise acquired, whether in the secondary market, or under a prospectus or other offering document in the primary market, equity, debt or other securities of or relating to Sino-Forest Corporation, from and including August 12, 2008 to and including June 2, 2011 (the "Class Period")."

or such other group definition as may be approved by the Court.

2. Sino-Forest Corporation (along with its subsidiaries, "Sino") is a public company and its shares were listed for trading at all material times on the Toronto Stock

Exchange (the "TSX") under the ticker symbol "TRE," on the Berlin exchange as "SFJ GR," on the OTC market in the United States as "SNOFF" and on the Tradegate market as "SFJ TH."

3. At all material times, Sino purported to be a legitimate enterprise operating as a commercial forest plantation operator in the People's Republic of China ("PRC"). At all material times, Sino overstated the nature of its forestry operations and misrepresented the fact that its financial reporting had complied with Canadian GAAP, when in fact it had not done so.
4. The relief that the Petitioner seeks includes the following:
  - a) damages in an amount equal to the losses that it and the other Members of the Group suffered as a result of purchasing or acquiring the securities of Sino at inflated prices during the Class Period;
  - b) a declaration that every prospectus, management's discussion and analysis, annual information form, information circular, annual financial statement, interim financial report, Form 52-109F2 and Form 52-109F1 issued by Sino-Forest Corporation after August 12, 2008 (the "Impugned Documents") contained one or more misrepresentations;
  - c) a declaration that Sino-Forest Corporation is vicariously liable for the acts and/or omissions of Allen T.Y. Chan, W. Judson Martin, Kai Kit Poon, David J. Horsley, William E. Ardell, James P. Bowland, James M.E. Hyde, Edmund Mak, Simon Murray, Peter Wang, Garry J. West

(the "Individual Defendants"), and of its other officers, directors and employees;

d) a declaration that Ernst and Young LLP is vicariously liable for the acts and/or omissions of each of its officers, directors, partners and employees; and

e) a declaration that Pöyry (Beijing) Consulting Company Limited is vicariously liable for the acts and/or omissions of each of its officers, directors and employees.

### **The Petitioner**

5. The Petitioner is one of thousands of investors who purchased shares of Sino during the Class Period and continued to hold shares of Sino when the price of Sino's securities declined due to the correction of the misrepresentations alleged herein.

6. During the Class Period, the Petitioner made net purchases of 1,000 Sino shares over the TSX. **[Particulars of the Petitioner's Class Period transactions are attached hereto as P-1].**

### **The Defendants**

7. The defendant Sino purports to be a commercial forest plantation operator in the PRC. Sino is a corporation formed under the *Canada Business Corporations Act*, RSC 1985, c C-44 (the "CBCA").

8. At the material times, Sino was a reporting issuer in all provinces of Canada, and had its registered office located in Mississauga, Ontario. At the material times, Sino's shares were listed for trading on the TSX under the ticker symbol "TRE," on the Berlin exchange as "SFJ GR," on the OTC market in the United States as "SNOFF" and on the Tradedgate market as "SFJ TH." Sino securities are also listed on alternative trading systems in Canada and elsewhere including, without limitation, AlphaToronto and PureTrading. Sino also has various debt instruments, derivatives and other securities which are publicly traded in Canada and elsewhere.
9. The defendants Allen T.Y. Chan, W. Judson Martin, Kai Kit Poon, David J. Horsley, William E. Ardell, James P. Bowland, James M.E. Hyde, Edmund Mak, Simon Murray, Peter Wang and Garry J. West (the "D&Os") are officers and/or directors of Sino. Each of them are directors and/or officers of Sino within the meaning of the *Securities Act*, RSQ c V-1.1 (the "*Securities Act*").
10. The defendant Ernst & Young LLP ("E&Y") is Sino's auditor. E&Y is an expert of Sino within the meaning of the *Securities Act*.
11. The defendant Pöyry (Beijing) Consulting Company Limited ("Pöyry") is an international forestry consulting firm. Pöyry is an expert of Sino within the meaning of the *Securities Act*.

### **Sino's Continuous Disclosure Obligations**

12. As a reporting issuer in Quebec, Sino was required throughout the Class Period to issue and file with SEDAR:

- within 60 days of the end of each quarter, quarterly interim financial statements prepared in accordance with GAAP including a comparative statement to the end of each of the corresponding periods in the previous financial year;
  - within 140 days of the end of the fiscal year, annual financial statements prepared in accordance with GAAP, including comparative financial statements relating to the period covered by the preceding financial year; and
  - contemporaneously with each of the above, management's discussion and analysis of each of the above financial statements.
13. The Defendants issued the disclosure documents referenced herein pursuant to their statutory obligation to do so, and also for the specific purpose of attracting investment in Sino's securities, and inducing members of the public to purchase those securities.

### **The Defendants' Misrepresentations**

14. Throughout the Class Period, Sino falsely purported to be a legitimate enterprise operating as a commercial forest plantation operator in the PRC. As part of its obligations as a reporting issuer in Quebec (and elsewhere), Sino issued the Impugned Documents. In those documents, Sino made statements concerning the nature of its business, its revenues, profitability, future prospects and compliance with the laws of the PRC and of Canada, implicitly and explicitly and through documents incorporated by reference.



- ( )
15. In fact, such statements were materially false and/or misleading. During the Class Period, Sino overstated its forestry assets, misrepresented its revenue recognition practices, falsely maintained that its financial statements complied with Canadian GAAP and issued materially misleading statements regarding Chinese law and Sino's compliance therewith, among other misrepresentations.
  16. On June 2, 2011, however, the truth was at least partially revealed. As a result, the market value of Sino's securities fell dramatically, and the market value for Sino's shares in particular fell by in excess of 70% on extraordinarily heavy trading volume. Trading of Sino common shares was halted on the TSX after a decline in excess of 24% on June 2. When trading resumed on the TSX on June 3, Sino shares fell in excess of a further 63%, for a two-day drop in excess of nearly 73%.

### **The Defendants' Fault**

#### **The Defendants Owed Duties to the Members of the Group**

17. The Defendants owed a duty to the Petitioner and to persons and entities similarly situated, at law and under provisions of the *Securities Act* (chapter V-1.1), to disseminate promptly, or to ensure that prompt dissemination of truthful, complete and accurate statements regarding Sino's business and affairs, and promptly to correct previously-issued, materially inaccurate information, so that the price of Sino's publicly-traded securities was based on complete, accurate and truthful information.
18. At all times material to the matters complained of herein, each of the Defendants knew or ought reasonably to have known that the trading price of Sino's publicly

traded securities was directly influenced by the statements disseminated by the Defendants concerning the business and affairs of Sino.

19. As such, the Defendants knew or ought reasonably to have known that a failure to ensure that Sino's disclosures referenced herein were materially accurate and materially complete would cause Sino's securities to become inflated, and thus would cause damage to persons who invested in Sino's securities while their price remained inflated by such false statements.

### **The Defendants Violated their Duties**

20. Certain statements made by Sino and the D&Os in the Impugned Documents were materially false and/or misleading. The Petitioner and the Members of the Group relied on such statements directly or indirectly or via the instrumentality of the markets on which Sino securities traded. When the truth was revealed and true value of Sino's securities became clear, the Petitioner and the Members of the Group were injured thereby. The Petitioner and the Group plead negligent misrepresentation as against Sino and the D&Os.
21. Sino's internal controls, which were designed and/or maintained by the D&Os, were inadequate or ignored. The D&Os owed a duty of care to the Petitioner and the Members of the Group to properly design and/or maintain such internal controls. The Petitioner and the Group plead negligence as against the D&Os in connection thereto.
22. E&Y made statements in certain of the Impugned Documents that were continuous disclosure documents that the audited financial statements contained or incorporated by reference therein "present fairly, and in all material respects,

the financial position of [Sino] [...] and the results of its operations and cash flows [...] in accordance with Canadian generally accepted accounting principles" (or similar language). Such statements were materially false and/or misleading, and E&Y lacked a reasonable basis to make such statements when E&Y made them. E&Y knowingly prepared its reports for use by Sino's security holders and prospective security holders. The Petitioner and the Group relied on such statements directly or indirectly or via the instrumentality of the markets on which Sino securities traded. When the truth was revealed and the true value of Sino's securities became clear, the Petitioner and the Group were injured thereby. In respect of Sino's continuous disclosure documents, the Petitioner and the Group plead negligence and negligent misrepresentation as against E&Y.

23. E&Y made statements in those of the Impugned Documents that are prospectuses that the Sino financial statements contained or incorporated by reference therein "complied with Canadian generally accepted standards for an auditor's involvement with offering documents" (or similar language). Such statements were materially false and/or misleading, and E&Y lacked a reasonable basis to make such statements when E&Y made them. E&Y knowingly prepared its reports for use by Sino's security holders and prospective security holders. The Petitioner and the Group relied on such statements directly or indirectly or via the instrumentality of the markets on which Sino securities traded. When the truth was revealed and true value of Sino's securities became clear, the Petitioner and the Group were injured thereby. The Petitioner and the Group plead negligence and negligent misrepresentation as against E&Y in respect of Sino's Class Period prospectuses.

24. Pöyry made statements regarding the nature of Sino's operations in reports dated on or about May 31, 2011, May 27, 2011, April 23, 2010 and April 2, 2009. Such statements were materially false and/or misleading, and Pöyry lacked a reasonable basis to make such statements when Pöyry made such statements. Pöyry knowingly prepared its reports for use by Sino's security holders and prospective security holders. The Petitioner and the Members of the Group relied on such statements directly or indirectly or via the instrumentality of the markets on which Sino securities traded. When the truth was revealed and true value of Sino's securities became clear, the Petitioner and the Members of the Group were injured thereby. The Petitioner and the Members of the Group plead negligence and negligent misrepresentation as against Pöyry.
25. At all times material to the matters complained of herein, each of the Defendants ought to have known that Sino's disclosure documents described herein were materially misleading as detailed above. Accordingly, the Defendants have violated their duties to the Petitioner and to persons or entities similarly situated.
26. The reasonable standard of care expected in the circumstances required the Defendants to act fairly, reasonably, honestly, candidly and in the best interests of the Petitioner and the other Members of the Group.
27. The Defendants failed to meet the standard of care required by issuing Sino's disclosure documents during the relevant period, which were materially false and/or misleading as described above.
28. The negligence of the Defendants resulted in the damage to the Petitioner and Members of the Group as pleaded.

### **The Relationship Between Sino's Disclosures and the Price of Sino's Securities**

29. The price of Sino's securities was directly affected during the Class Period by the issuance of the disclosure documents described herein. The Defendants were aware at all material times of the effect of Sino's disclosures upon the price of its Sino's securities.
30. The disclosure documents referenced above were filed, among other places, with SEDAR and the TSX and thereby became immediately available to, and were reproduced for inspection by, the Members of the Group, other members of the investing public, financial analysts and the financial press.
31. Sino routinely transmitted the documents referred to above to the financial press, financial analysts and certain prospective and actual holders of Sino's securities. Sino provided either copies of the above referenced documents or links thereto on its website.
32. Sino regularly communicated with the public investors and financial analysts via established market communication mechanisms, including through regular disseminations of press releases on newswire services in Canada, the United States and elsewhere. The price of Sino's securities was directly affected each time SINO communicated new material information about Sino's financial results to the public.
33. Sino was the subject of analysts' reports that incorporated material information contained in the disclosure documents referred to above, with the effect that any recommendations in such reports during the Class Period were based, in whole or in part, upon that information.

34. Sino's securities were and are traded on efficient and automated markets. The price at which Sino's securities traded promptly incorporated material information about Sino's business and affairs, including the omissions and/or misrepresentations described herein, which were disseminated to the public through the documents referred to above and distributed by Sino, as well as by other means.

### **Statutory Liability for Misrepresentations – Secondary Market**

35. Each of the Impugned Documents is a "Core Document" within the meaning of the *Securities Act*.
36. Each of the Impugned Documents contained one or more misrepresentations.
37. Each of the D&Os was an officer and/or director of Sino at all material times. Each of the D&Os authorized, permitted or acquiesced in the release of some or all of the Impugned Documents.
38. Sino is a reporting issuer within the meaning of the *Securities Act*.
39. Pöyry is an expert within the meaning of the *Securities Act*.
40. E&Y is an expert within the meaning of the *Securities Act*.
41. The Petitioner and the Group assert the causes of action set forth in Title VIII, Chapter II, Division II of the *Securities Act* as against Sino, Pöyry, the D&Os and E&Y and will seek leave, if and as required, in connection therewith.

**Statutory Liability for Misrepresentations – Primary Market**

42. Sino issued prospectuses on December 11, 2009 and June 1, 2009 (the "Prospectuses," both of which are Impugned Documents).
43. The defendants E&Y, Chan, Horsley, Martin and Hyde signed the Prospectuses.
44. The Prospectuses contained one or more misrepresentations within the meaning of the *Securities Act*.
45. The Petitioner and the Group plead the cause of action found in Title VIII, Chapter II, Division I of the *Securities Act* as against all Defendants.

**Vicarious Liability of Sino**

46. Sino is vicariously liable for the acts and omissions of the Individual Defendants particularized in this Claim.
47. The acts or omissions particularized and alleged herein to have been done by Sino were authorized, ordered and done by the Defendants and other agents, employees and representatives of Sino, while engaged in the management, direction, control transaction of the business and affairs of Sino. Such acts and omissions are, therefore, not only the acts and omissions of the Individual Defendants, but are also the acts and omissions of Sino.

**Damages**

48. As a result of the acts and omissions described above, the Petitioner and the other Members of the Group were induced to over-pay substantially for Sino's

securities. Such persons and entities have suffered damages equivalent to the loss in market value that occurred when Sino corrected the Misrepresentations.

49. The Petitioner and other Members of the Group are also entitled to recover, as damages or costs, the costs of administering the plan to distribute the recovery in this action.

**Conditions required to institute a class action**

50. The composition of the Group makes the application of article 59 or 67 C.C.P. impracticable for the following reasons:

- The number of persons included in the group is estimated to be several thousand;
- The names and addresses of persons included in the group are not known to the Petitioner (but are likely to be known to Defendants);
- All the facts alleged in the preceding paragraphs make the application of articles 59 or 67 C.C.P. impossible.

51. The claims of the Members of the Group raise identical, similar or related questions of fact or law, namely:

- Did the Defendants authorize or issue false and/or misleading public information?
- Did the Defendants' Misrepresentations cause the share price of Sino's stock to be artificially inflated during the Class Period?



- Did the Defendants therefore commit a fault towards the Petitioner and the Members of the Group, thereby engaging their liability?
- What prejudice was sustained by the Petitioner and the Members of the Group as a result of the Defendants' faults?
- Are the Defendants jointly responsible for the damages sustained by each of the members?

52. The interests of justice weigh in favour of this motion being granted in accordance with its conclusions.

#### **Nature of the action and conclusions sought**

53. The action that the Petitioner wishes to institute for the benefit of the Members of the Group is an action in damages;

54. The conclusions that the Petitioner wishes to introduce by way of a motion to institute proceedings are:

**GRANT** the Petitioner's action against the Defendants;

**CONDEMN** Defendants to pay to the Members of the Group compensatory damages for all monetary losses;

**GRANT** the class action of the Petitioner on behalf of all the Members of the Group;

**ORDER** the treatment of individual claims of each Member of the Group in accordance with articles 1037 to 1040 C.C.P.;

**THE WHOLE** with interest and additional indemnity provided for in the *Civil Code of Quebec* and with full costs and expenses including expert fees and notice expenses;

55. The Petitioner suggests that this class action be exercised before the Superior Court in the district of Quebec for the following reasons:

- A great number of the Members of the Group resides in the judicial district of Montreal and in the appeal district of Quebec;
- The Petitioner and his lawyers are domiciled in the district of Quebec.

56. The Petitioner, who is requesting to obtain the status of representative, will fairly and adequately protect and represent the interest of the Members of the Group for the following reasons:

- He understands the nature of the action;
- He is available to dedicate the time necessary for an action to collaborate with Members of the Group; and
- His interests are not antagonistic to those of other Members of the Group.

57. The present motion is well-founded in fact and in law.

**FOR THESE REASONS, MAY IT PLEASE THE COURT:**

**GRANT** the present motion;

**AUTHORIZE** the bringing of a class action in the form of a motion to institute proceedings in damages;

**ASCRIBE** the Petitioner the status of representative of the persons included in the group herein described as:

"All persons or entities domiciled in Quebec (other than the Defendants, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any individual who is an immediate member of the families of the individual named defendants) who purchased or otherwise acquired, whether in the secondary market, or under a prospectus or other offering document in the primary market, equity, debt or other securities of or relating to Sino-Forest Corporation, from and including August 12, 2008 to and including June 2, 2011 (the "Class Period")."

or such other class definition as may be approved by the Court.

**IDENTIFY** the principle questions of fact and law to be treated collectively as the following:

- Did the Defendants authorize or issue false and/or misleading public information?
- Did the Defendants' Misrepresentations cause the share price of Sino's stock to be artificially inflated during the Class Period?
- Did the Defendants therefore commit a fault towards the Petitioner and the Members of the Group, thereby engaging their liability?

- What prejudice was sustained by the Petitioner and the Members of the Group as a result of the Defendants' faults?
- Are the Defendants jointly responsible for the damages sustained by each of the Members of the Group?

**IDENTIFY** the conclusions sought by the class action to be instituted as being the following:

**GRANT** the Petitioner's action against the Defendants;

**DECLARE** that the Defendants made the Misrepresentations during the Class Period;

**DECLARE** that the Defendants made the Misrepresentations negligently;

**DECLARE** that Sino is vicariously liable for the acts and/or omissions of the Individual Defendants;

**CONDEMN** Defendants to pay to the Members of the Group compensatory damages in the amount of 4 billion\$, or such other sum as this Court finds appropriate for all monetary losses;

**GRANT** the class action of the Petitioner on behalf of all the Members of the Group;

**ORDER** the treatment of individual claims of each Member of the Group in accordance with articles 1037 to 1040 C.C.P.;

**THE WHOLE** with interest and additional indemnity provided for in the *Civil Code of Quebec* and with full costs and expenses including expert fees and notice fees;

**DECLARE** that all Members of the Group that have not requested their exclusion from the Group in the prescribed delay to be bound by any judgement to be rendered on the class action to be instituted;

**FIX** the delay of exclusion at 30 days from the date of the publication of the notice to the Members of the Group;

**ORDER** the publication of a notice to the Members of the Group in accordance with article 1006 C.C.P.;

**THE WHOLE** with costs to follow.

Quebec, June 9, 2011

(s) SISKINDS, DESMEULES

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SISKINDS, DESMEULES, AVOCATS

(Me Simon Hébert)

Lawyer for the Petitioner

**SCHEDULE 1****NOTICE TO DEFENDANT**

Take notice that the plaintiff has filed this action or application in the office of the Superior Court of the judicial district of Québec.

To file an answer to this action or application, you must first file an appearance, personally or by advocate, at the courthouse of Québec located at 300, boul. Jean-Lesage, Québec, G1K 8K6 within 10 days of service of this motion.

If you fail to file an appearance within the time limit indicated, a judgment by default may be rendered against you without further notice upon the expiry of the 10 day period.

If you file an appearance, the action or application will be presented before the court on September 23, 2011, at 9h00 a.m., in room 3.14 of the courthouse. On that date, the court may exercise such powers as are necessary to ensure the orderly progress of the proceeding or the court may hear the case, unless you have made a written agreement with the plaintiff or the plaintiff's advocate on a timetable for the orderly progress of the proceeding. The timetable must be filed in the office of the court.

These exhibits are available on request.

Quebec City June 9, 2011

(s) SISKINDS, DESMEULES

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SISKINDS, DESMEULES, AVOCATS  
(Me Simon Hébert)  
Lawyers for the Petitioner



Q.B. No. 2008 of 2011CANADA )  
PROVINCE OF SASKATCHEWAN )

<b>IN THE QUEEN'S BENCH JUDICIAL CENTRE OF REGINA</b>
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Between:

ALLAN HAIGH

Plaintiff,

and

SINO-FOREST CORPORATION,  
ALLEN T. Y. CHAN, and DAVID J. HORSLEY.

Defendants

Brought under *The Class Actions Act***STATEMENT OF CLAIM****NOTICE TO DEFENDANT**

1. The plaintiff may enter judgment in accordance with this Statement of Claim or such judgment as may be granted pursuant to the Rules of Court unless

- within 20 days if you were served in Saskatchewan;
- within 30 days if you were served elsewhere in Canada or in the United States of America;
- within 40 days if you were served outside Canada and the United States of America

(excluding the day of service) you serve a Statement of Defence on the plaintiff and file a copy thereof in the office of the local registrar of the Court for the judicial centre abovenamed.

2. In many cases a defendant may have the trial of the action held at a judicial centre other than the one at which the Statement of Claim is issued. Every defendant should consult his lawyer as to his rights.

3. This Statement of Claim is to be served within six months from the date on which it is issued.

4. This Statement of Claim is issued at the above-named judicial centre the 1<sup>st</sup> day of December, 2011.

T. LANGFORD  
BY LOCAL REGISTRAR

Local Registrar

SEAL



DEFINED TERMS

1. In this Statement of Claim, in addition to the terms that are defined elsewhere herein, the following terms have the following meanings:

- (a) "AI" means Authorized Intermediary;
- (b) "AIF" means Annual Information Form;
- (c) "CAA" means *The Class Actions Act*, S.S. 2001, c. C-12.01, as amended;
- (d) "CBCA" means the *Canada Business Corporations Act*, RSC 1985, c. C-44, as amended;
- (e) "Chan" means the defendant Allen T.Y. Chan;
- (f) "Class" and "Class Members" means all persons and entities wherever they may reside who acquired securities of Sino during the Class Period either by primary distribution in Canada or an acquisition on the TSX or other secondary market in Canada, other than the Defendants, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any individual who is an immediate member of the family of an Individual Defendant;
- (g) "Class Period" means the period from and including March 19, 2007 to and including June 2, 2011;
- (h) "Code" means Sino's Code of Business Conduct;
- (i) "Defendants" means Sino and the Individual Defendants;
- (j) "~~December 2009 Prospectus~~" means Sino's Final Short Form Prospectus, dated December 10, 2009, which Sino filed on SEDAR on December 11, 2009;
- (k) "E&Y" means Ernst and Young LLP;
- (l) "GAAP" means Canadian generally accepted accounting principles;
- (m) "Globe" means *The Globe and Mail*;
- (n) "Horsley" means the defendant David J. Horsley;
- (o) "Impugned Documents" means the 2006 Annual Consolidated Financial Statements (filed on SEDAR on March 19, 2007), 2006 AIF (filed on SEDAR on March 30, 2007), 2006 Annual MD&A (filed on SEDAR on March 19, 2007), Management Information Circular dated April 27, 2007 (filed on SEDAR on May 4, 2007), Q1 2007 MD&A (filed on SEDAR

- 2 -

on May 14, 2007), Q1 2007 Financial Statements (filed on **SEDAR** on May 14, 2007), **June 2007 Prospectus**, Q2 2007 MD&A (filed on **SEDAR** on August 13, 2007), Q2 2007 Financial Statements (filed on **SEDAR** on August 13, 2007), Q3 2007 MD&A (filed on **SEDAR** on November 12, 2007), Q3 2007 Financial Statements (filed on **SEDAR** on November 12, 2007), 2007 Annual Consolidated Financial Statements (filed on **SEDAR** on March 18, 2008), 2007 AIF (filed on **SEDAR** on March 28, 2008), 2007 Annual MD&A (filed on **SEDAR** on March 18, 2008), Amended 2007 Annual MD&A (filed on **SEDAR** on March 28, 2008), Management Information Circular dated April 28, 2008 (filed on **SEDAR** on May 6, 2008), Q1 2008 MD&A (filed on **SEDAR** on May 13, 2008), Q1 2008 Financial Statements (filed on **SEDAR** on May 13, 2008), Q2 2008 MD&A (filed on **SEDAR** on August 12, 2008), Q2 2008 Financial Statements (filed on **SEDAR** on August 12, 2008), Q3 2008 MD&A (filed on **SEDAR** on November 13, 2008), Q3 2008 Financial Statements (filed on **SEDAR** on November 13, 2008), 2008 Annual Consolidated Financial Statements (filed on **SEDAR** on March 31, 2009), 2008 Annual MD&A (filed on **SEDAR** on March 16, 2009), Amended 2008 Annual MD&A (filed on **SEDAR** on March 17, 2009), 2008 AIF (filed on **SEDAR** on March 31, 2009), Management Information Circular dated April 28, 2009 (filed on **SEDAR** on May 4, 2009), Q1 2009 MD&A (filed on **SEDAR** on May 11, 2009), Q1 2009 Financial Statements (filed on **SEDAR** on May 11, 2009), **June 2009 Prospectus**, Q2 2009 MD&A (filed on **SEDAR** on August 10, 2009), Q2 2009 Financial Statements (filed on **SEDAR** on August 10, 2009), Q3 2009 MD&A (filed on **SEDAR** on November 12, 2009), Q3 2009 Financial Statements (filed on **SEDAR** on November 12, 2009), **December 2009 Prospectus**, 2009 Annual MD&A (filed on **SEDAR** on March 16, 2010), 2009 Audited Annual Financial Statements (filed on **SEDAR** on March 16, 2010), 2009 AIF (filed on **SEDAR** on March 31, 2010), Management Information Circular dated May 4, 2010 (filed on **SEDAR** on May 11, 2010), Q1 2010 MD&A (filed on **SEDAR** on May 12, 2010), Q1 2010 Financial Statements (filed on **SEDAR** on May 12, 2010), Q2 2010 MD&A (filed on **SEDAR** on August 10, 2010), Q2 2010 Financial Statements (filed on **SEDAR** on August 10, 2010), Q3 2010 MD&A (filed on **SEDAR** on November 20, 2010), Q3 2010 Financial Statements (filed on **SEDAR** on

- 3 -

November 20, 2010), 2010 Annual MD&A (March 15, 2011), 2010 Annual Audited Financial Statements (filed on SEDAR on March 15, 2011), 2010 AIF (filed on SEDAR on March 31, 2011) and Management Information Circular dated May 2, 2011 (filed on SEDAR on May 10, 2011);

(p) "Individual Defendants" means Chan and Horsley;

(q) "June 2007 Prospectus" means Sino's Short Form Prospectus, dated June 5, 2007, which Sino filed on SEDAR on June 5, 2007;

(r) "June 2009 Prospectus" means Sino's Final Short Form Prospectus, dated June 1, 2009, which Sino filed on SEDAR on June 1, 2009;

(s) "MD&A" means Management's Discussion and Analysis;

(t) "Muddy Waters" means Muddy Waters LLC;

(u) "OSC" means the Ontario Securities Commission;

(v) "Plaintiff" means the plaintiff Allan Haigh;

(w) "PRC" means the People's Republic of China;

(x) "Representation" means the statement that Sino's financial statements complied with GAAP;

(y) "SEDAR" means the system for electronic document analysis and retrieval of the Canadian Securities Administrators;

(z) "Sino" means the defendant, Sino-Forest Corporation;

(aa) "SSA" means *The Securities Act*, S.S. 1988-89, c. S-42.2, as amended;

(bb) "TSX" means the Toronto Stock Exchange;

(cc) "WFOE" means wholly foreign owned enterprise or an enterprise established in China in accordance with the relevant PRC laws, with capital provided solely by foreign investors.

### CLAIM

*(1) the parties*

(a) plaintiff

2. The Plaintiff, Allan Haigh, resides in Saskatoon, Saskatchewan. Mr. Haigh purchased 200 shares of Sino on November 3<sup>rd</sup>, 2010, at a cost of \$20.14 per share.

- 4 -

(b) defendants

3. The Defendant Sino-Forest Corporation ("Sino-Forest"), is incorporated pursuant to the laws of Canada, with its head office at 1208-90 Burnhamthorpe Rd W, Mississauga, Ontario, L5B 3C3.

4. The Defendant Chan resides in Ontario. At all material times, Chan was Sino's Chairman, Chief Executive Officer, and a director of the company.

5. The Defendant Horsley resides in Ontario. At all material times, Horsley was Sino's Chief Financial Officer.

*(2) the class*

6. The Plaintiff brings this action on behalf of all persons or entities who held common shares of Sino between March 19<sup>th</sup>, 2007 and June 2, 2011 (the "Class Period") either by primary distribution in Canada or an acquisition on the Toronto Stock Exchange or other secondary market in Canada.

*(3) particulars*

7. At all material times, Sino was a reporting issuer in all provinces of Canada, and had its registered office located in Mississauga, Ontario.

8. From the time of its establishment in 1994, Sino has claimed to be a legitimate business operating in the commercial forestry industry in the PRC and elsewhere.

9. In 1994, Sino entered Canada's capital markets by way of a "reverse takeover." This allowed Sino to avoid the scrutiny of an Initial Public Offering.

10. At all material times, Sino's shares were listed for trading on:

(a) the Toronto Stock Exchange (the "TSX") under the ticker symbol "TRE";

- 5 -

- (b) on the Berlin exchange as "SFJ GR";
- (c) on the OTC market in the United States as "SNOFF";
- (d) on the Tradegate market as "SFJ TH";
- (e) on alternative trading systems in Canada and elsewhere including, without limitation, AlphaToronto and PureTrading.

11. At all material times, Sino had various debt instruments, derivatives and other securities that were publicly traded in Canada and elsewhere.

12. The price of Sino's securities was directly affected during the Class Period by the issuance of the Impugned Documents. The Defendants were aware at all material times of the effect of Sino's disclosure documents upon the price of its Sino's securities.

13. The Impugned Documents were filed, among other places, with SEDAR and the TSX, and thereby became immediately available to, and were reproduced for inspection by, the Plaintiff, Class Members, other members of the investing public, financial analysts and the financial press.

14. Sino routinely transmitted the documents referred to above to the financial press, financial analysts and certain prospective and actual holders of Sino securities. Sino provided either copies of the Impugned Documents or links thereto on its website.

15. Sino regularly communicated with the public investors and financial analysts via established market communication mechanisms, including through regular disseminations of their disclosure documents, including press releases on newswire services in Canada, the United States and elsewhere. Each time Sino communicated that new material information about Sino financial results to the public the price of Sino securities was directly affected.

- 6 -

16. Sino was the subject of analysts' reports that incorporated certain of the material information contained in the Impugned Documents, with the effect that any recommendations to purchase Sino securities in such reports during the Class Period were based, in whole or in part, upon that information.

17. The price at which Sino's securities traded promptly incorporated material information from Sino's disclosure documents about Sino's business and affairs, including the Representation, which was disseminated to the public through the documents referred to above and distributed by Sino, as well as by other means.

18. In Sino's Initial Proxy Circular of February 11<sup>th</sup>, 1994, Sino purported to operate through six joint ventures formed in the PRC. By the early 2000's, Sino's business structured changed to include wholly-owned subsidiaries and so called authorized intermediaries ("AIs"). By early 2011, Sino purported to conduct business through more than 60 subsidiaries, at least 16 of which were formed in the British Virgin Islands, and at least 40 of which were formed in the PRC.

19. Sino conducted seven offerings during the Class Period (the "Offerings"), raising an aggregate of more than \$2.7 billion from investors:

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(a) by short form prospectus dated June 5, 2007 (filed with SEDAR), Sino conducted an offering of 15,900,000 common shares at a price of \$12.65 per share, resulting in gross proceeds of \$201,135,000;

(b) by way of an "Offering Memorandum", Sino sold through private placement US\$345 million in aggregate principal amount of convertible senior notes due 2013;

(c) by short form prospectus dated June 1, 2009 (filed with SEDAR), Sino conducted an offering of 34,500,000 common shares for \$11.00 per share, resulting in gross proceeds of \$379,500,000;

- 7 -

(d) by way of an Exchange Offer Memorandum, Sino exchanged certain of its then outstanding senior notes with new notes, pursuant to which Sino issued US\$212,330,000 in aggregate principal amount of guaranteed senior notes due 2014;

(e) by way of a final Offering Memorandum, Sino sold through private placement US\$460,000,000 in aggregate principal amount of convertible senior notes due 2016;

(f) by short form prospectus dated December 11<sup>th</sup>, 2009 (filed with SEDAR on December 11, 2009), Sino conducted an offering of 21,850,000 common shares for \$16.80 per shares, resulting in proceeds of \$367,080,000;

(g) On February 8<sup>th</sup>, 2010, Sino closed the acquisition of substantially all of the outstanding common shares of Mandra Forestry Holdings Limited. Concurrent with this acquisition, Sino completed an exchange with holders of 99.7% of the USD\$195 million notes issued by Mandra Forestry Financial Limited and 96.7% of the warrants issued by Mandra Forestry Holdings Limited, for new guaranteed senior notes issued by Sino in the aggregate principal amount of USD\$187,177,375 with a maturity date of July 28, 2014.

(g) On October 14, 2010, Sino issued a final Offering Memorandum pursuant to which Sino sold through private placement US\$600,000,000 in aggregate principal amount of guaranteed senior notes due 2017.

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20. The offering documents referenced in the preceding paragraph included and incorporated other documents by reference that included the Representation and other misrepresentations that are particularized below. Had the truth in regard to Sino's management, business and affairs been timely disclosed, securities regulators likely would not have receipted the Prospectuses and the offerings would not have occurred.

*(4) Sino's class period misrepresentations*

21. During the class period, Sino misrepresented:

(a) Its 2006 Results and AIF;

- 8 -

- (b) Its May 2007 Management Information Circular;
- (c) Its tax-related risks arising from its use of AIs;
- (d) Its Yunnan Forestry Assets;
- (e) Its Suriname Forestry Assets;
- (f) Its Jiangxi Forestry Assets;
- (g) Its related parties;
- (h) Its sales of standing timber;
- (i) Its purchases of Forestry Assets; and
- (j) Its margins and taxes.

*Sino's 2006 Results and AIF*

22. Prior to the opening of markets on March 19<sup>th</sup>, 2007, Sino issued and filed on SEDAR its 2006 Annual Consolidated Financial Statements and 2006 Annual MD&A. Each document contained the Representation, which was false.

23. In particular, Sino materially overstated its results for 2006, and its assets as at year-end 2008. Sino reported in each such document, on a GAAP basis, that its revenues and net income for the year ended December 31<sup>st</sup>, 2006 were, respectively, US\$634.0 million and US\$111.6 million, and further reported, on a GAAP basis, that its assets as at December 31<sup>st</sup>, 2006 were US\$1.2 billion.

24. Over the ten trading days following the issuance of Sino's inflated 2006 results, Sino's share price rose substantially on unusually heavy trading volume. At the close of trading on March 16<sup>th</sup>, 2007 (the trading day prior to March 19<sup>th</sup>, 2007), Sino's shares traded at \$10.10 per share. At the close of trading on March 29<sup>th</sup>, 2007, Sino's shares traded at \$13.42 per share, which constituted an increase of approximately 33% from the March 19<sup>th</sup> closing price.



*Sino's May 2007 Management Information Circular*

25. On March 30, 2007, Sino issued and filed on SEDAR its 2006 AIF. In that AIF, Sino stated:

...PRC laws and regulations require foreign companies to obtain licenses to engage in any business activities in the PRC. As a result of these requirements, we currently engage in our trading activities through PRC authorized intermediaries that have the requisite business licenses. There is no assurance that the PRC government will not take action to restrict our ability to engage in trading activities through our authorized intermediaries. **In order to reduce our reliance on the authorized intermediaries, we intend to use a WFOE in the PRC to enter into contracts directly with suppliers of raw timber, and then process the raw timber, or engage others to process raw timber on its behalf, and sell logs, wood chips and wood-based products to customers, although it would not be able to engage in pure trading activities.** [Emphasis added.]

26. In its 2007 AIF, which Sino filed on March 28, 2008, Sino again declared its intention to reduce its reliance upon AIs.

27. These statements were false and materially misleading when made, as Sino had no intention of reducing materially its reliance on AIs, because AIs were critical to Sino's ability to inflate its revenue and net income. Rather, these statements had the effect of mitigating any investor concern arising from Sino's extensive reliance upon AIs.

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28. Throughout the Class Period, Sino continued to depend heavily upon AIs for its purported sales of standing timber and Sino's reliance on AIs in fact *increased* during the Class Period.

*Sino's tax-related risks arising from its use of AIs*

29. Throughout the Class Period, Sino materially understated the tax-related risks arising from its use of AIs.

- 10 -

30. Tax evasion penalties in the PRC are severe and depending on the severity of the offense can be punishable with unlimited fines.

31. During the Class Period, Sino professed to be unable to determine whether its AIs had paid required taxes and so the tax-related risks arising from Sino's use of AIs were potentially devastating. Sino failed to disclose these risks in its Class Period disclosure documents, including and particularly in its discussions of its tax provisioning set forth in its Class Period financial statements and AIFs.

32. Based upon Sino's reported results, Sino's tax accruals in its 2007, 2008, 2009 and 2010 Audited Annual Financial Statements were materially deficient and Sino's inadequate tax accruals violated GAAP.

33. Sino also violated GAAP in its 2009 Audited Annual Financial Statements by failing to apply to its 2009 financial results the PRC tax guidance that was issued in February 2010. Although that guidance was issued after year-end 2009, GAAP required that Sino apply that guidance to its 2009 financial results, because that guidance was issued in the subsequent events period.

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34. Based upon Sino's reported profit margins on its dealings with AIs, which margins are extraordinary both in relation to the profit margins of Sino's peers, and in relation to the limited risks that Sino purports to assume in its transactions with its AIs, Sino's AIs were not satisfying their tax obligations, a fact that was either known to the Defendants or ought to have been known. If Sino's extraordinary profit margins are real, then Sino and its AIs must be dividing the gains from non-payment of taxes to the PRC.

- 11 -

35. During the Class Period, Sino also failed to disclose the risks relating to the repatriation of its earnings from the PRC. In 2010, Sino added two new sections to its AIF regarding the risk that it would not be able to repatriate earnings from its BVI subsidiaries (which deal with the AIs). The amount of retained earnings that may not be able to be repatriated is stated therein to be US\$1.4 billion. Notwithstanding this disclosure, Sino did not disclose that it would be unable to repatriate *any* earnings absent proof of payment of PRC taxes, which it has admitted that it lacks.

36. In addition, there are material discrepancies in Sino's descriptions of its accounting treatment of its AIs. Beginning in the 2003 AIF, Sino described its AIs as follows:

Because of the provisions in the Operational Procedures that specify when we and the authorized intermediary assume the risks and obligations relating to the raw timber or wood chips, as the case may be, we treat these transactions for accounting purposes as providing that we take title to the raw timber when it is delivered to the authorized intermediary. Title then passes to the authorized intermediary once the timber is processed into wood chips. *Accordingly, we treat the authorized intermediaries for accounting purposes as being both our suppliers and customers in these transactions.* [Emphasis added.]

37. Sino's disclosures were consistent in that regard up to and including Sino's first AIF issued in the Class Period, which states:

Because of the provisions in the Operational Procedures that specify when we and the AI assume the risks and obligations relating to the raw timber or wood chips, as the case may be, we treat these transactions for accounting purposes as providing that we take title to the raw timber when it is delivered to the AI. Title then passes to the AI once the timber is processed into wood chips. *Accordingly, we treat the AI for accounting purposes as being both our supplier and customer in these transactions.* [Emphasis added.]

38. In subsequent AIFs, Sino ceased without explanation to disclose whether it treated AIs for accounting purposes as being both the supplier and the customer.

- 12 -

39. Following the issuance of Muddy Waters' report on the last day of the Class Period, however, Sino declared publicly that Muddy Waters was "wrong" in its assertion that, for accounting purposes, Sino treated its AIs as being both supplier and customer in transactions. This claim by Sino implies either that Sino misrepresented its accounting treatment of AIs in its 2006 AIF (and in its AIFs for prior years), or that Sino changed its accounting treatment of its AIs after the issuance of its 2006 AIF. If the latter is true, then Sino was obliged by GAAP to disclose its change in its accounting treatment of its AIs. It failed to do so.

*Sino Overstates its Yunnan Forestry Assets*

40. In a press release issued by Sino and filed on SEDAR on March 23, 2007, Sino announced that it had entered into an agreement to sell 26 million shares to several institutional investors for gross proceeds of US\$200 million, and that the proceeds would be used for the acquisition of standing timber, including pursuant to a new agreement to purchase standing timber in Yunnan Province. It further stated in that press release that Sino-Panel (Asia) Inc. ("Sino-Panel"), a wholly-owned subsidiary of Sino, had entered on that same day into an agreement with Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd., ("Gengma Forestry") established in Lincang City, Yunnan Province in the PRC, and that, under that Agreement, Sino-Panel would acquire approximately 200,000 hectares of non-state owned commercial standing timber in Lincang City and surrounding cities in Yunnan for US\$700 million to US\$1.4 billion over a 10-year period.

41. These same terms of Sino's Agreement with Gengma Forestry were disclosed in Sino's Q1 2007 MD&A. Moreover, throughout the Class Period, Sino discussed its purported Yunnan acquisitions in the Impugned Documents.

42. However, the reported acquisitions did not take place. As the *Globe* later revealed, Sino "substantially overstated the size and value of its forestry holdings in China's Yunnan Province, according to figures provided by senior forestry officials and a key business partner there." Sino simply does not own the trees it claims to own in Yunnan.

- 13 -

*Sino Overstates its Suriname Forestry Assets*

43. In mid-2010, Sino became a majority shareholder of Greenheart Group Ltd., a Bermuda corporation having its headquarters in Hong Kong and a listing on the Hong Kong Stock Exchange ("Greenheart").

44. In August 2010, Greenheart issued an aggregate principal amount of US\$25,000,000 convertible notes for gross proceeds of US\$24,750,000. The sole subscriber of these convertible notes was Greater Sino Holdings Limited. Chan became a member of Greenheart's Board and the Board's Chairman. Other officers and directors of Sino became officers and directors of Greenheart.

45. On August 24, 2010 and December 28, 2010, Greenheart granted to Chan options to purchase approximately 6.8 million. The options are exercisable for a five-year term.

46. As at March 31, 2011, General Enterprise Management Services International Limited, a company in which some of Sino's officers and directors have an indirect interest, held 7,000,000 shares of Greenheart, being 0.9% of the total issued and outstanding shares of Greenheart.

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47. As a result of the aforesaid transactions and interests, Sino, Chan, and other officers and directors of Sino, stood to profit handsomely from any inflation in the market price of Greenheart's shares.

48. At all material times, Greenheart purported to have forestry assets in New Zealand and Suriname. On March 1, 2011, Greenheart issued a press release in which it announced that:

**Greenheart acquires certain rights to additional 128,000 hectare concession in Suriname**

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**312,000 hectares now under Greenheart management Hong Kong, March 1, 2011 - Greenheart Group Limited ("Greenheart" or "the Company")**

- 14 -

(HKSE: 00094), an investment holding company with forestry assets in Suriname and New Zealand (subject to certain closing conditions) today announced that *the Company has acquired 60% of Vista Marine Services N.V. ("Vista"), a private company based in Suriname, South America that controls certain harvesting rights to a 128,000 hectares hardwood concession. Vista will be rebranded as part of the Greenheart Group. This transaction will increase Greenheart's concessions under management in Suriname to approximately 312,000 hectares.* The cost of this acquisition is not material to the Company as a whole but the Company is optimistic about the prospects of Vista and the positive impact that it will bring. *The concession is located in the Sipalawini district of Suriname, South America, bordering Lake Brokopondo and has an estimated annual allowable cut of approximately 100,000 cubic meters.* Mr. Judson Martin, Chief Executive Officer of Greenheart and Vice-Chairman of Sino- Forest Corporation, the Company's controlling shareholder said, "This acquisition is in line with our growth strategy to expand our footprint in Suriname. In addition to increased harvestable area, this acquisition will bring synergies in sales, marketing, administration, financial reporting and control, logistics and overall management. *I am pleased to welcome Mr. Ty Wilkinson to Greenheart as our minority partner. Mr. Wilkinson shares our respect for the people of Suriname and the land and will be appointed Chief Executive Officer of this joint venture and be responsible for operating in a sustainable and responsible manner.* This acquisition further advances Greenheart's strategy of becoming a global agri-forestry company. We will continue to actively seek well-priced and sustainable concessions in Suriname and neighboring regions in the coming months."

#### About Ty Wilkinson

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Mr. Wilkinson has over twenty years of experience in the agricultural and forestry business. He was awarded the prestigious "Farmer and Rancher of the year" award in the USA, in recognition of his work on water conservation, perfecting the commercial use of drip irrigation and maximizing crop yield through the use of technical soil research and analysis. Mr. Wilkinson also has extensive knowledge in sustainable forestry management, forestry planning, infrastructure development, harvest schedules, lumber drying, lumber processing, extensive local knowledge as well as regional business networks. He has been living in Suriname since 2001. [Emphasis added.]

- 15 -

49. In its 2010 AIF, filed on SEDAR on March 31, 2011, Sino stated:

We hold a majority interest in Greenheart Group which, together with its subsidiaries, owns certain rights and *manages approximately 312,000 hectares of hardwood forest concessions in the Republic of Suriname, South America ("Suriname") and 11,000 hectares of a radiata pine plantation on 13,000 hectares of freehold land in New Zealand as at March 31, 2011. We believe that our ownership in Greenheart Group will strengthen our global sourcing network in supplying wood fibre for China in a sustainable and responsible manner.* [Emphasis added].

50. In its Annual Report for 2010, which Sino filed on SEDAR on May 10, 2011, Sino's Vice-Chairman stated:

I am honored to report to you for the first time as Vice Chairman of Sino-Forest and Chief Executive Officer of Greenheart Group [...] Greenheart's strategy is to be Sino-Forest's international growth vehicle for acquiring sustainable and profitable forestry assets located outside China to serve the growing wood deficit within China while at the same time maintaining the ability to manage and operate in other markets around the world. At the end of 2010, Greenheart had three primary assets; a 60% interest in a 184,000 hectare hardwood concession located in western Suriname (Sino-Forest currently owns the remaining 40% minority interest); a commitment to acquire 13,000 hectares of freehold land including 11,000 hectares of softwood radiata pine plantations in New Zealand (which was completed subsequent to year end); and US\$78 million in cash. *In the first quarter of 2011, we acquired 60% of Vista Marine Services N.V., which holds certain harvesting rights to a 128,000-hectare concession in eastern Suriname. This acquisition expands Greenheart's land under-management-in-Suriname-to-approximately-312,000-hectare. We are currently building two large-scale wood processing facilities, which we expect to complete late this year, which will allow us to process logs into lumber and other value-added products such as flooring, decking and special millwork. Greenheart's strategy in Suriname is to continue to expand our concession footprint and be the leader in the sustainable timber industry. We are committed to low-impact harvesting and silviculture methods as prescribed by Suriname's Centre for Agricultural Research ("CELOS"), and we will be working towards Forest Stewardship Council ("FSC") certification in all our operations. The responsible care of people and the environment is our corporate policy but also our state of mind.* [Emphasis added.]

- 16 -

51. The foregoing statements were false or materially misleading when made, for the reasons set out below.

52. Shortly before Greenheart's purported acquisition of Vista Marine Services N.V. ("Vista"), Vista was founded by Ty Wilkinson, an American citizen who formerly resided in Sarasota, Florida. Although Greenheart saw fit to disclose in its March 1, 2011 press release that Mr. Wilkinson, Greenheart's new Suriname CEO, was once named "Farmer and Rancher of the year," Greenheart failed to disclose that the Circuit Court of Sarasota County, Florida, had issued a warrant for Mr. Wilkinson's arrest in October 2009, and that Mr. Wilkinson abandoned residence in the United States at least in part to avoid arrest, and also to avoid paying various debts Wilkinson owes to a former business associate and others.

53. There is no record of Greenheart in the Suriname Trade Register maintained by the Chamber of Commerce in Suriname, nor is there any record of Greenheart with the Suriname Foundation for Forest Management and Production Control.

54. In addition, under the Suriname *Forest Management Act*, it is prohibited for one company or a group of companies in which one person or company has a majority interest to control more than 150,000 hectares of land under concession.

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55. Finally, Vista's forestry concessions are located in a region of Suriname populated by the Saramaka, an indigenous people. Pursuant to the American Convention on Human Rights and a decision of the Inter-American Court of Human Rights, the Saramaka people must have effective control over their land, including the management of their reserves, and must be effectively consulted by the State of Suriname. Neither Sino nor Greenheart has disclosed that Vista's purported concessions in Suriname, if they exist at all, are impaired due to the unfulfilled rights of the indigenous peoples of Suriname.



*Jiangxi Forestry Assets*

56. On June 11, 2009, Sino issued a press release in which it stated:

Sino-Forest Corporation (TSX: TRE), a leading commercial forest plantation operator in China, announced today that its wholly-owned subsidiary, Sino-Panel (China) Investments Limited ("Sino-Panel"), has entered into a Master Agreement for the Purchase of Pine and Chinese Fir Plantation Forests (the "Jiangxi Master Agreement") with Jiangxi Zhonggan Industrial Development Company Limited ("Jiangxi Zhonggan"), which will act as the authorized agent for the original plantation rights holders. Under the Jiangxi Master Agreement, Sino-Panel will, through PRC subsidiaries of Sino-Forest, acquire between 15 million and 18 million cubic metres (m<sup>3</sup>) of wood fibre located in plantations in Jiangxi Province over a three-year period with a price not to exceed RMB300 per m<sup>3</sup>, to the extent permitted under the relevant PRC laws and regulations. *The plantations in which such amount of wood fibre to acquire is between 150,000 and 300,000 hectares* to achieve an estimated average wood fibre yield of approximately 100 m<sup>3</sup> per hectare, and include tree species such as pine, Chinese fir and others. Jiangxi Zhonggan will ensure plantation forests sold to Sino-Panel and its PRC subsidiaries are non-state-owned, non-natural, commercial plantation forest trees. In addition to securing the maximum tree acquisition price, Sino-Panel has pre-emptive rights to lease the underlying plantation land at a price, permitted under the relevant PRC laws and regulations, not to exceed RMB450 per hectare per annum for 30 years from the time of harvest. The land lease can also be extended to 50 years as permitted under PRC laws and regulations. The specific terms and conditions of purchasing or leasing are to be determined upon the execution of definitive agreements between the PRC subsidiaries of Sino-Panel and Jiangxi Zhonggan upon the authorisation of original plantation rights holders, and subject to the requisite governmental approval and in compliance with the relevant PRC laws and regulations.

Sino-Forest Chairman and CEO Allen Chan said, "We are fortunate to have been able to capture and support investment opportunities in China's developing forestry sector by locking up a large amount of fibre at competitive prices. The Jiangxi Master Agreement is Sino-Forest's fifth, long-term, fibre purchase agreement during the past two years. These five agreements cover a total plantation area of over one million hectares in five of China's most densely forested provinces." [Emphasis added].

- 18 -

57. According to Sino's 2010 Annual MD&A, as of December 31, 2010, Sino had acquired 59,700 ha of plantation trees from Jiangxi Zhonggan Industrial Development Company Limited ("Zhonggan") for US\$269.1 million under the terms of the master agreement. (In its interim report for the second quarter of 2011, which was issued after the Class Period, Sino claims that, as at June 30, 2011, this number had increased to 69,100 ha, for a purchase price of US\$309.6 million).

58. However, as was known to Sino, Chan, and Horsley, Sino's plantation acquisitions through Zhonggan are far smaller than Sino has claimed.

59. In August 2011, a supervisor of the Forestry Bureau of Nanchang, the capitol of Jiangxi Province, affirmed that he had never heard of Zhonggan. In that same month, the Jiangxi Forestry Bureau, which has jurisdiction over the Province of Jiangxi, was able to confirm only that Zhonggan had rented the land use rights of 3,333 ha from local farmers.

60. Zhonggan's offices belie the purported scope and nature of Zhonggan's business. During a visit to Zhonggan's offices in August 2011, no personnel were present during business hours, there was no signage outside the office, and there was a CCTV camera and a fingerprint entry machine installed near the office entrance.

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61. Zhonggan was formed in January 2008, only 18 months before agreeing to sell to Sino's subsidiary up to 300,000 ha of plantation forest. Moreover, when it was established, Zhonggan was capitalized with a mere ¥5 million.

62. Irrespective of the true extent of Zhonggan's transactions in Jiangxi forestry plantations, Sino failed to disclose, in violation of GAAP, that Zhonggan was a related party of Sino. More particularly, according to AIC records, the legal representative of Zhonggan is Lam Hong Chiu, who is an executive vice president of Sino. Lam Hong Chiu is also a director

- 19 -

and a 50% shareholder of China Square Industrial Limited, a BVI corporation which, according to AIC records, owns 80% of the equity of Zhonggan.

*Misrepresentations Regarding Related Parties other than Zhonggan*

63. On January 12, 2010, Sino issued a press release in which it announced the acquisition by one of its wholly-owned subsidiaries of Homix Limited ("Homix"), which it described as a 48 company engaged in research and development and manufacturing of engineered-wood products in China, for an aggregate amount of US\$7.1 million. That press release stated:

HOMIX has an R&D laboratory and two engineered-wood production operations based in Guangzhou and Jiangsu Provinces, covering eastern and southern China wood product markets. The company has developed a number of new technologies with patent rights, specifically 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 environment-friendly and versatile as it uses fibre from forest plantations, recycled wood and/or wood residue. This reduces the traditional use of large-diameter trees from natural forests. There is growing demand for recomposed wood technology as it reduces cost for raw material while increases the utilization and sustainable use of plantation fibre for the production of furniture and interior/exterior building materials.

[...]

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Mr. Allen Chan, Sino-Forest's Chairman & CEO, said, "As we continue to ramp up our replanting programme with improved eucalyptus species, it is important for Sino-Forest to continue investing in the research and development that maximizes all aspects of the forest product supply chain. Modernization and improved productivity of the wood processing industry in China is also necessary given the country's chronic wood fibre deficit. Increased use of technology improves operation efficiency, and maximizes and broadens the use of domestic plantation wood, which reduces the need for logging domestic natural forests and for importing logs from strained tropical forests. HOMIX has significant technological capabilities in engineered-wood processing."

- 20 -

Mr. Chan added, "By acquiring HOMIX, we intend to use six-year eucalyptus fibre instead of 30-year tree fibre from other species to produce quality lumber using recomposed technology. We believe that this will help preserve natural forests as well as improve the demand for and pricing of our planted eucalyptus trees."

64. Sino's 2009 Annual Audited Financial Statements, Q1/2010 Unaudited Interim Financial Statements, 2010 Annual Audited Financial Statements, the MD&As related to each of the aforementioned financial statements, and Sino's AIFs for 2009 and 2010, each discussed the acquisition of Homix, but nowhere disclosed that Homix was in fact a party related to Sino.

65. More particularly, Hua Chen, a Senior Vice President, Administration & Finance, of Sino in the PRC, and who joined Sino in 2002, is a 30% shareholder of an operating subsidiary of Homix, Jiangsu Dayang Wood Co., Ltd.

66. Pursuant to GAAP, Sino was required to provide, among other things, a description of the relationship between the transacting parties when dealing with related parties. GAAP recognizes that detail on related party transactions is crucial.

~~67. Thus, Sino's failure to disclose that Homix was a related party was a violation of~~  
GAAP, and a misrepresentation.

68. Finally, Homix has no patent designs registered with the PRC State Intellectual Property Office, a fact also not disclosed by Sino at the time of the Homix acquisition or subsequently.

- 21 -

*Misrepresentations Regarding Sales of Standing Timber*

69. Every financial statement and MD&A issued during the Class Period overstates Sino's sales of standing timber to a material degree, and overstates to a material degree Sino's reported revenues and net income for the period in question.

70. Throughout the Class Period, Sino purported to sell "standing timber." As particularized above, such sales did not occur, or did not occur in a manner such that revenue could be recorded pursuant to GAAP.

*Misrepresentations Regarding Purchases of Forestry Assets*

71. As particularized above, Sino overstated its acquisition of forestry assets in Yunnan and Jiangxi Provinces in the PRC and in Suriname. Accordingly, Sino's total assets are overstated to a material degree in the Impugned Documents in violation of GAAP, and each such statement of Sino's total assets constitutes a misrepresentation.

72. In addition, during the Class Period, Sino caused statements to be made that are misrepresentations in regard to Sino's Yunnan Province "assets," namely:

(a) In a report dated March 15, 2008, filed on SEDAR on March 31, 2008, Sino:

(a) caused to be stated that it had determined the valuation of the Sino forest assets to be US\$3.2 billion as at 31 December 2007;

(b) caused tables and figures regarding Yunnan to be published;

(c) caused to be stated that "Stands in Yunnan range from 20 ha to 1000 ha," that "In 2007 Sino-Forest purchased an area of mixed broadleaf forest in Yunnan Province," that "Broadleaf forests already acquired in Yunnan are all mature," and that "Sino-Forest is embarking on a series of forest acquisitions/expansion efforts in Hunan, Yunnan and Guangxi;" and

(d) provided a detailed outline of Sino's Yunnan "holdings" at Appendixes 3 and 5;

- 22 -

(b) In a report dated April 1, 2009 and filed on SEDAR on April 2, 2009, Sino caused to be stated that:

“[t]he area of forest owned in Yunnan has quadrupled from around 10 000 ha to almost 40 000 ha over the past year;”

provided figures and tables regarding Yunnan, and stated that:

“Sino-Forest has increased its holding of broadleaf crops in Yunnan during 2008, with this province containing nearly 99% of its broadleaf resource;”

(c) In a “Final Report” dated April 23, 2010, and filed on SEDAR on April 30, 2010, Sino caused to be stated that:

“Guangxi, Hunan and Yunnan are the three largest provinces in terms of Sino-Forest’s holdings. The largest change in area by province, both in absolute and relative terms [sic] has been Yunnan, where the area of forest owned has almost tripled, from around 39 000 ha to almost 106 000 ha over the past year;”

provided figures and tables regarding Yunnan, and stated that:

“Yunnan contains 106 000 ha, including 85 000 ha or 99% of the total broadleaf forest;” stated that “the three provinces of Guangxi, Hunan and Yunnan together contain 391 000 ha or about 80% of the total forest area of 491 000 ha” and that “[a]lmost 51.97% of the broadleaf forest is in Yunnan;”

and provided a detailed discussion of Sino’s Yunnan “holdings” at Appendixes 3 and 4;

(d) In a “Summary Valuation Report” regarding “Valuation of Purchased Forest Crops as at 31 December 2010” and dated May 27, 2011, Sino caused to be published tables and figures regarding Yunnan, and stated that:

“[t]he major changes in area by species from December 2009 to 2010 has been in Yunnan pine, with acquisitions in Yunnan and Sichuan provinces”

and that:

“[a]nalysis of [Sino’s] inventory data for broadleaf forest in Yunnan, and comparisons with an inventory that Pöyry undertook there in 2008 supported the upwards revision of prices applied to the Yunnan broadleaf large size log;”

and stated that:

“[t]he yield table for Yunnan pine in Yunnan and Sichuan provinces was derived from data collected in this species in these provinces by Pöyry during other work;”

and

- 23 -

(e) In a press release titled "Summary of Sino-Forest's China Forest Asset 2010 Valuation Reports" and which was "jointly prepared by Sino-Forest and Pöyry to highlight key findings and outcomes from the 2010 valuation reports," Sino caused to be reported that the estimated market value of Sino's forest assets on the 754,816 ha to be approximately US\$3.1 billion as at December 31, 2010.

73. Statements caused to be made by Sino regarding the value of Sino's forestry "assets" that were misrepresentations were incorporated into the 2007 Annual MD&A, the Amended 2007 Annual MD&A, each of the 2008 Q1, Q2, Q3, Annual and amended Annual MD&As, each of the 2009 Q1, Q2, Q3 and Annual MD&As, and each of the 2010 Q1, Q2 and Q3 MD&As.

*Misrepresentations Regarding Sino's Margins and Taxes*

74. Sino never disclosed the true source of its elevated profit margins and the true nature of the tax-related risks to which it was exposed, as particularized above. This omission rendered each of the following statements a misrepresentation:

- (a) In the 2006 Annual Financial Statements, note 11 [b] "Provision for tax related liabilities" and associated text;
- (b) In the 2006 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;
- (c) In the AIF dated March 30, 2007, the section "Estimation of the Company's provision for income and related taxes," and associated text;
- (d) In the Q1 and Q2 2007 Financial Statements, note 5 "Provision for Tax Related Liabilities," and associated text;
- (e) In the Q3 2007 Financial Statements, note 6 "Provision for Tax Related Liabilities," and associated text;
- (f) In the 2007 Annual Financial Statements, note 13 [b] "Provision for tax related liabilities," and associated text;

- 24 -

(g) In the 2007 Annual MD&A and Amended 2007 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(h) In the AIF dated March 28, 2008, the section "Estimation of the Corporation's provision for income and related taxes," and associated text;

(i) In the Q1, Q2 and Q3 2008 Financial Statements, note 12 "Provision for Tax Related Liabilities," and associated text;

(j) In the Q1, Q2 and Q3 2008 MD&As, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(k) In the 2008 Annual Financial Statements, note 13 [d] "Provision for tax related liabilities," and associated text;

(l) In the 2008 Annual MD&A and Amended 2008 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(m) In the AIF dated March 31, 2009, the section "We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts we have estimated and for which we have provisioned," and associated text;

(n) In the Q1, Q2 and Q3 2009 Financial Statements, note 13 "Provision for Tax Related Liabilities," and associated text;

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(o) In the Q1, Q2 and Q3 2009 MD&As, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(p) In the 2009 Annual Financial Statements, note 15 [d] "Provision for tax related liabilities," and associated text;

(q) In the 2009 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(r) In the AIF dated March 31, 2010, the section "We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts we have estimated and for which we have provisioned," and associated text;



- 25 -

- (s) In the Q1 and Q2 2010 Financial Statements, note 14 "Provision for Tax Related Liabilities," and associated text;
- (t) In the Q1 and Q2 2010 MD&As, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;
- (u) In the Q3 2010 Financial Statements, note 14 "Provision and Contingencies for Tax Related Liabilities," and associated text; and
- (v) In the Q3 2010 MD&As, the subsection "Provision and Contingencies for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;
- (w) In the 2010 Annual Financial Statements, note 18 "Provision and Contingencies for Tax Related Liabilities," and associated text;
- (x) In the 2010 Annual MD&A, the subsection "Provision and Contingencies for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text; and
- (y) In the AIF dated March 31, 2011, the section "We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts we have estimated and for which we have provisioned," and associated text.

75. In every Impugned Document that is a financial statement, the line item "Accounts payable and accrued liabilities" and associated figures on the Consolidated Balance Sheets fails to properly account for Sino's tax accruals and is a misrepresentation.

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#### **CEO AND CFO FALSE CERTIFICATIONS**

76. Pursuant to National Instrument 52-109, the defendants Chan, as CEO, and Horsley, as CFO, were required at the material times to certify Sino's annual and quarterly MD&As and Financial Statements as well as the AIFs (and all documents incorporated into the AIFs). Such certifications included statements that the filings "do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made" and that the reports "fairly present in all material respects the financial condition, results of operations and cash flows of the issuer."

- 26 -

77. As particularized elsewhere herein, however, the Impugned Documents contained the Representation, which was false, as well as the other misrepresentations alleged above. Accordingly, the certifications given by Chan and Horsley were false and were themselves misrepresentations. Chan and Horsley made such false certifications knowingly or, at a minimum, recklessly.

#### THE TRUTH IS REVEALED

78. On June 2, 2011, Muddy Waters issued its initial report on Sino, and stated in part therein:

Sino-Forest Corp (TSE: TRE) is the granddaddy of China RTO frauds. It has always been a fraud – reporting excellent results from one of its early joint ventures – even though, because of TRE’s default on its investment obligations, the JV never went into operation. TRE just lied.

The foundation of TRE’s fraud is a convoluted structure whereby it claims to run most of its revenues through “authorized intermediaries” (“AI”). AIs are supposedly timber trader customers who purportedly pay much of TRE’s value added and income taxes. At the same time, these AIs allow TRE a gross margin of 55% on standing timber merely for TRE having speculated on trees.

The sole purpose of this structure is to fabricate sales transactions while having an excuse for not having the VAT invoices that are the mainstay of China audit work. If TRE really were processing over one billion dollars in sales through AIs, TRE and the AIs would be in serious legal trouble. No legitimate public company would take such risks – particularly because this structure has zero upside.

[...]

On the other side of the books, TRE massively exaggerates its assets. TRE significantly falsifies its investments in plantation fiber (trees). It purports to have purchased \$2.891 billion in standing timber under master agreements since 2006

[...]

Valuation Because TRE has \$2.1 billion in debt outstanding, which we believe exceeds the potential recovery, we value its equity at less than \$1.00 per share.

- 27 -

79. Muddy Waters also disclosed in its initial report that Sino had failed to disclose various related party transactions, including its dealings with Jiangxi Zhonggan Industrial Development Company Ltd.

80. After Muddy Waters' initial report became public, Sino shares fell to \$14.46, at which point trading was halted (a decline of 20.6% from the pre-disclosure close of \$18.21). When trading was allowed to resume the next day, Sino's shares fell to a close of \$5.23 (a decline of 71.3% from June 1).

81. On June 3, 2011, Sino announced the formation of an "Independent Committee," comprised of William E. Ardell (Chair), James P. Bowland and James M.E. Hyde, to investigate Muddy Waters' allegations and report to Sino's Board in that regard.

82. On June 14, Sino issued its Q1 2011 Financial Statements. Those financial statements contained the following notice:

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

The accompanying unaudited condensed interim consolidated financial statements (the "Interim Financial Statements") have not been reviewed by the Company's external auditors. On June 2, 2011, Muddy Waters, LLC issued a report (the "Report") containing various allegations regarding the Company, its assets, operations and financial results. As a result of such report, on June 2, 2011, the Board of Directors of the Company appointed a committee of independent directors (the "Independent Committee") to thoroughly examine and review the allegations contained in the Report, and report back to the Board of Directors. The Independent Committee has retained independent legal counsel in Canada, Hong Kong and China as well as independent accounting firm Pricewaterhouse Coopers LLP to assist with the examination. The Company's external auditors were initially engaged to conduct a review of the accompanying Interim Financial Statements in accordance with Canadian standards for the auditor review of interim financial statements. The Company's auditors have advised that they are unable to complete a review of these financial statements until the completion of the examination and review by the Independent Committee and the auditors' consideration of the results

- 28 -

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

83. That same day, Sino held its Q1 2011 Earnings Call. On that call, Ardell stated that "particular reference was made to a number of the directors that this is an opportunity for them to be in and buying significant amounts of shares to demonstrate strong belief in the company. *And I can assure you that if we had the choice, we certainly would at this stage*" (emphasis added). Ardell thereby confirmed that he had prejudged the outcome of his committee's investigation, and that his committee was not independent.

84. On Saturday June 18 and Sunday June 19, 2011, the *Globe* published an in-depth investigative report on Sino.

85. The June 18 article, titled "Key partner casts doubt on Sino-Forest claim," read, in material part:

Embattled Sino-Forest Corp., once Canada's biggest publicly-traded timber company, appears to have substantially overstated the size and value of its forestry holdings in China's Yunnan province, according to figures provided by senior forestry officials and a key business partner there.

During two weeks of on-the-ground reporting that included interviews with Chinese government officials, forestry experts, local business operators and brokers, The Globe and Mail uncovered a number of glaring inconsistencies that raise doubts about the company's public statements regarding the value of the assets that lie at the centre of the company's core business of buying and selling Chinese timber rights.

[...]

- 29 -

The Globe's investigation raises particularly hard questions about a key agreement in March, 2007, that Sino-Forest says gave it the right to buy timber rights for up to 200,000 hectares of forest in Yunnan over a 10-year period for between \$700-million (U.S.) and \$1.4-billion. The trees were to be bought through a series of agreements with an entity called Gengma Dai and Wa Tribes Autonomous Region Forestry Co. Ltd., also known as Gengma Forestry.

The company says it has fulfilled virtually all of the agreement with Gengma and now owns more than 200,000 hectares in Yunnan.

But officials with Gengma Forestry, including the chairman, dispute the company's account of the deal, telling The Globe and Mail that the actual numbers are much smaller.

Xie Hongting, the chairman of Gengma Forestry, said in an interview that the transactions carried out so far by Sino-Forest amounted to less than 14,000 hectares.

Asked how many deals Gengma had conducted with Sino-Forest, Mr. Xie said: "I've told you that we sold them almost 200,000 mu." (Mu is a Chinese unit of land measurement; 15 mu equals one hectare.) Mr. Xie's account corroborates the assertions of senior forestry officials in the province. Speaking on condition of anonymity, these officials challenged the company's statements that it controls more than 200,000 hectares of Yunnan trees, and said they are now investigating.

[...]

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While Gengma Forestry officials question Sino-Forest's account of the 2007 deal, local land brokers said it would be difficult to find 200,000 hectares of quality land leases to complete that agreement.

[...]

Senior forestry officials in the province challenged the company's assertion that it controls about 200,000 hectares of forest in the region. Speaking on condition they not be identified, they said their records showed Sino-Forest manages far less than that and said the Yunnan Forestry Bureau would begin an investigation aimed at determining the company's true holdings. In addition to the questions about Sino-Forest's disclosures on the size of its holdings, forestry officials, as well as local timber brokers who spoke to The Globe raised questions regarding the value Sino-Forest attributes to its Yunnan assets.

- 30 -

"It's very hard for anyone to say what the value of their property is," said one forestry official, adding that forested land in Yunnan needed to be evaluated by a special body jointly appointed by the Forestry Bureau and the Ministry of Finance. Sino-Forest has not requested such an official valuation of its land, he said. "(The valuation) must have two chops (official seals) and two forestry resource evaluation experts and two licensed evaluators... . Even I can't just go there and give it a value."

[...]

86. The June 19 article, titled "On the trail of the truth behind Sino-Forest," stated in part:

The deepening mystery surrounding Canadian timber company Sino-Forest Corp. leads to the regional capital of Kunming in China's Yunnan province and down Huashan West Road -- to an address that doesn't exist.

That address, No. 125 - 129 Huashan West Rd., is listed as the office of a forestry company that sold 1,600 hectares of timber in Yunnan province to a Sino-Forest subsidiary in March. But the odd-numbered side of Huashan West Road ends at 81.

Finding the buyer, the Sino-Forest subsidiary, proves almost as elusive. The office is in a white three-storey building with a green Sino-Panel sign on Bai Tai Road on the northern edge of Lincang, the administrative centre of the region's forestry industry. But it's empty.

The curious transactions totaling \$6-million and inked on March 7 between a Sino-Forest subsidiary with an empty office and a seller with no address highlight the bigger questions surrounding Sino-Forest's dealings in southern China. Trying to penetrate Sino-Forest's complicated business in Yunnan can be like trying to spot the sun through the thick forests of oak, birch, pine and other timber that carpet the mountains in this sprawling region along China's border with Myanmar.

[...]

Senior forestry bureaucrats also told The Globe and Mail that there's no official valuation of Sino-Forest's properties, since the company has never applied to have an evaluation conducted by the local government. The Yunnan Forestry Bureau has since launched an investigation into the company's claims.

[...]

- 31 -

Two weeks of travelling by car and plane to visit Sino-Forest offices, properties and partners in Yunnan, Hunan and Beijing – and interviews with forestry officials, industry experts and local residents – led to as many new questions as answers.

In the series of deals inked on March 7, the buyer was named as Sino-Panel (Yunnan) Forestry Co., the local affiliate of Sino-Forest, and the seller was listed as Yunnan Shunxuan Forestry Co. Ltd. of Huashan West Road.

No one on Huashan West Road recalls a forestry company ever having an office in the area. “If there was a company like this on Huashan West Road, I would know about it,” said a member of the neighbourhood committee (a hyperlocal and usually omniscient arm of the ruling Communist Party) that is responsible for the street.

At the same time, neighbours say the office of Sino-Panel on Bai Tai Road sat empty until Thursday, June 2 – hours before Muddy Waters released the report that rocked investor confidence in Sino-Forest and sent its share price spiralling downwards. Then a moving van arrived at the long-vacant building and began unloading desks, chairs, power bars and Internet cables. A week later, however, there was still no evidence of anyone working there, other than a squashed cigarette butt and a caulking gun that lay on the dirty tile floor amid the bare workstations.

“We wouldn’t have noticed, but (on June 2) my car was blocking the moving van (and had to be moved). Before that, the building was empty,” said Wu Jie, manager of the regional office of Fanhua Forestry Investments Development Co., which sits beside a massage parlour and an English training centre across the street from the deserted Sino-Panel building.

[...]

87. In the latter article, the *Globe* also discussed Sino’s failure to disclose certain related party transactions.

88. On June 20, 2011, Muddy Waters released a follow-up report, “The Ties that Blind, Part 1: Huaihua Yuda,” which provided further detail on Sino’s undisclosed transactions with related parties Huaihua Yuda and Sonic Jita.

- 32 -

89. When the market closed on June 20, 2011, Sino's shares traded at \$2.73 (a decline of 85% from June 1, 2011).

90. After the close of markets on June 20, 2011, it was revealed that certain entities affiliated with Paulson & Co., which had been Sino's largest shareholder, had sold all of its holdings and thereby realized a loss, on a mark-to-market basis, in excess of \$560-million. Only five days earlier, Horsley had sought to reassure investors, saying "I've spoken to [Paulson & Co.] and they are very supportive."

91. The next day, Sino shares closed at \$1.99 a decline of \$16.22 or 89% from their closing price on June 1, 2011.

92. On July 14, 2011, Fitch Ratings withdrew its ratings of Sino's debt securities, stating:

Fitch Ratings has withdrawn Sino-Forest Corporation's (Sino-Forest) Foreign Currency Issuer Default Rating and senior unsecured debt rating of 'BB-'. The ratings were on Negative Watch at the point of withdrawal. Fitch has withdrawn the ratings as it is unable to obtain sufficient information to maintain them.

[...]

~~Since placing Sino-Forest on Negative Watch on 20 June 2011, Fitch had requested from the company a more frequent and regular update of its offshore cash balances, as well as updates on management's progress/intentions with regard to the future onshore/offshore structure of the business. Fitch viewed this information as critical to monitoring the position of Sino-Forest offshore creditors, particularly given that under the current business structure offshore obligors are unable to directly access the company's onshore cash flows. Management has informed Fitch that the company is unwilling to provide any further information until the Committee of Independent Board Members – which was formed to investigate the allegations made by Muddy Waters LLC – publishes its findings. The company has not provided a date for the publication. Fitch does not consider these actions commensurate with being able to maintain the rating for investors.~~



- 33 -

Fitch will no longer provide ratings or analytical coverage of this issuer.  
[Emphasis added.]

93. At the close of trading on August 25, 2011, Sino's shares traded at \$4.81 per share. Shortly prior to the commencement of trading on August 26, 2011, the OSC issued a cease-trade order in relation to Sino's securities, and also took the unprecedented step of ordering, without a hearing, that Chan and various other Sino officers resign.

94. In its order, the OSC stated that in part:

[...]

3. Albert Ip ("Ip") is the Senior Vice President Development and Operations North-East and South-West China of Sino-Forest;

4. Alfred C.T. Hung ("Hung") is Vice-President Corporate Planning and Banking of Sino-Forest;

5. George Ho ("Ho") is Vice-President Finance of Sino-Forest;

6. Simon Yeung ("Yeung") is Vice President - Operation within the Operation / Project Management group of Sino-Panel (Asia) Inc., a subsidiary of Sino-Forest ("Yeung");

7. Since 2003, Sino-Forest has raised approximately \$2.986 billion from public investment and/or debt securities issues including four public offerings between 2004 and 2009 which approximately raised \$1.05 billion;

8. Sino-Forest has over 150 subsidiaries, the majority of which are registered in the British Virgin Islands and Peoples Republic of China ("PRC");

9. Sino-Forest's operations are predominately in the PRC and its management has offices in Hong Kong primarily and also in the PRC and Ontario;

10. Staff of the Commission is conducting an investigation into the activities and business of Sino-Forest and its subsidiaries and their management;

11. The Independent Committee of Sino-Forest has also been conducting an investigation into the activities and business of Sino-Forest and its subsidiaries

- 34 -

and their management. As a result, Sino-Forest has recently suspended Ho, Hung, and Yeung temporarily and curtailed Ip's duties and responsibilities.

12. Sino-Forest, through its subsidiaries, appears to have engaged in significant nonarm's length transactions which may have been contrary to Ontario securities laws and the public interest;

13. Sino-Forest and certain of its officers and directors appear to have misrepresented some of its revenue and/or exaggerated some of its timber holdings by providing information to the public in documents required to be filed or furnished under Ontario securities laws which may have been false or misleading in a material respect contrary to section 122 or 126.2 of the Act and contrary to the public interest;

14. Sino-Forest and certain of its officers and directors including Chan appear to be engaging or participating in acts, practices or a course of conduct related to its securities which it and/or they know or reasonably ought to know perpetuate a fraud on any person or company contrary to section 126.1 of the Act and contrary to the public interest...

95. Several hours later, the OSC rescinded its order that Chan and the other Sino officers referenced in the preceding paragraph resign, but maintained its cease-trade order.

96. On August 28, 2011, Sino announced that Chan had resigned "voluntarily" from the positions of Sino's CEO and Board Chairman and as a member of the Sino Board.

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*(6) the Plaintiff's causes of action*

*Negligent Misrepresentation*

97. As against all Defendants, and on behalf of all Class Members, the Plaintiff pleads negligent misrepresentation. In support of that cause of action, the sole misrepresentation that the Plaintiff pleads is the Representation. The Plaintiff does not plead any other misrepresentation in support of their negligent misrepresentation claim.

- 35 -

98. The Representation is contained in the phrase “[e]xcept where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (“GAAP”).” This phrase appears in the every annual and quarterly MD&A that is an Impugned Document. Sino and the Individual Defendants made this statement or caused it to be made.

99. The Representation is also contained in the phrase “[t]he consolidated financial statements of Sino-Forest Corporation (the “Company”) have been prepared [...] in accordance with Canadian generally accepted accounting principles.” This phrase appears in every Audited Annual Financial Statement that is an Impugned Document. Every Interim Financial Statement that is an Impugned Document incorporated by reference that section of the relevant Audited Annual Financial Statement which contained that phrase. Sino and the Individual Defendants made this statement, approved it or caused it to be made.

100. The Representation is also contained in the phrase “[t]he consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles.” This phrase appears in every Audited Annual Financial Statement that is an Impugned Document. That statement was made by Sino, Chan and Horsley in the “Management’s Report.”

101. The Representation is contained in the phrase “[w]e prepare our financial statements in accordance with Canadian GAAP” found in the AIFs filed on March 31, 2009 and 2010. The Representation is also contained in the phrase “[p]rior to January 1, 2011, we have prepared our financial statements in accordance with Canadian GAAP” found in the AIF filed on March 31, 2011. The Impugned Documents that are Management Information Circulars incorporated the most recent AIF, Annual MD&A and Annual Financial Statements by reference and thus the Representation. Sino and the Individual Defendants made these statements, approved it, and caused them to be made.

- 36 -

102. The Representation is further contained in the phrase "[t]he Corporation prepares its financial statements in accordance with Canadian GAAP" found in the Prospectuses. Sino and the Individual Defendants made this statement, approved it, and caused it to be made. The Representation is contained in the phrase "[i]n our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, [years vary between documents] and the results of its operations and its cash flows for the year[s] then ended in accordance with Canadian generally accepted accounting principles," made by E&Y in every Audited Annual Financial Statement that is an Impugned Document.

103. The Representation was untrue: the Impugned Documents violated GAAP by, among other things, overstating to a material degree Sino's revenues, net income and assets, failing to disclose changes in accounting policies, understating Sino's tax accruals, and failing to disclose related party transactions.

104. The Impugned Documents were prepared for the purpose of attracting investment and inducing members of the investing public to purchase Sino securities, and all of the Defendants knew at all material times that those documents had been prepared for that purpose, and that the Class Members would rely reasonably and to their detriment upon such documents in making the decision to purchase Sino securities.

105. The Defendants further knew that the information contained in the Impugned Documents would be incorporated into the price of Sino's publicly traded securities such that the trading price of those securities would at all times reflect the information contained in the Impugned Documents.

- 37 -

106. By virtue of their purported accounting, financial, and managerial acumen, the Defendants had a duty at common law, informed by the Securities Legislation, to exercise care and diligence to ensure that the Impugned Documents fairly and accurately disclosed Sino's financial condition and performance in accordance with GAAP.

107. The Defendants or some of them breached that duty by making the Representation as particularized above.

108. The Plaintiff and the other Class Members directly or indirectly relied upon the Representation in making a decision to purchase the securities of Sino.

109. Alternatively, the Plaintiff and the other Class Members relied upon the Representation by the act of purchasing Sino securities in an efficient market that promptly incorporated into the price of those securities all publicly available material information regarding the securities of Sino. As a result, Sino's repeated publication of the Representation in the Impugned Documents caused the price of Sino's shares to trade at inflated prices during the Class Period, thus directly resulting in damage to the Plaintiff and Class Members.

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*Statutory Liability—Secondary Market*

110. The Plaintiff intends to deliver a notice of motion seeking, among other things, an order granting leave to bring the statutory causes of action found in Part XXIII.1 of the *SSA*, against all Defendants.

*Statutory Liability—Primary Market*

111. As against Chan and Horsley who signed the June 2009 and December 2009 Prospectuses, and on behalf of those Class Members who purchased Sino shares in one of the distributions to which those Prospectuses related, the Plaintiff asserts the cause of action set forth in s. 137 of the *SSA*.

- 38 -

112. Sino issued the June 2009 and December 2009 Prospectuses, which contained the Representation and the other misrepresentations that are alleged above to have been contained in those Prospectuses or in the Sino disclosure documents incorporated therein by reference.

*Unjust Enrichment of Chan and Horsley*

113. As a result of the Representation and the other misrepresentations particularized above, Sino's shares traded, and were sold by Chan and Horsley at artificially inflated prices during the Class Period.

114. Accordingly, Chan and Horsley were enriched by their wrongful acts and omissions during the Class Period, and the Class Members who purchased Sino shares from such Defendants suffered a corresponding deprivation.

115. There was no juristic reason for the resulting enrichment.

116. Accordingly, the Class Members who purchased Sino shares from Chan and Horsley during the Class Period are entitled to the difference between the price they paid to such Defendants for such shares, and the price that they would have paid had the Defendants not made the Representation and the other misrepresentations particularized above, and had not committed the wrongful acts and omissions particularized above.

*Unjust Enrichment of Sino*

117. Throughout the Class Period, Sino made the Offerings. Such Offerings were made via various documents, particularized above, that contained the Representation and the misrepresentations particularized above.

118. The securities sold by Sino via the Offerings were sold at artificially inflated prices as a result of the Representation and the others misrepresentations particularized above.

- 39 -

119. Sino was enriched by, and those Class Members who purchased securities via the Offerings were deprived of, an amount equivalent to the difference between the amount for which the securities offered were actually sold, and the amount for which such securities would have been sold had the Offerings not included the Representation and the misrepresentations particularized above.

120. The Offerings violated Sino's disclosure obligations under the Securities Legislation and the various instruments promulgated by the securities regulators of the Provinces in which such Offerings were made. There was no juristic reason for the enrichment of Sino.

*Oppression*

121. In the circumstances alleged herein, the Plaintiff and the other Class Members had a reasonable and legitimate expectation that Sino and the Individual Defendants would use their powers to direct the company for Sino's best interests and, in turn, in the interests of its security holders. More specifically, the Plaintiff and the other Class Members had a reasonable expectation that:

- (a) Sino and the Individual Defendants would comply with GAAP, and cause Sino to comply with GAAP;
- (b) Sino and the Individual Defendants would take reasonable steps to ensure that the Class Members were made aware on a timely basis of material developments in Sino's business and affairs;
- (c) Sino and the Individual Defendants would implement adequate corporate governance procedures and internal controls to ensure that Sino disclosed material facts and material changes in the company's business and affairs on a timely basis;
- (d) Sino and the Individual Defendants would not make the misrepresentations particularized above;
- (e) Sino stock options would not be backdated or otherwise mispriced; and
- (f) the Individual Defendants would adhere to the Code.

- 40 -

122. Such reasonable expectations were not met as:

- (a) Sino did not comply with GAAP;
- (b) the Class Members were not made aware on a timely basis of material developments in Sino's business and affairs;
- (c) Sino's corporate governance procedures and internal controls were inadequate;
- (d) the misrepresentations particularized above were made;
- (e) stock options were backdated and otherwise mispriced; and
- (f) the Individual Defendants did not adhere to the Code

123. Sino's and the Individual Defendants' conduct was oppressive and unfairly prejudicial to the Plaintiff and the other Class Members and unfairly disregarded their interests. These defendants were charged with the operation of Sino for the benefit of all of its shareholders. The value of the shareholders' investments was based on, among other things:

- (a) the profitability of Sino;
- (b) the integrity of Sino's management and its ability to run the company in the interests of all shareholders;
- (c) Sino's compliance with its disclosure obligations;
- (d) Sino's ongoing representation that its corporate governance procedures met with reasonable standards, and that the business of the company was subjected to reasonable scrutiny; and
- (e) Sino's ongoing representation that its affairs and financial reporting were being conducted in accordance with GAAP.

124. This oppressive conduct impaired the ability of the Plaintiff and other Class Members to make informed investment decisions about Sino's securities. But for that conduct, the Plaintiff and the other Class Members would not have suffered the damages alleged herein.



*(6) general*

125. The Plaintiff pleads and relies on:

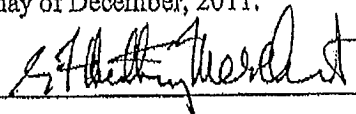
- (a) *The Class Actions Act*, S.S. 2001, c. C-12.01, as amended;
- (b) *The Canada Business Corporations Act*, R.S. 1985, c. C-44, as am., including ss. 238 and 241;
- (c) *The Pre-Judgment Interest Act*, S.S. 1984-85-85, c. P.22.2, as am., including s. 5(1);
- (d) *The Securities Act*, S.S. 1988-89, c. S-42.2, as amended; and
- (d) *The Queen's Bench Rules*, including rules 388 and 394.

*(7) relief sought*

126. The Plaintiff therefore claims, on behalf of himself and the Class:

- (a) an order that Sino's affairs have been conducted in a manner that is oppressive, unfairly prejudicial to and which unfairly disregards the interests of Class Members, within the meaning of s. 241;
- (b) aggravated and compensatory damages against the Defendants in an amount to be determined at trial;
- (c) punitive damages against the Defendants;
- (d) prejudgment interest;
- (e) costs including the costs of notice and of administering the plan of distribution of the recovery in this action plus applicable taxes; and
- (f) such further and other relief as this Honourable Court deems just.

DATED at Regina, Saskatchewan, on the 1<sup>st</sup> day of December, 2011.



Delivered By:

MERCHANT LAW GROUP LLP,

- 42 -

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H:\Wpdate\Class Actions\Sino Forest\S of C.wpd

