

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

**IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36. AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT
OF SINO-FOREST CORPORATION**

**FACTUM OF THE AD HOC COMMITTEE OF NOTEHOLDERS
OF SINO-FOREST CORPORATION
(Approval of Ernst & Young Settlement
Motion returnable February 4, 2013)**

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I OVERVIEW

1. This factum is submitted by the ad hoc committee of Noteholders of Sino-Forest Corporation (the “**Ad Hoc Noteholders**”), who upon the implementation of the Plan of Compromise and Reorganization dated December 3, 2012, concerning, affecting and involving Sino-Forest Corporation (“**SFC**” or the “**Company**”) approved by this Honourable Court on December 10, 2012 (as amended in accordance with its terms, the “**Plan**”) ceased to be noteholders of SFC and became shareholders and noteholders of Newco, the newly formed entity to which substantially all of SFC’s assets were transferred pursuant to the Plan. This factum is submitted in support of the motion to approve the Ernst & Young Settlement.

2. For purposes of this Factum, all capitalized terms not otherwise defined herein have the meaning ascribed to them in the Plan and in the Fifteenth Report of FTI Consulting Canada Inc. in its capacity as Court-appointed Monitor (the “**Monitor**”) dated January 28, 2013 (the “**Monitor’s Fifteenth Report**”).

II **FACTS**

3. SFC sought relief under the CCAA on March 30, 2012 in order to restructure its business as soon as possible for the benefit of its stakeholders. The Company and the Monitor repeatedly noted the urgency of the CCAA proceedings. On several occasions, the Monitor stated in its reports the need to complete this proceeding as soon as possible to preserve the value of the SFC business.

4. SFC is a holding company whose assets and business were comprised entirely of its subsidiaries. There could be no effective restructuring of SFC's business and separation from the Canadian parent, which was a stated objective of these proceedings since their commencement, if the claims asserted against SFC's subsidiaries arising out of, or connected to, claims against SFC remained outstanding.

5. Throughout the proceedings the Ad Hoc Noteholders supported the Company in its efforts to develop a restructuring transaction that would be supported by the Company's affected creditors, including by participating in a mediation that took place among the Company, the Canadian Plaintiffs, the Third Party Defendants, the Monitor and the Initial Consenting Noteholders (who comprised the Ad Hoc Noteholders) on September 4, 2012 and September 5, 2012 pursuant to the Mediation Order granted by the Honourable Court on July 25, 2012, with a view to resolving the class action claims against SFC and the Third Party Defendants.

6. The terms of the Ernst & Young Settlement include, *inter alia*, the provision of a release in favour of Ernst & Young in respect of all claims related to SFC. In connection therewith, the Plan was amended to provide for a framework for the potential release of all Ernst & Young Claims in connection with the Ernst & Young Settlement.

7. In connection with the amendments to the Plan in respect of the Ernst & Young Settlement, Ernst & Young agreed that, among other things, it would not receive any consideration under the Plan, waived all rights to appeal and supported and voted for the Plan.

8. The Ernst & Young Settlement was a positive development in the Company's restructuring and provided certain tangible benefits to the Company, its stakeholders and these CCAA proceedings, including:

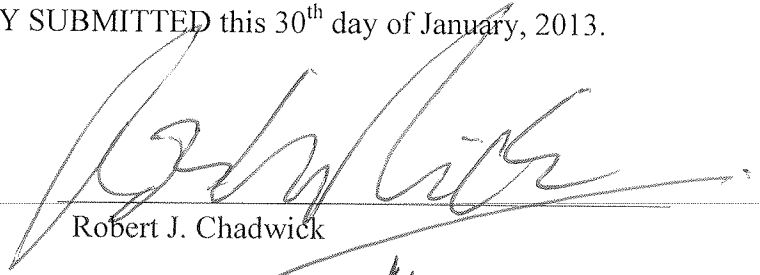
- a. Ernst & Young agreed to support the Plan;
- b. Ernst & Young agreed to the release of its claims against SFC and its subsidiaries thereby eliminating the expense relating to the litigation of its claims and the potential dilution of the recovery by the Affected Creditors (including the Initial Consenting Noteholders) if Ernst & Young's claims were ultimately determined to be Proven Claims under the Plan;
- c. Ernst & Young agreed not to seek leave to appeal to the Supreme Court of Canada in respect of the dismissal by the Court of Appeal for Ontario of Ernst & Young's appeal of the Equity Claims Decision;
- d. Ernst & Young agreed not to receive any distributions of any kind under the Plan, as have the other Third Party Defendants, thereby materially decreasing the Unresolved Claims Reserve and the potential for a corresponding dilution of consideration paid to the Affected Creditors; and
- e. the Ernst & Young Settlement provides a recovery to the equity holders of SFC that would not otherwise receive any distributions under the Plan.

9. The Ernst & Young Settlement contributed to the overall timeliness of the Sanction Order and the implementation of the Plan.

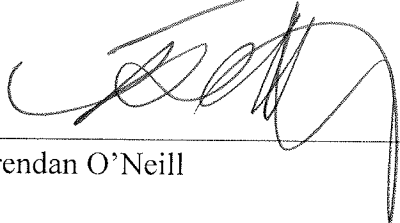
III LAW AND ARGUMENT

10. The Ad Hoc Noteholders adopt the law and arguments regarding the test for approving the Ernst & Young Settlement in this CCAA proceeding as set out in Ernst & Young's factum and SFC's factum. The Ad Hoc Noteholders submit that all of the requisite criteria have been satisfied and on that basis support the motion for approval of the Ernst & Young Settlement.

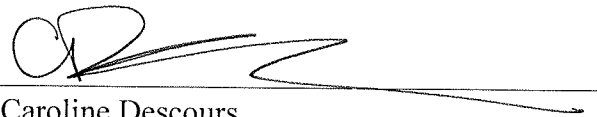
11. ALL OF WHICH IS RESPECTFULLY SUBMITTED this 30th day of January, 2013.



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Lawyers for the Ad Hoc Committee of
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Court File No. CV-12-9667-00CL

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Proceeding commenced at TORONTO

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