

**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 IN THE MATTER OF SINO-FOREST  
CORPORATION**

**MOTION RECORD**

**(Stay Extension Motion Returnable May 31, 2012)**

May 25, 2012

**BENNETT JONES LLP**  
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TO: THE SERVICE LIST

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**ONTARIO  
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**TAB 1**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

**NOTICE OF MOTION**

**(Stay Extension Motion Returnable May 31, 2012)**

The applicant, Sino-Forest Corporation ("SFC" or the "Applicant"), will make a motion to Justice Morawetz of the Commercial List court on Thursday, May 31, 2012 at 10:00 a.m., or as soon after that time as the motion can be heard, at 330 University Avenue, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR AN ORDER :

- (a) extending the Stay Period (as defined in the Initial Order in the proceedings pursuant to the *Companies' Creditors Arrangement Act*, (Canada) R.S.C. 1985, c. C-36, as amended (the "CCAA") granted by this Honourable Court on March 30, 2012 (the "Initial Order")) to September 28, 2012;
- (b) If necessary, abridging the time for service of the Notice of Motion and Motion Record in respect of this motion and dispensing with further service thereof; and

- (c) Such further and other relief as counsel may request and this Honourable Court deems just.

THE GROUNDS FOR THE MOTION ARE:

**BACKGROUND**

- a) On March 30, 2012, this Honourable Court made an Initial Order granting the CCAA stay of proceedings (the "CCAA Stay") against the Applicant and certain of its subsidiaries and appointing FTI Consulting Canada Inc. as the monitor (the "Monitor") in the CCAA proceedings;
- b) Also on March 30, 2012, this Honourable Court made the Sale Process Order approving sale process procedures in the form attached thereto (the "Sale Process Procedures") and authorizing and directing SFC, the Monitor and Houlihan Lokey to perform each of their obligations thereunder and to do all things reasonably necessary to perform their obligations thereunder;
- c) Since the commencement of the CCAA proceedings, the Applicant has implemented or is in the process of implementing a number of key work streams contemplated by the Sale Process Procedures;
- d) On April 13, 2012, this Honourable Court extended the CCAA Stay to June 1, 2012;

- e) On May 14, 2012, this Honourable Court issued a Claims Procedure Order setting out the manner by which claims against SFC and others will be advanced within this proceeding;

#### **EXTENSION OF THE STAY PERIOD**

- f) The Applicant is proceeding in good faith with due diligence;
- g) The Applicant has obtained a significant number of Support Agreement joinders pursuant to the application of a court approved early consent process wherein noteholders who supported the Sales Process Procedures were provided with an opportunity to exchange their notes for additional consideration before May 15, 2012;
- h) The Applicant requires an extension of the Stay Period to September 28, 2012 while it continues to work towards implementing a transaction pursuant to the Sale Process Procedures, advancing the process set out in the Claims Procedure Order, and other matters;
- i) An extension of the Stay Period to September 28, 2012 will allow SFC to concentrate all of its activities toward these processes and other efforts designed to arrive at a consensual resolution of SFC's outstanding debt issues;

#### **MISCELLANEOUS**

- \* j) The provisions of the CCAA;



- k) Such further and other grounds as counsel may advise and this Honourable Court permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

- a) The affidavit of W. Judson Martin sworn May 25, 2012;
- b) The Third Report of the Monitor; and
- c) Such further or other material as counsel may advise and this Honourable Court may permit.

May 25, 2012

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Lawyers for the Applicant

TO: THE SERVICE LIST

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

Court File No. CV-12-9667-00CL

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

Proceedings commenced in Toronto

**NOTICE OF MOTION**

**(Stay Extension Order  
Returnable May 31, 2012)**

**BENNETT JONES LLP**  
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**TAB 2**

Court File No. CV-12-9667-00CL

**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

**AFFIDAVIT OF W. JUDSON MARTIN  
(Sworn May 25, 2012)**

I, W. Judson Martin, of the City of Hong Kong, Special Administrative Region, People's Republic of China, **MAKE OATH AND SAY:**

1. I am the Vice-Chairman and Chief Executive Officer of Sino-Forest Corporation ("SFC"). I therefore have personal knowledge of the matters set out below, except where otherwise stated. Where I do not possess personal knowledge, I have stated the source of my information and I believe such information to be true.
2. Capitalized terms not defined in this affidavit are as defined in my affidavit sworn March 30, 2012 (the "Initial Order Affidavit").

## **BACKGROUND**

3. On March 30, 2012, this Honourable Court made an Initial Order granting the CCAA stay of proceedings against the Applicant and certain of its subsidiaries and appointing FTI Consulting Canada Inc. as the Monitor in the CCAA proceedings. A copy of the Initial Order is attached as Exhibit "A".

4. At the time that the CCAA proceedings were commenced, SFC also announced that it had entered into a Restructuring Support Agreement with members of an ad hoc group of noteholders in connection with a proposed comprehensive restructuring of SFC's ownership interest in its business operations (the "Support Agreement").

5. Also on March 30, 2012, this Honourable Court made the Sale Process Order approving sale process procedures in the form attached thereto (the "Sale Process Procedures") and authorizing and directing SFC, the Monitor and Houlihan Lokey to do all things reasonably necessary to perform each of their obligations thereunder.

6. On April 13, 2012, this Honourable Court made an Order extending the Stay Period (as defined in the Initial Order) to June 1, 2012.

## **STEPS TAKEN TO FACILITATE THE SALES PROCESS**

### **i. Continued positive response to CCAA filing**

7. Following the issuance of the Initial Order, Sino-Forest reached out to its stakeholders and business partners in the PRC to advise of the CCAA proceeding. The response received from stakeholders and business partners to date has been positive. To date, no loans have been called

by any of Sino-Forest's PRC banks. However, one recurring theme which has emerged from the discussions had with stakeholders in the PRC has been that, while the transactions contemplated by the Support Agreement were viewed positively, such stakeholders were more focused on the need for SFC's restructuring to be completed on an expedited basis – particularly in order to participate in the Q4 sales season. It is clear to me that continued support from stakeholders in the PRC may diminish substantially the longer these proceedings continue without resolution.

**ii. Order Expanding the Powers of the Monitor**

8. On April 20, 2012 this Honourable Court granted an Order outlining and expanding the powers of the Monitor. Pursuant to the Order, the Monitor has, among other things, implemented processes and protocols for the review, consultation and monitoring of Sino-Forest's receipts, disbursements and management and business operations.

9. To date, SFC and its advisors have fully cooperated with the Monitor to ensure that it has all of the information it requires throughout the process in compliance with the established communication and reporting protocols.

**iii. Third Party Stay of Proceedings**

10. On May 8, 2012, this Honourable Court issued a Third Party Stay Order pursuant to which all Proceedings (as defined in the Initial Order) against the Applicant and any other defendants in the Ontario Class Action (as defined therein) are barred pending expiration of the Stay Period (as defined in the Initial Order). Pursuant to the Third Party Stay Order, the Applicant also entered into agreements providing for the tolling of certain limitation periods.

**iv. Poyry Settlement Leave Motion**

11. Also on May 8, 2012, this Honourable Court issued an order granting leave to the plaintiffs in the Ontario Class Action (as defined therein) to proceed, after September 1, 2012, with, among other things, a motion for approval of a settlement between the plaintiffs in the Ontario Class Action and Poyry.

**v. Claims Procedure Order**

12. On May 14, 2012, this Honourable Court made a Claims Procedure Order outlining, among other things, the manner by which the Monitor shall evaluate and review claims asserted against the Applicant (as defined in the Initial Order) and others.

**vi. Motion Seeking Public Disclosure**

13. On May 14, 2012 this Honourable Court also heard a motion commenced by Contrarian Capital Management, LLC seeking an order compelling the Applicant to make public disclosure of certain of its assets and financial information. By the Order of the Honourable Justice Morawetz dated May 14, 2012, Contrarian's motion seeking public disclosure of certain financial information was denied.

**vii. Ontario Securities Commission Investigation**

14. My Initial Order Affidavit set out the history of the OSC's investigation into SFC that followed the release of the MW Report, and SFC's efforts to address the same allegations. My Initial Order Affidavit also indicated that investigative work had produced evidence of improper

conduct and that SFC was not able to determine if this conduct was material from a financial reporting perspective.

15. As disclosed in my affidavit sworn April 11, 2012, in support of an order extending the Stay Period (as defined in the Initial Order), on April 5, 2012, SFC received an "enforcement notice" from staff of the OSC. The enforcement notice identified issues that had been the subject of investigation, and afforded SFC opportunity to make representations before formal proceedings were commenced against SFC.

16. Following receipt of the enforcement notice SFC and its advisors had extensive discussions with the Monitor and its counsel and with counsel for the Noteholders concerning the allegations contained in and the issues raised by the enforcement notice.

17. Subsequent to receipt of the enforcement notice, SFC and its advisors have had without prejudice communications with OSC staff, and have made efforts to cooperate with the OSC's investigation.

18. On May 22, 2012, OSC staff commenced formal proceedings against SFC by issuing a Notice of Hearing (the "Notice of Hearing") and Statement of Allegations (the "Statement of Allegations") against the company and others. The allegations in the Statement of Allegations are consistent with those in the enforcement notice. A copy of the Notice of Hearing and Statement of Allegations are attached respectively as Exhibit "B" and "C".

19. On May 23, 2012, SFC issued a press release advising that the OSC had commenced proceedings against SFC and six of its former officers and which summarized the allegations



advanced by the OSC in the Statement of Allegations. A copy of the press release dated May 23, 2012 is attached as Exhibit "D".

#### **EXTENSION OF THE STAY PERIOD**

20. The Monitor's First Report, which was filed in connection with the April 13, 2012 Stay Extension motion, set out updated cash flows. The Monitor's Third Report, which will be filed in connection with this motion, also sets out SFC's updated cash flow forecast which has been prepared by SFC and its advisors and was reviewed by the Monitor. The updated cash forecast provided in both the Monitor's First Report and the Monitor's Third Report demonstrates that SFC continues to hold sufficient funds to fund the proceedings through the proposed stay extension period.

21. Since the issuance of the April 13, 2012 Stay Extension Order, SFC has acted and continues to act in good faith and with due diligence. SFC has been working actively with SFC's advisors and the Monitor and its counsel to facilitate and complete Phase 1 of the Sale Process on a timely basis and is considering various manners in which the resolution of claims against SFC may be resolved on an expedited basis.

22. Noteholders were provided with a court approved opportunity to obtain additional consideration in exchange for their notes provided they executed a joinder to the Support Agreement before an early consent date, specified as May 15, 2012. SFC obtained a significant number of Support Agreement joinders before the early consent date, which in my view, is indicative of the high level of support for the Sales Process, as currently envisioned, amongst key stakeholders.

23. The extension of the Stay Period (as defined in the Initial Order) to September 28, 2012 is necessary in order to provide stability to Sino-Forest's business while SFC, with the assistance of its advisors and the Monitor, works diligently on implementing the Sale Process Procedures which would maximize long term value for the benefit of all stakeholders.

24. While SFC is seeking an extension of the stay until September 28, 2012, it fully intends to be back before this Court to move forward with the steps necessary in order for it to file a plan and convene meetings of creditors to consider such plan. In addition, the Sale Process Procedures call for the completion of Phase 1 of the Sale Process (the solicitation of non-binding letters of intent) by June 28, 2012. An extension of the Stay Period past the completion of Phase 1 of the Sale Process will create the certainty in the market place needed to encourage potential bidders to participate in the Sale Process.

25. I do not believe that any creditor will suffer any material prejudice if the Stay Period is extended.

SWORN BEFORE ME at the City of Hong )  
Kong, Special Administrative Region, )  
People's Republic of China, this 25th day of )  
May, 2012 )



W. Judson Martin

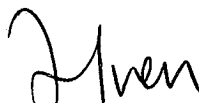
\_\_\_\_\_  
A Commissioner of Oaths



**Yuen Tik Yan Joyce**  
Solicitor  
Reed Smith  
Richards Butler  
20/F Alexandra House  
Hong Kong SAR

# TAB A

THIS IS EXHIBIT "A" REFERRED TO IN THE  
AFFIDAVIT OF W. JUDSON MARTIN, SWORN THIS  
25th DAY OF MAY, 2012



\_\_\_\_\_  
A Commissioner, etc

**Yuen Tik Yan Joyce**  
Solicitor  
Reed Smith  
Richards Butler  
20/F Alexandra House  
Hong Kong SAR

Court File No CV-12-9667-00CL

ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST

THE HONOURABLE MR.  
JUSTICE MORAWETZ

)  
)  
)

FRIDAY, THE 30<sup>th</sup>  
DAY OF MARCH, 2012

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

INITIAL ORDER

THIS APPLICATION, made by Sino-Forest Corporation (the "Applicant"), pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of W. Judson Martin sworn March 30, 2012 and the Exhibits thereto (the "Martin Affidavit") and the Pre-Filing Report of the Proposed Monitor, FTI Consulting Canada Inc. ("FTI") (the "Monitor's Pre-Filing Report"), and on being advised that there are no secured creditors who are likely to be affected by the charges created herein, and on hearing the submissions of counsel for the Applicant, the Applicant's directors, FTI, the *ad hoc* committee of holders of notes issued by the Applicant (the "Ad Hoc Noteholders"), and no one else appearing for any other party, and on reading the consent of FTI to act as the Monitor,

**SERVICE**

1. THIS COURT ORDERS that the time for service of the Notice of Application, the Application Record and the Monitor's Pre-Filing Report is hereby abridged and validated so that this Application is properly returnable today and hereby dispenses with further service thereof.

**APPLICATION**

2. THIS COURT ORDERS AND DECLARES that the Applicant is a company to which the CCAA applies.

**PLAN OF ARRANGEMENT**

3. THIS COURT ORDERS that the Applicant shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "Plan").

4. THIS COURT ORDERS that the Applicant shall be entitled to seek any ancillary or other relief from this Court in respect of any of its subsidiaries in connection with the Plan or otherwise in respect of these proceedings.

**POSSESSION OF PROPERTY AND OPERATIONS**

5. THIS COURT ORDERS that the Applicant shall remain in possession and control of its current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "Property"). Subject to further Order of this Court, the Applicant shall continue to carry on business in a manner consistent with the preservation of its business (the "Business") and Property. The Applicant shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "Assistants") currently retained or employed by it, with liberty to retain such further Assistants as it deems reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

6. THIS COURT ORDERS that the Applicant shall be entitled but not required to pay the following expenses, whether incurred prior to or after this Order:

- (a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay and expenses payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements;
- (b) the fees and disbursements of any Assistants retained or employed by the Applicant in respect of these proceedings, at their standard rates and charges;
- (c) the fees and disbursements of the directors and counsel to the directors, at their standard rates and charges; and
- (d) such other amounts as are set out in the March 29 Forecast (as defined in the Monitor's Pre-Filing Report and attached as Exhibit "DD" to the Martin Affidavit).

7. THIS COURT ORDERS that, except as otherwise provided to the contrary herein, the Applicant shall be entitled but not required to pay all reasonable expenses incurred by the Applicant in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services; and
- (b) payment for goods or services actually supplied to the Applicant following the date of this Order.

8. THIS COURT ORDERS that the Applicant shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;

- (b) all goods and services or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the Applicant in connection with the sale of goods and services by the Applicant, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order; and
- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Applicant.

9. THIS COURT ORDERS that until a real property lease is disclaimed or resiliated in accordance with the CCAA, the Applicant shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the Applicant and the landlord from time to time ("Rent"), for the period commencing from and including the date of this Order, twice-monthly in equal payments on the first and fifteenth day of each month, in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including the date of this Order shall also be paid.

10. THIS COURT ORDERS that, except as specifically permitted herein, the Applicant is hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicant to any of its creditors as of this date; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of its Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.



**RESTRUCTURING**

11. THIS COURT ORDERS that the Applicant shall, subject to such requirements as are imposed by the CCAA and such covenants as may be contained in the Support Agreement (as defined below), have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of its business or operations, and to dispose of redundant or non-material assets not exceeding US\$500,000 in any one transaction or US\$1,000,000 in the aggregate;
- (b) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate; and
- (c) pursue all avenues of refinancing of its Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing

all of the foregoing to permit the Applicant to proceed with an orderly restructuring of the Business.

12. THIS COURT ORDERS that the Applicant shall provide each of the relevant landlords with notice of the Applicant's intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Applicant's entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the Applicant, or by further Order of this Court upon application by the Applicant on at least two (2) days notice to such landlord and any such secured creditors. If the Applicant disclaims or resiliates the lease governing such leased premises in accordance with Section 32 of the CCAA, it shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer or resiliation of the lease shall be without prejudice to the Applicant's claim to the fixtures in dispute.

13. THIS COURT ORDERS that if a notice of disclaimer or resiliation is delivered pursuant to Section 32 of the CCAA, then (a) during the notice period prior to the effective time of the

disclaimer or rescission, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicant and the Monitor 24 hours' prior written notice, and (b) at the effective time of the disclaimer or rescission, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicant in respect of such lease or leased premises and such landlord shall be entitled to notify the Applicant of the basis on which it is taking possession and to gain possession of and re-lease such leased premises to any third party or parties on such terms as such landlord considers advisable, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

#### RESTRUCTURING SUPPORT AGREEMENT

14. THIS COURT ORDERS that the Applicant and the Monitor are authorized and directed to engage in the following procedures to notify noteholders of the restructuring support agreement dated as of March 30, 2012 (the "Support Agreement") between, among others, the Applicant and certain noteholders (the "Initial Consenting Noteholders"), appended as Exhibit "B" to the Martin Affidavit, to enable any additional noteholders to execute a Joinder Agreement in the form attached as Schedule "C" to the Support Agreement and to become bound thereby as Consenting Noteholders (as defined in the Support Agreement):

- (a) the Monitor shall without delay post a copy of the Support Agreement on its website at <http://ofcanada.fticonsulting.com/sfc> (the "Monitor's Website"); and
- (b) the notice to be published by the Monitor pursuant to paragraph 51 of this Order shall include a statement in form and substance acceptable to the Applicant, the Monitor and counsel to the Ad Hoc Noteholders, each acting reasonably, notifying noteholders of the Support Agreement and of the deadline of 5:00 p.m. (Toronto time) on May 15, 2012 (the "Consent Date") by which any noteholder (other than an Initial Consenting Noteholder) who wishes to become entitled to the Early Consent Consideration pursuant to the Support Agreement (if such Early Consent Consideration becomes payable pursuant to the terms thereof) must execute and return the Joinder Agreement to the Applicant, and shall direct noteholders to the Monitor's Website where a copy of the Support Agreement (including the Joinder Agreement) can be obtained.

15. THIS COURT ORDERS that any noteholder (other than an Initial Consenting Noteholder) who wishes to become a Consenting Noteholder and become entitled to the Early Consent Consideration (if such Early Consent Consideration becomes payable pursuant to the terms thereof, and subject to such noteholder demonstrating its holdings to the Monitor in accordance with the Support Agreement) must execute a Joinder Agreement and return it to the Applicant and the Noteholder Advisors (as defined below) in accordance with the instructions set out in the Support Agreement such that it is received by the Applicant and the Noteholder Advisors prior to the Consent Deadline and, upon so doing, such noteholder shall become a Consenting Noteholder and shall be bound by the terms of the Support Agreement.

16. THIS COURT ORDERS that as soon as practicable after the Consent Deadline, the Applicant shall provide to the Monitor copies of all executed Joinder Agreements received from noteholders prior to the Consent Deadline.

#### **NO PROCEEDINGS AGAINST THE APPLICANT OR THE PROPERTY**

17. THIS COURT ORDERS that until and including April 29, 2012, or such later date as this Court may order (the "Stay Period"), no proceeding or enforcement process in any court or tribunal (each, a "Proceeding") shall be commenced or continued against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicant and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Applicant or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

18. THIS COURT ORDERS that until and including the Stay Period, no Proceeding shall be commenced or continued by any noteholder, indenture trustee or security trustee (each in respect of the notes issued by the Applicant, collectively, the "Noteholders") against or in respect of any of the Applicant's subsidiaries listed on Schedule "A" (each a "Subsidiary Guarantor", and collectively, the "Subsidiary Guarantors"), except with the written consent of the Applicant and the Monitor, or with leave of this Court, and any and all Proceedings currently under way by a Noteholder against or in respect of any Subsidiary Guarantors are hereby stayed and suspended pending further Order of this Court.

**NO EXERCISE OF RIGHTS OR REMEDIES**

19. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended and shall not be commenced, proceeded with or continued, except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, (iv) prevent the registration of a claim for lien, or (v) prevent the exercise of any termination rights of the Consenting Noteholders under the Support Agreement.

20. THIS COURT ORDERS that during the Stay Period, all rights and remedies of the Noteholders against or in respect of the Subsidiary Guarantors are hereby stayed and suspended and shall not be commenced, proceeded with or continued, except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower any Subsidiary Guarantor to carry on any business which such Subsidiary Guarantor is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

**NO INTERFERENCE WITH RIGHTS**

21. THIS COURT ORDERS that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicant, except with the written consent of the Applicant and the Monitor, or leave of this Court.

### CONTINUATION OF SERVICES

22. THIS COURT ORDERS that during the Stay Period, all Persons having oral or written agreements with the Applicant or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Business or the Applicant, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicant or exercising any other remedy provided under such agreement or arrangements, and that the Applicant shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Applicant in accordance with normal payment practices of the Applicant or such other practices as may be agreed upon by the supplier or service provider and each of the Applicant and the Monitor, or as may be ordered by this Court.

### NON-DEROGATION OF RIGHTS

23. THIS COURT ORDERS that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of lease or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the Applicant. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

### PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

24. THIS COURT ORDERS that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicant with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicant whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such

obligations, until a compromise or arrangement in respect of the Applicant, if one is filed, is sanctioned by this Court or is refused by the affected creditors of the Applicant or this Court.

#### **DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE**

25. THIS COURT ORDERS that the Applicant shall (i) indemnify its directors and officers against obligations and liabilities that they may incur as directors or officers of the Applicant after the commencement of the within proceedings, and (ii) make payments of amounts for which its directors and officers may be liable as obligations they may incur as directors or officers of the Applicant after the commencement of the within proceedings, except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

26. THIS COURT ORDERS that the directors and officers of the Applicant shall be entitled to the benefit of and are hereby granted a charge (the "Directors' Charge") on the Property (other than the Applicant's assets which are subject to the Personal Property Security Act registrations on Schedule "B" hereto (the "Excluded Property")), which charge shall not exceed an aggregate amount of \$3,200,000, as security for the indemnity provided in paragraph 25 of this Order. The Directors' Charge shall have the priority set out in paragraphs 38 and 40 herein.

27. THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicant's directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 25 of this Order.

#### **APPOINTMENT OF MONITOR**

28. THIS COURT ORDERS that FTI is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Applicant with the powers and obligations set out in the CCAA or set forth herein and that the Applicant and its shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicant pursuant to this Order, and shall co-operate fully with the Monitor

in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

29. THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Applicant's receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;
- (c) advise the Applicant in its preparation of the Applicant's cash flow statements, as required from time to time;
- (d) advise the Applicant in its development of the Plan and any amendments to the Plan;
- (e) assist the Applicant, to the extent required by the Applicant, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan, as applicable;
- (f) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Applicant to the extent that is necessary to adequately assess the Applicant's business and financial affairs or to perform its duties arising under this Order;
- (g) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;
- (h) carry out and fulfill its obligations under the Support Agreement in accordance with its terms; and
- (i) perform such other duties as are required by this Order or by this Court from time to time.

30. THIS COURT ORDERS that without limiting paragraph 29 above, in carrying out its rights and obligations in connection with this Order, the Monitor shall be entitled to take such reasonable steps and use such services as it deems necessary in discharging its powers and obligations, including, without limitation, utilizing the services of FTI Consulting (Hong Kong) Limited ("FTI HK").

31. THIS COURT ORDERS that the Monitor shall not take possession of the Property (or any property or assets of the Applicant's subsidiaries) and shall take no part whatsoever in the management or supervision of the management of the Business (or any business of the Applicant's subsidiaries) and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof (or of any business, property or assets, or any part thereof, of any subsidiary of the Applicant).

32. THIS COURT ORDERS that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property (or any property of any subsidiary of the Applicant) that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "Environmental Legislation"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property (or of any property of any subsidiary of the Applicant) within the meaning of any Environmental Legislation, unless it is actually in possession.

33. THIS COURT ORDERS that the Monitor shall provide any creditor of the Applicant with information provided by the Applicant in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any



responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicant is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicant may agree.

34. THIS COURT ORDERS that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

35. THIS COURT ORDERS that the Monitor, counsel to the Monitor, counsel to the Applicant, counsel to the directors, Houlhan Lokey Capital Inc. (the "Financial Advisor"), FTI HK, counsel to the Ad Hoc Noteholders and the financial advisor to the Ad Hoc Noteholders (together with counsel to the Ad Hoc Noteholders, the "Noteholder Advisors") shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Applicant, whether incurred prior to or subsequent to the date of this Order, as part of the costs of these proceedings. The Applicant is hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor, counsel for the Applicant, counsel to the directors, the Financial Advisor, FTI HK, and the Noteholder Advisors on a weekly basis or otherwise in accordance with the terms of their engagement letters.

36. THIS COURT ORDERS that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

37. THIS COURT ORDERS that the Monitor, counsel to the Monitor, the Applicant's counsel, counsel to the directors, the Financial Advisor, FTI HK, and the Noteholder Advisors shall be entitled to the benefit of and are hereby granted a charge (the "Administration Charge") on the Property (other than the Excluded Property), which charge shall not exceed an aggregate amount of \$15,000,000 as security for their professional fees and disbursements incurred at their respective standard rates and charges in respect of such services, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 38 and 40 hereof.

**VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER**

38. THIS COURT ORDERS that the priorities of the Directors' Charge and the Administration Charge, as between them, shall be as follows:

First – Administration Charge (to the maximum amount of \$15,000,000); and

Second – Directors' Charge (to the maximum amount of \$3,200,000).

39. THIS COURT ORDERS that the filing, registration or perfection of the Directors' Charge or the Administration Charge (collectively, the "Charges") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

40. THIS COURT ORDERS that each of the Charges shall constitute a charge on the Property (other than the Excluded Property) and shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "Encumbrances") in favour of any Person.

41. THIS COURT ORDERS that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicant shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Charges, unless the Applicant also obtains the prior written consent of the Monitor, the beneficiaries of the Directors' Charge and the beneficiaries of the Administration Charge, or further Order of this Court.

42. THIS COURT ORDERS that the Charges shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "Chargees"), shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or

other agreement (collectively, an "Agreement") which binds the Applicant, and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of any documents in respect thereof shall create or be deemed to constitute a breach by the Applicant of any Agreement to which it is a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the creation of the Charges; and
- (c) the payments made by the Applicant pursuant to this Order and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

43. THIS COURT ORDERS that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Applicant's interest in such real property leases.

#### APPROVAL OF FINANCIAL ADVISOR AGREEMENT

44. THIS COURT ORDERS that the letter agreement dated as of December 22, 2012 with respect to the Financial Advisor in the form attached as Exhibit "CC" to the Martin Affidavit (the "Financial Advisor Agreement") and the retention of the Financial Advisor under the terms thereof, including the payments to be made to the Financial Advisor thereunder, are hereby approved.

45. THIS COURT ORDERS that the Applicant is authorized and directed to make the payments contemplated in the Financial Advisor Agreement in accordance with the terms and conditions thereof.

**POSTPONEMENT OF ANNUAL GENERAL MEETING**

46. THIS COURT ORDERS that the Applicant be and is hereby relieved of any obligation to call and hold an annual meeting of its shareholders until further Order of this Court.

**FOREIGN PROCEEDINGS**

47. THIS COURT ORDERS that the Monitor is hereby authorized and empowered to act as the foreign representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside of Canada.

48. THIS COURT ORDERS that the Monitor is hereby authorized, as the foreign representative of the Applicant and of the within proceedings, to apply for foreign recognition of these proceedings, as necessary, in any jurisdiction outside of Canada, including as "Foreign Main Proceedings" in the United States pursuant to Chapter 15 of the *U.S. Bankruptcy Code*.

49. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada, the United States, Barbados, the British Virgin Islands, Cayman Islands, Hong Kong, the People's Republic of China or in any other foreign jurisdiction, to give effect to this Order and to assist the Applicant, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicant and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicant and the Monitor and their respective agents in carrying out the terms of this Order.

50. THIS COURT ORDERS that each of the Applicant and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order and any other Order issued in these proceedings.

**SERVICE AND NOTICE**

51. THIS COURT ORDERS that the Monitor shall (i) without delay, publish in the Globe and Mail and the Wall Street Journal a notice containing the information prescribed under the CCAA, (ii) within seven days after the date of this Order, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Applicant of more than \$1,000, and (C) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

52. THIS COURT ORDERS that each of the Applicant and the Monitor be at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery, facsimile transmission or email to the Applicant's creditors or other interested parties at their respective addresses as last shown on the records of the Applicant and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

53. THIS COURT ORDERS that the Applicant, the Monitor, and any party who has filed a Notice of Appearance may serve any court materials in these proceedings by e-mailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, and the Monitor may post a copy of any or all such materials on the Monitor's Website.

**GENERAL**

54. THIS COURT ORDERS that the Applicant or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

55. THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicant, the Business or the Property.

56. THIS COURT ORDERS that any interested party (including the Applicant and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

57. THIS COURT ORDERS that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

A handwritten signature in black ink, appearing to read "M. J. Power", is written over a horizontal line.

ENTERED AT / INSCRIT A TORONTO  
ON / BOOK NO:  
LE / DANS LE REGISTRE NO.:

APR 2 - 2012

Handwritten initials, possibly "NM", in black ink.

## Schedule "A"

1. Sino-Panel Holdings Limited (BVI)
2. Sino-Global Holdings Inc. (BVI)
3. Sino-Wood Partners, Limited (HK)
4. Grandeur Winway Limited (BVI)
5. Sinowin Investments Limited (BVI)
6. Sinowood Limited (Cayman Islands)
7. Sino-Forest Bio-Science Limited (BVI)
8. Sino-Forest Resources Inc. (BVI)
9. Sino-Plantation Limited (HK)
10. Suro-Wood Inc. (BVI)
11. Sino-Forest Investments Limited (BVI)
12. Sino-Wood (Guangxi) Limited (HK)
13. Sino-Wood (Jiangxi) Limited (HK)
14. Sino-Wood (Guangdong) Limited (HK)
15. Sino-Wood (Fujian) Limited (HK)
16. Sino-Panel (Asia) Inc. (BVI)
17. Sino-Panel (Guangxi) Limited (BVI)
18. Sino-Panel (Yunnan) Limited (BVI)
19. Sino-Panel (North East China) Limited (BVI)
20. Sino-Panel [Xiangxi] Limited (BVI)
21. Sino-Panel [Hunan] Limited (BVI)
22. SFR (China) Inc. (BVI)
23. Sino-Panel [Suzhou] Limited (BVI)
24. Sino-Panel (Gaoyao) Ltd. (BVI)
25. Sino-Panel (Guangzhou) Limited (BVI)
26. Sino-Panel (North Sea) Limited (BVI)
27. Sino-Panel (Guizhou) Limited (BVI)
28. Sino-Panel (Huaihua) Limited (BVI)
29. Sino-Panel (Qinzhou) Limited (BVI)
30. Sino-Panel (Yongzhou) Limited (BVI)
31. Sino-Panel (Fujian) Limited (BVI)
32. Sino-Panel (Shaoyang) Limited (BVI)
33. Amplemax Worldwide Limited (BVI)
34. Ace Supreme International Limited (BVI)
35. Express Point Holdings Limited (BVI)
36. Glory Billion International Limited (BVI)
37. Smart Sure Enterprises Limited (BVI)
38. Expert Bonus Investment Limited (BVI)
39. Dynamic Profit Holdings Limited (BVI)
40. Alliance Max Limited (BVI)
41. Brain Force Limited (BVI)
42. General Excel Limited (BVI)
43. Poly Market Limited (BVI)
44. Prime Kinetic Limited (BVI)
45. Trillion Edge Limited (BVI)
46. Sino-Panel (China) Nursery Limited (BVI)

47. Sino-Wood Trading Limited (BVI)
48. Homix Limited (BVI)
49. Sino-Panel Trading Limited (BVI)
50. Sino-Panel (Russia) Limited (BVI)
51. Sino-Global Management Consulting Inc. (BVI)
52. Value quest International Limited (BVI)
53. Well Keen Worldwide Limited (BVI)
54. Harvest Wonder Worldwide Limited (BVI)
55. Cheer Gold Worldwide Limited (BVI)
56. Regal Win Capital Limited (BVI)
57. Rich Choice Worldwide Limited (BVI)
58. Sino-Forest International (Barbados) Corporation
59. Mandra Forestry Holdings Limited (BVI)
60. Mandra Forestry Finance Limited (BVI)
61. Mandra Forestry Anhui Limited (BVI)
62. Mandra Forestry Hubel Limited (BVI)
63. Sino-Capital Global Inc. (BVI)
64. Elite Legacy Limited (BVI)



PERSONAL PROPERTY SECURITY REGISTRATION SYSTEM  
SEARCH RESULTS

Date Search Conducted: 3/29/2012  
File Currency Date: 03/28/2012  
Family(ies): 6  
Page(s): 8

SEARCH : Business Debtor : SINO-FOREST CORPORATION

The attached report has been created based on the data received by Cyberbahn, a Thomson Reuters business from the Province of Ontario, Ministry of Government Services. No liability is assumed by Cyberbahn regarding its correctness, timeliness, completeness or the interpretation and use of the report. Use of the Cyberbahn service, including this report is subject to the terms and conditions of Cyberbahn's subscription agreement.

PERSONAL PROPERTY SECURITY REGISTRATION SYSTEM  
SEARCH RESULTS

Date Search Conducted: 3/29/2012  
File Currency Date: 03/28/2012  
Family(ies): 6  
Page(s): 8

SEARCH : Business Debtor : SINO-FOREST CORPORATION

FAMILY : 1 OF 6 ENQUIRY PAGE : 1 OF 8  
SEARCH : BD : SINO-FOREST CORPORATION

00 FILE NUMBER : 609324408 EXPIRY DATE : 27SEP 2015 STATUS ;  
01 CAUTION FILING ; PAGE : 001 OF 1 MV SCHEDULE ATTACHED :  
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02 IND DOB ; IND NAME;  
03 BUS NAME: SINO-FOREST CORPORATION OCN ;

04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208  
CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3  
05 IND DOB ; IND NAME;  
06 BUS NAME; OCN ;

07 ADDRESS ; OCN ;  
CITY : PROV: POSTAL CODE;

08 SECURED PARTY/LIEN CLAIMANT ;  
LAW DEBENTURE TRUST COMPANY OF NEW YORK  
09 ADDRESS : 767 THIRD AVENUE, 31ST FLOOR  
CITY : NEW YORK PROV: NY POSTAL CODE: 10017  
CONS. MV DATE OF OR NO FIXED  
GOODS INVTRY. EQUIP ACCTS OTHER INCL AMOUNT MATURITY MAT DATE

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GENERAL COLLATERAL DESCRIPTION  
13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR PURSUANT TO  
14 A PLEDGE AGREEMENT AND SHARE CHARGE.  
15  
16 AGENT: AIRD & BERLIS LLP #2  
17 ADDRESS : 181 BAY STREET, SUITE 1800  
CITY : TORONTO PROV: ON POSTAL CODE: M5J2T9

FAMILY : 1 OF 6 ENQUIRY PAGE : 2 OF 8  
 SEARCH ; BD : SINO-FOREST CORPORATION

FILE NUMBER 609324408

PAGE TOT REGISTRATION NUM REG TYPE  
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 22 AMEND PAGE; NO PAGE; CHANGE: A AMNDMNT REN YEARS; CORR PER;  
 23 REFERENCE DEBTOR/ IND NAME;  
 24 TRANSFEROR: BUS NAME: SINO-FOREST CORPORATION

25 OTHER CHANGE;  
 26 REASON: TO AMEND SECURED PARTY ADDRESS AND TO AMEND GENERAL COLLATERAL  
 27 /DESCR: DESCRIPTION TO DELETE THE WORDS "PURSUANT TO A PLEDGE AGREEMENT AND  
 28 : SHARE CHARGE"  
 02/05 IND/TRANSFEREE;  
 03/06 BUS NAME/TRFEE;

OCN;

04/07 ADDRESS:  
 CITY: PROV: POSTAL CODE:  
 29 ASSIGNOR:

08 SECURED PARTY/LIEN CLAIMANT/ASSIGNEE :  
 LAW DEBENTURE TRUST COMPANY OF NEW YORK  
 09 ADDRESS : 400 MADISON AVENUE, 4TH FLOOR  
 CITY : NEW YORK PROV ; NY POSTAL CODE ; 10017  
 CONS. MV DATE OF NO FIXED  
 GOODS INVTRY EQUIP ACCTS OTHER INCL AMOUNT MATURITY OR MAT DATE

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 13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR  
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16 NAME ; AIRD & BERLIS LLP  
 17 ADDRESS ; 181 BAY STREET, SUITE 1800, BOX# 754  
 CITY ; TORONTO PROV : ON POSTAL CODE : M5J2T9

FAMILY : 1 OF 6  
SEARCH : BD : SINO-FOREST CORPORATION

ENQUIRY PAGE : 3 OF 8

FILE NUMBER 609324408

PAGE TOT REGISTRATION NUM REG TYPE  
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23 REFERENCE DEBTOR/ IND NAME;  
24 TRANSFEROR; BUS NAME: SINO-FOREST CORPORATION

25 OTHER CHANGE:  
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02/05 IND/TRANSFEE;  
03/06 BUS NAME/TRFEE;

OCN:

04/07 ADDRESS:  
CITY: PROV: POSTAL CODE:  
29 ASSIGNOR:

08 SECURED PARTY/LIEN CLAIMANT/ASSIGNEE :

09 ADDRESS ;  
CITY : PROV : POSTAL CODE ;  
CONS. MV DATE OF NO FIXED  
GOODS INVTRY EQUIP ACCTS OTHER INCL AMOUNT MATURITY OR MAT DATE

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16 NAME : AIRD & BERLIS LLP  
17 ADDRESS : 181 BAY STREET, SUITE 1800, BOX# 754  
CITY ; TORONTO PROV : ON POSTAL CODE : M5J2T9

FAMILY : 2 OF 6 ENQUIRY PAGE : 4 OF 8  
 SEARCH : BD : SINO-FOREST CORPORATION

00 FILE NUMBER : 650314305 EXPIRY DATE : 03DEC 2013 STATUS :  
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OCN :  
 04 ADDRESS : 1208-90 BURNHAMTHORPE RD W  
 CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3  
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 06 BUS NAME:

OCN :  
 07 ADDRESS :  
 CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :  
 XEROX CANADA LTD

09 ADDRESS : 33 BLOOR ST. E. 3RD FLOOR  
 CITY : TORONTO PROV: ON POSTAL CODE: M4W3H1  
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GENERAL COLLATERAL DESCRIPTION

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16 AGENT: XEROX CANADA LTD

17 ADDRESS : 33 BLOOR ST. E. 3RD FLOOR  
 CITY : TORONTO PROV: ON POSTAL CODE: M4W3H1

FAMILY : 3 OF 6 ENQUIRY PAGE : 5 OF 8  
 SEARCH : BD : SINO-FOREST CORPORATION

00 FILE NUMBER : 655022304 EXPIRY DATE : 20JUL 2015 STATUS ;  
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 02 IND DOB : IND NAME;  
 03 BUS NAME: SINO-FOREST CORPORATION

OCN :  
 04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208  
 CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3  
 05 IND DOB : IND NAME;  
 06 BUS NAME:

OCN :  
 07 ADDRESS :  
 CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT ;  
 LAW DEBENTURE TRUST COMPANY OF NEW YORK  
 09 ADDRESS : 400 MADISON AVENUE, 4TH FLOOR  
 CITY : NEW YORK PROV: NY POSTAL CODE: 10017  
 CONS. MV DATE OF OR NO FIXED  
 GOODS INVTRY. EQUIP ACCTS OTHER INCL AMOUNT MATURITY MAT DATE  
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GENERAL COLLATERAL DESCRIPTION

13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR

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16 AGENT: AIRD & BERLIS LLP - SUSAN PAK

17 ADDRESS : 181 BAY STREET, SUITE 1800  
 CITY : TORONTO PROV: ON POSTAL CODE: M5J2T9

FAMILY : 4 OF 6 ENQUIRY PAGE : 6 OF 8  
 SEARCH : BD : SINO-FOREST CORPORATION

00 FILE NUMBER : 659079036 EXPIRY DATE : 03FEB 2016 STATUS :  
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 REG NUM : 20100203 1535 1793 2023 REG TYP: P PPSA REG PERIOD: 6  
 02 IND DOB : IND NAME:  
 03 BUS NAME: SINO-FOREST CORPORATION

OCN :  
 04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208  
 CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3  
 05 IND DOB : IND NAME:  
 06 BUS NAME:

OCN :  
 07 ADDRESS :  
 CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :  
 LAW DEBENTURE TRUST COMPANY OF NEW YORK

09 ADDRESS : 400 MADISON AVENUE, 4TH FLOOR  
 CITY : NEW YORK PROV: NY POSTAL CODE: 10017  
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GENERAL COLLATERAL DESCRIPTION

13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR

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15

16 AGENT: AIRD & BERLIS LLP (SPAK - 102288)

17 ADDRESS : 181 BAY STREET, SUITE 1800  
 CITY : TORONTO PROV: ON POSTAL CODE: M5J2T9

FAMILY : 5 OF 6 ENQUIRY PAGE : 7 OF 8  
 SEARCH : BD : SINO-FOREST CORPORATION

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 03 BUS NAME; SINO-FOREST CORPORATION

OCN :  
 04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208  
 CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3  
 05 IND DOB : IND NAME;  
 06 BUS NAME:

OCN :  
 07 ADDRESS :  
 CITY : PROV: POSTAL CODE;

08 SECURED PARTY/LIEN CLAIMANT :  
 LAW DEBENTURE TRUST COMPANY OF NEW YORK  
 09 ADDRESS : 400 MADISON AVENUE, 4TH FLOOR  
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GENERAL COLLATERAL DESCRIPTION

13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR.

14  
 15

16 AGENT: AIRD & BERLIS LLP (RMK-106760)

17 ADDRESS : 181 BAY STREET, SUITE 1800  
 CITY : TORONTO PROV: ON POSTAL CODE: M5J2T9



FAMILY : 6 OF 6 ENQUIRY PAGE : 8 OF 8  
 SEARCH : BD : SINO-FOREST CORPORATION

00 FILE NUMBER : 665928963 EXPIRY DATE : 17NOV 2016 STATUS :  
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 02 IND DOB : IND NAME:  
 03 BUS NAME: SINO-FOREST CORPORATION

OCN :  
 04 ADDRESS : 1208-90 BURNHAMTHORPE RD W  
 CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3  
 05 IND DOB : IND NAME:  
 06 BUS NAME:

OCN :  
 07 ADDRESS :  
 CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :  
 XEROX CANADA LTD

09 ADDRESS : 33 BLOOR ST. E, 3RD FLOOR  
 CITY : TORONTO PROV: ON POSTAL CODE: M4W3H1  
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GENERAL COLLATERAL DESCRIPTION

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15

16 AGENT: PPSA CANADA INC. - (3992)

17 ADDRESS : 110 SHEPPARD AVE EAST, SUITE 303  
 CITY : TORONTO PROV: ON POSTAL CODE: M2N6Y8

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

Court File No.

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

Proceedings commenced in Toronto

INITIAL ORDER

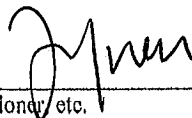
BENNETT JONES LLP  
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Suite 3400, P.O. Box 130  
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Robert W. Staley (LSUC #27115J)  
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Jonathan Bell (LSUC #55457P)  
Tel: 416-863-1200  
Fax: 416-863-1716

Lawyers for the Applicant

**TAB B**

THIS IS **EXHIBIT "B"** REFERRED TO IN THE  
AFFIDAVIT OF W. JUDSON MARTIN, SWORN THIS  
25th DAY OF MAY, 2012



\_\_\_\_\_  
A Commissioner, etc.

**Yuen Tik Yan Joyce**  
Solicitor  
Reed Smith  
Richards Butler  
20/F Alexandra House  
Hong Kong SAR



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

P.O. Box 55, 19<sup>th</sup> Floor  
20 Queen Street West  
Toronto ON M5H 3S8

CP 55, 19<sup>e</sup> étage  
20, rue queen ouest  
Toronto ON M5H 3S8

45

**IN THE MATTER OF THE *SECURITIES ACT*,  
R.S.O. 1990, c.S.5, as amended**

- and -

**IN THE MATTER OF  
SINO-FOREST CORPORATION, ALLEN CHAN, ALBERT IP,  
ALFRED C.T. HUNG, GEORGE HO, SIMON YEUNG  
and DAVID HORSLEY**

**NOTICE OF HEARING  
(Sections 127 and 127.1)**

**TAKE NOTICE** that the Commission will hold a hearing pursuant to sections 127 and 127.1 of the *Securities Act*, R.S.O. 1990, c. S.5 as amended (the "Act") at the offices of the Ontario Securities Commission located at 20 Queen Street West, 17<sup>th</sup> Floor, on July 12<sup>th</sup>, 2012 at 10:00 am or as soon thereafter as the hearing can be held;

**AND TAKE NOTICE** that the purpose of the hearing is to consider whether, in the Commission's opinion, it is in the public interest for the Commission to make an order:

- (a) pursuant to subsections 127(7) and (8) of the Act to continue the Temporary Order originally made on August 26, 2011 by the Commission against Sino-Forest Corporation ("Sino-Forest"), Allen Chan ("Chan"), Albert Ip ("Ip"), Alfred Hung ("Hung"), George Ho ("Ho") and Simon Yeung ("Yeung") until the end of the hearing on the merits in this matter or for such period as is specified by the Commission;
- (b) pursuant to clause 2 of subsection 127(1) of the Act that trading in any securities of Sino-Forest cease permanently;
- (c) pursuant to clause 2 of subsection 127(1) of the Act that trading in any securities by Sino-Forest, Chan, Ip, Hung, Ho, Yeung and David Horsley ("Horsley") (together, the "Respondents") cease permanently;

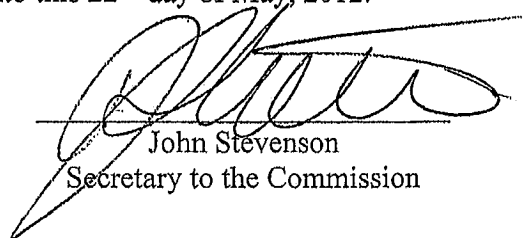
- (d) pursuant to clause 2.1 of subsection 127(1) of the Act that the acquisition of any securities by the Respondents be permanently prohibited;
- (e) pursuant to clause 3 of subsection 127(1) of the Act that any or all exemptions contained in Ontario securities law do not apply to the Respondents permanently;
- (f) pursuant to clause 6 of subsection 127(1) of the Act that the Respondents be reprimanded;
- (g) pursuant to clauses 7, 8.1 and 8.3 of subsection 127(1) of the Act that Chan, Ip, Hung, Ho, Yeung and Horsley resign all positions which they hold as an officer or director of any issuer, of any registrant or of any investment fund manager;
- (h) pursuant to clauses 8, 8.2 and 8.4 of subsection 127(1) of the Act that Chan, Ip, Hung, Ho, Yeung and Horsley be permanently prohibited from becoming or acting as an officer or director of any issuer, of any registrant or of any investment fund manager;
- (i) pursuant to clause 8.5 of subsection 127(1) of the Act that Chan, Ip, Hung, Ho, Yeung and Horsley be permanently prohibited from becoming or acting as a registrant, as an investment fund manager or as a promoter;
- (j) pursuant to clause 9 of subsection 127(1) of the Act that the Respondents each pay an administrative penalty of not more than \$1 million for each failure by that Respondent to comply with Ontario securities law;
- (k) pursuant to clause 10 of subsection 127(1) of the Act that the Respondents disgorge to the Commission any amounts obtained as a result of non-compliance with Ontario securities law;
- (l) pursuant to section 127.1 of the Act that the Respondents pay the costs of the Commission's investigation and the costs of or related to any hearing before the Commission; and
- (m) to make such other order as the Commission may deem appropriate.

**BY REASON OF** the allegations set out in the Statement of Allegations dated May 22, 2012, and such additional allegations as counsel may advise and the Commission may permit;

**AND TAKE FURTHER NOTICE** that any party to the proceeding may be represented by counsel at the hearing;

**AND TAKE FURTHER NOTICE** that upon failure of any party to attend at the time and place aforesaid, the hearing may proceed in the absence of that party and such party is not entitled to any further notice of the proceeding.

**DATED** at Toronto this 22<sup>nd</sup> day of May, 2012.



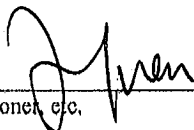
John Stevenson  
Secretary to the Commission

Name	Address	Telephone and E-mail
Bennett Jones LLP  <b>Robert W. Staley</b> <b>Alan Gardner</b> <b>(for Sino-Forest)</b>	One First Canadian Place Suite 3400, P.O. Box 130 Toronto, Ontario M5X 1A4	Robert W. Staley (416) 777-4857 Fax: (416) 863-1716 Email: <u>staley@bennettjones.com</u>  Alan P. Gardner (416) 777-6231 Fax: (416) 863-1716 Email: <u>gardner@bennettjones.com</u>
Miller Thomson LLP  <b>Emily Cole</b> <b>(for Chan)</b>	Scotia Plaza 40 King Street West, Suite 5900 Toronto, ON M5H 3S1	Tel: (416) 595-8640 Fax: (416) 595-8695 Email: <u>ecole@millerthomson.com</u>
McMillan LLP  <b>Markus Koehnen</b> <b>(for Ip, Hung, Ho</b> <b>and Yeung)</b>	Brookfield Place 181 Bay Street, Suite 4400 Toronto, ON M5J 2T3	Tel: (416) 865-7218 Fax: (416) 722-6721 Email: <u>markus.koehnen@mcmillan.ca</u>
WardleDaleyBernstein LLP  <b>Peter Wardle,</b> <b>(for Horsley)</b>	2104-401 Bay Street P.O. Box 21 Toronto On M5H 2Y4	Tel - (416) 351-2771 Fax - (416) 351-2791 E-mail: <u>pwardle@wdblaw.ca</u>

**TAB C**



THIS IS EXHIBIT "C" REFERRED TO IN THE  
AFFIDAVIT OF W. JUDSON MARTIN, SWORN THIS  
25th DAY OF MAY, 2012



\_\_\_\_\_  
A Commissioner, etc.

**Yuen Tik Yan Joyce**  
Solicitor  
Reed Smith  
Richards Butler  
20/F Alexandra House  
Hong Kong SAR



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

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CP 55, 19<sup>e</sup> étage  
20, rue queen ouest  
Toronto ON M5H 3S8

**IN THE MATTER OF THE *SECURITIES ACT*,  
R.S.O. 1990, c. S.5, AS AMENDED**

- AND -

**IN THE MATTER OF  
SINO-FOREST CORPORATION, ALLEN CHAN, ALBERT IP, ALFRED  
C.T. HUNG, GEORGE HO, SIMON YEUNG and DAVID HORSLEY**

**STATEMENT OF ALLEGATIONS**

Further to a Notice of Hearing dated May 22, 2012, Staff ("Staff") of the Ontario Securities Commission (the "Commission") make the following allegations:

**PART I. OVERVIEW AND SUMMARY OF ALLEGATIONS**

**A. Sino-Forest**

1. Sino-Forest Corporation ("Sino-Forest" or the "Company")<sup>1</sup> is a reporting issuer in the province of Ontario as that term is defined in subsection 1(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act"). Until recently, the common shares of Sino-Forest were listed on the Toronto Stock Exchange ("TSX").

2. Sino-Forest purportedly engaged primarily in the purchase and sale of Standing Timber in the People's Republic of China (the "PRC").

<sup>1</sup> Sino-Forest or the Company includes all of Sino-Forest's subsidiaries and companies that it controls as set out in its public disclosure record and as the context within this Statement of Allegations requires.

3. From February of 2003 until October of 2010, Sino-Forest raised approximately \$3.0 billion (US)<sup>2</sup> in cash from the issuance of equity and debt securities to investors (the "Investors")<sup>3</sup>.
4. From June 30, 2006 to March 31, 2011, Sino-Forest's share price grew from \$5.75 (Can) to \$25.30 (Can), an increase of 340%.<sup>4</sup> By March 31, 2011 Sino-Forest's market capitalization was well over \$6 billion.
5. In early June of 2011, the share price of Sino-Forest plummeted after a private analyst made allegations of fraud against Sino-Forest.
6. On November 15, 2011, Sino-Forest announced that it was deferring the release of its interim financial report for the third quarter of 2011.<sup>5</sup> Sino-Forest has never filed this interim financial report with the Commission.
7. On January 10, 2012, Sino-Forest issued a news release cautioning that its historic financial statements and related audit reports should not be relied upon.
8. Sino-Forest was required to file its 2011 audited annual financial statements with the Commission by March 30, 2012. That very day, Sino-Forest initiated proceedings in front of the Superior Court of Justice (Ontario) requesting protection from its creditors. Sino-Forest has never filed its 2011 audited annual financial statements with the Commission.
9. On April 4, 2012, the auditors of Sino-Forest resigned.
10. On May 9, 2012, the TSX delisted the shares of Sino-Forest.

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<sup>2</sup> Unless otherwise stated, all amounts presented in this Statement of Allegations and the attached Schedules are in United States Dollars.

<sup>3</sup> The Glossary attached as Schedule A contains a list of certain of the defined terms used in the Statement of Allegations and the paragraph where they are located within the Statement of Allegations.

<sup>4</sup> Attached as Schedule B is selected data from its audited annual financial statements for 2005 to 2010.

<sup>5</sup> The financial year end of Sino-Forest is December 31.

11. As set out below, Sino-Forest and its former senior executives, including Allen Chan (“Chan”), Albert Ip (“Ip”), Alfred C.T. Hung (“Hung”), George Ho (“Ho”) and Simon Yeung (“Yeung”), engaged in a complex fraudulent scheme to inflate the assets and revenue of Sino-Forest and made materially misleading statements in Sino-Forest’s public disclosure record related to its primary business.

12. Chan, former Chairman of the Board and Chief Executive Officer (“CEO”) of Sino-Forest until August 28, 2011, also committed fraud in relation to Sino-Forest’s purchase of a controlling interest in a company now known as Greenheart Group Limited (“Greenheart”). By concealing Chan’s substantial interest in this transaction, Chan and Sino-Forest made materially misleading statements in Sino-Forest’s public disclosure record.

13. Chan, Ip, Hung, Ho and Yeung (together, “Overseas Management”) all materially misled Staff during the investigation of this matter.

14. David Horsley (“Horsley”), former Senior Vice President and Chief Financial Officer (“CFO”) of Sino-Forest, did not comply with Ontario securities law and acted contrary to the public interest.

#### **B. The Standing Timber Fraud**

15. From June 30, 2006 until January 11, 2012 (the “Material Time”), Sino-Forest and Overseas Management engaged in numerous deceitful and dishonest courses of conduct (the “Standing Timber Fraud”) that ultimately caused the assets and revenue derived from the purchase and sale of Standing Timber (that constituted the majority of Sino-Forest’s business) to be fraudulently overstated, putting the pecuniary interests of Investors at risk contrary to Ontario securities law and contrary to the public interest.

16. The Standing Timber Fraud was primarily comprised of three elements:

- i) Sino-Forest dishonestly concealed its control over Suppliers, AIs and other nominee companies in the BVI Network. Sino-Forest established a collection of “nominee”/“peripheral” companies that were controlled, on

its behalf, by various "caretakers".<sup>6</sup> Sino-Forest conducted a significant level of its business with these companies, the true economic substance of which was misstated in Sino-Forest's financial disclosure;

- ii) Sino-Forest falsified the evidence of ownership for the vast majority of its timber holdings by engaging in a deceitful documentation process. This dishonest process included the fraudulent creation of deceitful Purchase Contracts and Sales Contracts, including key attachments and other supplemental documentation. Sino-Forest then relied upon these documents to evidence the purported purchase, ownership and sale of Standing Timber in the BVI Model; and
- iii) Sino-Forest dishonestly concealed internal control weaknesses/failures that obscured the true nature of transactions conducted within the BVI Network and prevented the detection of the deceitful documentation process. Sino-Forest's statements in its public disclosure record regarding the extent of its internal control weaknesses were wholly inadequate and misleading.

17. Each of the above dishonest and deceitful courses of conduct by Sino-Forest and Overseas Management put the pecuniary interests of Investors at risk, constituting fraud. Together, these courses of conduct made the public disclosure record of Sino-Forest so misleading that it was fraudulent.

18. As set out in paragraph 47, the vast majority of the Sino-Forest's Standing Timber assets were held in the BVI Model. The available underlying documentation for these Standing Timber assets did not provide sufficient evidence of legal ownership of these assets. As of this date, Sino-Forest has not been able to confirm full legal ownership of the Standing Timber assets that it claims to hold in the BVI Model.

19. During the Material Time, Sino-Forest's auditors were not made aware of Sino-Forest's systematic practice of creating deceitful Purchase Contracts and Sales Contracts, including key attachments to these contracts.

20. The following are four illustrative examples of the fraudulent courses of conduct that Sino-Forest and Overseas Management perpetrated within the Standing Timber Fraud. These

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<sup>6</sup> These "nominee"/"peripheral" companies and "caretakers" are described in greater detail in paragraph 57.

four examples, described in detail below, illustrate how Sino-Forest and Overseas Management materially inflated assets and revenue in Sino-Forest's public disclosure record:

- i) the Dacheng Fraud;
- ii) the 450,000 Fraud;
- iii) Gengma Fraud #1; and
- iv) Gengma Fraud #2.

21. Schedule C illustrates the primary elements of the Standing Timber Fraud as introduced in paragraph 16 and the fraudulently overstated revenue arising from the four illustrative examples introduced in the previous paragraph.

22. The allegations regarding the Standing Timber Fraud are set out in paragraphs 53 to 119 below.

### **C. Materially Misleading Statements Related to the Standing Timber Fraud**

23. Given the three elements of the Standing Timber Fraud introduced in paragraph 16, the public disclosure record of Sino-Forest required by Ontario securities law was materially misleading, contrary to Ontario securities law and contrary to the public interest.

24. The assets and revenue recorded as a result of the Standing Timber Fraud caused Sino-Forest's public disclosure record, including its audited annual financial statements, annual information forms ("AIFs") and management's discussion and analysis ("MD&A"), to be materially misleading during the Material Time.

25. Sino-Forest's statements in its public disclosure, including its AIFs and its MD&A filed with the Commission during the Material Time, regarding the extent of its internal control weaknesses and deficiencies were wholly inadequate and misleading.

26. The allegations regarding these materially misleading statements related to the Standing Timber Fraud are set out in paragraphs 120 to 141 below.

**D. The Greenheart Transaction - Fraud by Chan and Materially Misleading Statements by Chan and Sino-Forest**

27. In 2010, following a complex series of transactions, Sino-Forest completed the purchase of a controlling interest in Greenheart, a public company listed on the Hong Kong Stock Exchange (the "Greenheart Transaction"). Greenheart holds natural forest concessions, mostly in Suriname.

28. Chan secretly controlled companies that received over \$22 million as a result of the purchase by Sino-Forest of this controlling interest in Greenheart. The Greenheart Transaction was significant to Sino-Forest's business and cost the Company approximately \$120 million.

29. Chan fraudulently concealed his involvement in the Greenheart Transaction and the substantial benefit he secretly received. Chan and Sino-Forest misled the public through Sino-Forest's continuous disclosure. Chan falsely certified the accuracy of Sino-Forest's AIFs for 2008, 2009 and 2010 as these documents did not disclose his interest in the Greenheart Transaction.

30. Chan's course of conduct relating to the Greenheart Transaction constituted fraud and the making of misleading statements, contrary to Ontario securities law and contrary to the public interest. Chan and Sino-Forest made materially misleading statements related to the Greenheart Transaction, contrary to Ontario securities law and contrary to the public interest.

31. The allegations regarding fraud and materially misleading statements related to the Greenheart Transaction are set out in paragraphs 142 to 154 below.

**E. Overseas Management of Sino-Forest Misled Staff during the Investigation**

32. During the investigation by Staff, numerous members of Sino-Forest's management were interviewed by Staff. Overseas Management materially misled Staff in their interviews, contrary to Ontario securities law and contrary to the public interest.

33. The allegations that Overseas Management materially misled Staff are set out in paragraphs 155 to 167 below.

## **PART II. THE RESPONDENTS**

34. Sino-Forest is a Canadian company with its principal executive office located in Hong Kong and its registered office located in Mississauga, Ontario.

35. During the Material Time, as set out above, Chan was Chairman of the Board of Directors and CEO of Sino-Forest.

36. During the Material Time, Ip was Senior Vice President, Development and Operations North-east and South-west China of Sino-Forest.

37. During the Material Time, Hung was Vice-President, Corporate Planning and Banking of Sino-Forest.

38. During the Material Time, Ho was Vice-President, Finance (China) of Sino-Forest.

39. During the Material Time, Yeung was Vice President - Operation within the Operation /Project Management group of Sino-Panel (Asia) Inc. ("Sino-Panel"), a subsidiary of Sino-Forest.

40. During the Material Time, Horsley was Senior Vice President and CFO of Sino-Forest.

## **PART III. STANDING TIMBER - THE PRIMARY BUSINESS OF SINO-FOREST**

### **A. Introduction**

41. In its AIF for 2010, Sino-Forest stated that its operations were comprised of two core business segments which it titled "Wood Fibre Operations" and "Manufacturing and Other



Operations". Wood Fibre Operations had two subcomponents entitled "Plantation Fibre" and "Trading of Wood Logs".

42. According to Sino-Forest, the Plantation Fibre subcomponent of its business was derived from the purported acquisition, cultivation and sale of either "standing timber" or "logs" in the PRC. For the purpose of this Statement of Allegations, the Plantation Fibre subcomponent of Sino-Forest's business will be referred to as "Standing Timber" as most, if not all, of the revenue from the sale of Plantation Fibre was derived from the sale of "standing timber".

#### **B. Standing Timber - Sino-Forest's Main Source of Revenue**

43. From 2007 to 2010, Sino-Forest reported Standing Timber revenue totalling approximately \$3.56 billion, representing about 75% of its total revenue of \$4.77 billion. The following table provides a summary of Sino-Forest's stated revenue for the period from 2007 to 2010 and illustrates the importance of the revenue derived from the sale of Standing Timber:

	<i>\$ (millions)</i>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Plantation Fibre (defined as Standing Timber herein)	521.5	685.4	954.2	1,401.2	3,562.3
Trading of Wood Logs	154.0	153.5	237.9	454.0	999.4
<i>Wood Fibre Operations</i>	<u>675.5</u>	<u>838.9</u>	<u>1,192.1</u>	<u>1,855.2</u>	<u>4,561.7</u>
<i>Manufacturing and Other Operations</i>	<u>38.4</u>	<u>57.1</u>	<u>46.1</u>	<u>68.3</u>	<u>209.9</u>
<b>Total Revenue</b>	<b><u>713.9</u></b>	<b><u>896.0</u></b>	<b><u>1,238.2</u></b>	<b><u>1,923.5</u></b>	<b><u>4,771.6</u></b>

### C. The BVI and WFOE Models - Revenue and Holdings

44. Standing Timber was purchased, held and sold by Sino-Forest in two distinct legal structures or models: the "BVI Model" and the "WFOE Model".

45. In the BVI Model, Sino-Forest's purchases and sales of Standing Timber in the PRC were conducted using wholly owned subsidiaries of Sino-Forest incorporated in the British Virgin Islands (the "BVI Subs"). The BVI Subs purported to enter into written purchase contracts ("Purchase Contracts") with suppliers in the PRC ("Suppliers") and then purported to enter into written sales contracts ("Sales Contracts") with customers called "authorized intermediaries" in the PRC ("AIs").

46. In the WFOE Model, Sino-Forest used subsidiaries incorporated in the PRC called Wholly Foreign Owned Enterprises ("WFOEs") to acquire, cultivate and sell the Standing Timber. The Sino-Forest WFOEs also entered into Purchase Contracts and Sales Contracts with other parties in the PRC.

47. At December 31, 2010, Sino-Forest reported total timber holdings of \$3.1 billion comprising 799,700 hectares. About \$2.5 billion or approximately 80% of the total timber holdings (by value) was held in the BVI Model, comprising approximately 467,000 hectares of Standing Timber. The WFOE Model purportedly held approximately 97,000 hectares of Standing Timber valued at \$295.6 million or approximately 10% of the total timber holdings (by value). The timber holdings in the BVI Model and the WFOE Model comprised approximately 90% of the total timber holdings (by value) of Sino-Forest as at December 31, 2010.

48. The cash-flows associated with the purchase and sale of Standing Timber executed in the BVI Model took place "off-book" pursuant to a payables/receivables offsetting arrangement (the "Offsetting Arrangement"), whereby the BVI Subs would not directly receive the proceeds on the sale of Standing Timber from the purchasing AI. Rather, Sino-Forest disclosed that it would direct the AI that purchased the timber to pay the sales proceeds to a new Supplier in order to

buy additional Standing Timber. Consequently, Sino-Forest also did not make payment directly to Suppliers for purchases of Standing Timber.

49. Sino-Forest did not possess the bank records to confirm that these “off-book” cash-flows in the Offsetting Arrangement actually took place. This lack of transparency within the BVI Model meant that independent confirmation of these “off-book” cash-flows was reliant on the good faith and independence of Suppliers and AIs.

50. Further, pursuant to the terms of Sales Contracts entered into between a BVI Sub and an AI, the AI assumed responsibility for paying any PRC taxes associated with the sale that were owed by the BVI Sub. This obligation purportedly included paying the income tax and valued added tax on behalf of Sino-Forest.

51. Sino-Forest dealt with relatively few Suppliers and AIs in the BVI Model. For example, in 2010, six Suppliers accounted for 100% of the Standing Timber purchased in the BVI Model and five AIs accounted for 100% of Sino-Forest’s revenue generated in the BVI Model.

52. From 2007 to 2010, revenue from the BVI Model totalled \$3.35 billion, representing 94% of Sino-Forest’s reported Standing Timber revenue and 70% of Sino-Forest’s total revenue. The importance of the revenue from the BVI Model is demonstrated in the following table:

	<i>\$ (millions)</i>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
BVI Model Revenue	501.4	644.9	882.1	1,326.0	3,354.4
WFOE Model Revenue	20.1	40.5	72.1	75.2	207.9
<b>Standing Timber Revenue</b>	<b>521.5</b>	<b>685.4</b>	<b>954.2</b>	<b>1,401.2</b>	<b>3,562.3</b>
<b>Total Revenue</b>	<b>713.9</b>	<b>896.0</b>	<b>1,238.2</b>	<b>1,923.5</b>	<b>4,771.6</b>
BVI Model as % of Total Revenue	70%	72%	71%	69%	70%

#### **PART IV. THE STANDING TIMBER FRAUD**

53. As introduced in paragraph 16, the Standing Timber Fraud was primarily comprised of three elements:

- i) Undisclosed control over parties within the BVI Network;

- ii) The undisclosed dishonest process of creating deceitful Purchase Contracts and Sales Contracts and their key attachments used in both the BVI Model and the WFOE Model to inflate Standing Timber assets and revenue; and
- iii) Undisclosed internal control weaknesses/deficiencies that facilitated and concealed the fraudulent conduct within the BVI Network, and the dishonest creation of Purchase Contracts and Sales Contracts, including their key attachments.

54. On this basis, Sino-Forest then created transactions to fraudulently inflate assets and revenue in its public disclosure record.

**A. Undisclosed Control over Parties within the BVI Network**

55. Almost all of the buying and selling of Standing Timber in the BVI Model was generated through transactions between BVI Subs and a small number of Suppliers and AIs. Sino-Forest also conducted a significant level of this buying and selling with companies that are described in various Sino-Forest documents and correspondence as “peripheral” companies. Sino-Forest established a network of “nominee” companies that were controlled, on its behalf, by various so-called “caretakers”.

56. For the purpose of this Statement of Allegations, the BVI Subs, Suppliers, AIs, “nominee” companies and “peripheral” companies involved in the buying and selling of Standing Timber in the BVI Model are collectively referred to as the “BVI Network”. Some of the companies within the BVI Network were also involved in the buying and selling of Standing Timber within the WFOE Model.

57. One Sino-Forest document (the “Caretaker Company List”) lists more than 120 “peripheral” (nominee) companies that are controlled by 10 “caretakers” on behalf of Sino-Forest. The “caretakers” include Person #1 (legal representative of Huaihua City Yuda Wood Ltd. (“Yuda Wood”), described in greater detail in paragraphs 61 to 65 below), Person #2 (a relative of Chan), Person #3 (a former Sino-Forest employee), Person #4 (an acquaintance of Chan and Chan’s nominee in the Greenheart Transaction as outlined in paragraphs 145 to 147

below), Person #5 (a former shareholder of Greenheart Resources Holdings Limited (“GRHL”) and a shareholder of Greenheart) and Person #6 (an individual associated with some of Sino-Forest’s Suppliers).

58. The control and influence that Sino-Forest exerted over certain Suppliers, AIs and peripheral companies within the BVI Network brings the *bona fides* of numerous contracts entered into in the BVI Model into question, thereby placing the pecuniary interests of Investors at risk. Sino-Forest wielded this control and influence through Overseas Management. As well, certain transactions recorded in the BVI Model do not reflect the true economic substance of the underlying transactions. Sino-Forest’s control of, or influence over, certain parties within the BVI Network was not disclosed to Investors.

59. Some of the counterparties to the Dacheng Fraud, the 450,000 Fraud, Gengma Fraud #1 and Gengma Fraud #2 are companies that are included in the Caretaker Company List, as outlined in more detail in paragraphs 90 to 115 below.

60. Sino-Forest did not disclose the true nature of the relationship between itself and the following two key companies in the BVI Network: Yuda Wood and Dongkou Shuanglian Wood Company Limited (“Dongkou”). This was dishonest.

1) Sino-Forest Controlled Yuda Wood, a Major Supplier

61. Yuda Wood was a Supplier secretly controlled by Sino-Forest during a portion of the Material Time.

62. From 2007 to 2010, Yuda Wood was purportedly Sino-Forest’s largest Supplier, accounting for 18% of all purchases in the BVI Model. Sino-Forest claimed to have paid Yuda Wood approximately \$650 million during that time.

63. Yuda Wood was registered and capitalized by members of Overseas Management, who also controlled bank accounts of Yuda Wood and key elements of its business.

64. The legal representative of Yuda Wood is Person #1, a former employee of Sino-Forest and also a shareholder and director of Hong Kong Sonic Jita Engineering Co., Ltd. ("Sonic Jita"), the sole shareholder of Yuda Wood. In addition, Person #1 had significant interests in other Suppliers of Sino-Forest and was identified as the "caretaker" of several nominee/peripheral companies.

65. Yuda Wood and other companies controlled by Sino-Forest through Person #1 were used to perpetrate portions of the Standing Timber Fraud including the Dacheng Fraud, the 450,000 Fraud, Gengma Fraud #1 and Gengma Fraud #2.

2) Sino-Forest Controlled Dongkou, a Major AI

66. Dongkou was an AI secretly controlled by Sino-Forest during a portion of the Material Time.

67. In 2008, Dongkou was Sino-Forest's most significant AI, purportedly purchasing approximately \$125 million in Standing Timber from Sino-Forest, constituting about 18% of Sino-Forest's Standing Timber revenue for that year.

68. Sino-Forest controlled Dongkou through one of its WFOE subsidiaries Shaoyang Jiading Wood Products Co. Ltd. ("Shaoyang Jiading"). Correspondence indicates that, according to an agreement dated November 18, 2006, Shaoyang Jiading purchased Dongkou for RMB<sup>7</sup> 1.38 million (approximately \$200,000).

69. By November 2006, the six original shareholders of Dongkou had been replaced with two Sino-Forest employees: Person #7 and Person #8. These two persons became the sole Dongkou shareholders, with Person #7 holding 47.5% and Person #8 holding 52.5%.

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<sup>7</sup> RMB is the Chinese unit of currency. During the Material Time, the conversion rate was approximately 7 RMB = 1 US\$.

70. Also, in 2007, at the direction of Ip and others, employees of Sino-Forest drafted purchase contracts to be entered into by Dongkou and its suppliers (other than Sino-Forest). Essentially, Sino-Forest, through Overseas Management, controlled Dongkou's business with certain counterparties.

**B. Dishonest Process to Create Deceitful Purchase Contracts and Sales Contracts in the BVI Model - Concealment of this Dishonest Process**

1) Purchase Contracts in the BVI Model

71. As set out in paragraph 47, approximately 80% (by value) of Sino-Forest's timber assets were held in the BVI Model as of December 31, 2010.

72. Sino-Forest used the Purchase Contracts to acquire and evidence ownership of Standing Timber in the BVI Model. The Purchase Contracts purported to have three attachments:

- i) Plantation Rights Certificates ("Certificates") or other ownership documents;
- ii) Farmers' Authorization Letters ("Farmers' Authorizations"); and
- iii) Timber Survey Reports ("Survey Reports").

73. The Purchase Contracts and their attachments were fundamentally flawed in at least four ways, making the public disclosure record of Sino-Forest materially misleading, thus placing the pecuniary interests of Investors at risk.

74. First, Sino-Forest did not hold Certificates to evidence ownership of the Standing Timber allegedly purchased by the BVI Subs. Instead, Sino-Forest claimed that, since the BVI Subs could not obtain Certificates from the PRC government to evidence ownership, it purported to rely on confirmations issued by the forestry bureaus in the PRC as evidence of ownership ("Confirmations"). However, Confirmations are not legally recognized documents evidencing ownership of timber assets in the PRC. These Confirmations were purportedly granted to Sino-Forest as favours by the PRC forestry bureaus. According to Sino-Forest, the PRC forestry bureaus did not intend that these Confirmations would be disclosed to third parties. Also, certain

PRC forestry bureau employees obtained gifts and cash payments from Suppliers of Sino-Forest, further undermining the value of the Confirmations as evidence of ownership.

75. Second, during the Material Time, Sino-Forest employed a deceitful systematic quarterly documentation process in the BVI Model whereby the purported Purchase Contracts were not drafted and executed until the quarter after the date on which the purchase allegedly occurred and was included in the public financial disclosure.

76. Like the Purchase Contracts, the Confirmations were also created by Sino-Forest and deceitfully dated to the previous quarter. These Confirmations were created contemporaneously with the creation of the corresponding Purchase Contracts. These Confirmations were then allegedly provided to the relevant PRC forestry bureau for verification and execution.

77. Third, the Purchase Contracts referred to Farmers' Authorizations. However, none were attached. In the absence of Farmers' Authorizations, there is no evidence that ownership to the Standing Timber was properly transferred to Sino-Forest or to the Supplier prior to the purported transfer of ownership to Sino-Forest. Ownership of the Standing Timber would have remained with the original Certificate holder.

78. Fourth, the Survey Reports, which purported to identify the general location of the purchased timber, were all prepared by a single firm during the Material Time. A 10% shareholder of this survey firm was also an employee of Sino-Forest. Drafts of certain Survey Reports purportedly prepared by this independent survey company were located on the computer of another employee of Sino-Forest. Like the Purchase Contracts and Confirmations, these drafts of the Survey Reports were deceitfully dated to the quarter prior to their creation.

79. In the absence of both Certificates and Farmers' Authorizations, Sino-Forest relies on the validity of the Purchase Contracts and the Confirmations as proof of ownership of the Standing Timber it held in the BVI Model. However, the Purchase Contracts and available attachments, including Confirmations, were prepared using the deceitful documentation process outlined



above, and do not constitute proof of ownership of the trees purported to have been bought by Sino-Forest in the BVI Model.

80. Moreover, the Purchase Contracts and readily available attachments, including the Confirmations, did not identify the precise location of the Standing Timber being purchased such that the existence of this Standing Timber could not be readily verified and valued independently.

81. Sino-Forest, Overseas Management and Horsley knew or ought to have known that their auditors during the Material Time relied on the validity of the Purchase Contracts and their attached Confirmations as proof of ownership of Sino-Forest's Standing Timber assets.

2) Sales Contracts in the BVI Model

82. Like the Purchase Contracts, all of the Sales Contracts purportedly entered into by the BVI Subs in the BVI Model were not actually created and executed until the quarter after the date of the alleged transaction.

83. Accordingly, the revenue from the Sales Contracts in the BVI Model was recognized in the quarter prior to the creation of the Sales Contracts. Therefore, the public disclosure of Sino-Forest regarding its revenue from Standing Timber was materially misleading and deceitful. During the Material Time, in its correspondence to Staff, Sino-Forest misled the Commission about its revenue recognition practice.

**C. Undisclosed Internal Control Weaknesses/Failures**

84. In its MD&A for 2010 dated March 15, 2011, Sino-Forest stated the following on page 27 regarding its "Disclosure Control and Procedures and Internal Controls Over Financial Reporting":

The success of the Company's vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. **As such, senior management**

plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. By taking additional steps in 2011 to address this deficiency, management will continue to monitor and work on mitigating this weakness. **[Emphasis added]**

85. Sino-Forest made similar disclosure in its annual MD&A from 2006 to 2009 regarding this concentration of authority or lack of segregation and the risk resulting from these weaknesses. These material weaknesses were not remedied during the Material Time by Sino-Forest, Overseas Management or Horsley.

86. Sino-Forest failed to disclose the extent of the concentration of duties in Overseas Management. It did not disclose that Overseas Management and their nominees had complete control over the operation of the BVI Model including the fraudulent creation and execution of the Purchase Contracts and Sales Contracts described in paragraphs 71 to 81 and the extent of the "off-book" cash flow set out in paragraphs 48 to 49. This concentration of control in the hands of Overseas Management facilitated the fraudulent course of conduct perpetrated in the BVI Model.

#### **D. Four Examples of Fraudulent Transactions within the Standing Timber Fraud**

87. During the Material Time, Sino-Forest and Overseas Management engaged in significant fraudulent transactions related to its purchase and sale of Standing Timber. These fraudulent transactions had the effect of overstating Sino-Forest's assets and revenue during the Material Time.

88. By way of example, four series of fraudulent transactions are detailed below: (i) the Dacheng Fraud; (ii) the 450,000 Fraud; (iii) Gengma Fraud #1, and (iv) Gengma Fraud #2.

89. In these transactions, Sino-Forest used certain Suppliers, AIs and other nominee companies that it controlled to falsify the financial disclosure of Sino-Forest, including the value of its Standing Timber assets and revenue.

1) The Dacheng Fraud

90. Sino-Forest and members of Overseas Management committed fraud (the “Dacheng Fraud”) in a series of purported transactions commencing in 2008, related to purchases of timber plantations (the “Dacheng Plantations”) from a Supplier called Guangxi Dacheng Timber Co. Ltd. (“Dacheng”). Companies controlled by Sino-Forest through Person #1 were used in the Dacheng Fraud.

91. The Dacheng Fraud involved duplicating the same Standing Timber assets within the Dacheng Plantations in the records of two Sino-Forest subsidiaries. Sino-Forest recorded the same assets once in the WFOE Model and again in the BVI Model.

92. In 2008, these Standing Timber assets were recorded at a value of RMB 47 million (approximately \$6.3 million) in the WFOE Model and this amount was paid to Dacheng. These funds were then funnelled through Dacheng back to other subsidiaries of Sino-Forest, as the purported collection of receivables.

93. At the same time, Sino-Forest recorded these Standing Timber assets in the BVI Model at a value of approximately RMB 205 million (approximately \$30 million). In 2009, Sino-Forest purported to sell the Standing Timber assets from the Dacheng Plantations held in the BVI Model for approximately RMB 326 million (approximately \$48 million). This revenue was recorded in Q3 of 2009.

94. As a result of the Dacheng Fraud, in 2008, Sino-Forest overstated the value of certain Standing Timber assets by approximately \$30 million and, in 2009, Sino-Forest overstated its revenue by approximately \$48 million. The effect of this revenue overstatement on the public disclosure record of Sino-Forest is illustrated in paragraph 127 below.

2) The 450,000 Fraud

95. Sino-Forest and members of Overseas Management committed fraud (the "450,000 Fraud") in a complex series of transactions involving the purchase and sale of 450,000 cubic meters of timber in Q4 of 2009, again utilizing companies controlled by Sino-Forest through Person #1. In an email, Yeung described this purchase and sale of timber as "a pure accounting arrangement".

96. Three subsidiaries of Sino-Panel (the "Sino-Panel Companies") purported to purchase 450,000 cubic meters of Standing Timber at a cost of RMB 183 million (approximately \$26 million) from Guangxi Hezhou City Yuangao Forestry Development Co. Ltd ("Yuangao") during October 2009.

97. In Q4 of 2009, the Sino-Panel Companies purportedly sold this Standing Timber to the following three customers:

- i) Gaoyao City Xinqi Forestry Development Co., Ltd. ("Xinqi");
- ii) Guangxi Rongshui Meishan Wood Products Factory ("Meishan"); and
- iii) Guangxi Pingle Haosen Forestry Development Co., Ltd. ("Haosen").

98. The sale price for this Standing Timber was RMB 233 million (approximately \$33 million), for an apparent profit of RMB 50 million (approximately \$7.1 million).

99. The purported supplier (Yuangao) and the purported customers (Xinqi, Meishan and Haosen) are all so-called "peripheral" companies of Sino-Forest, i.e., they are nominee companies controlled by Person #1 on behalf of Sino-Forest. Xinqi, Meishan and Haosen are also companies included in the Caretaker Company List, and Person #1 is identified as the "caretaker" of each company.

100. This RMB 233 million sale of Standing Timber was recorded in Sino-Forest's WFOE Model, as opposed to its BVI Model. As noted in paragraph 48, the BVI Model employs the

Offsetting Arrangement where payables and receivables are made and collected “off-book”. However, in the WFOE Model, Sino-Forest takes receipt of the sales proceeds directly or “on-book”.

101. By July 2010, none of the sales proceeds had been collected and the receivable was long overdue. In order to evidence the “collection” of the RMB 233 million in sales proceeds, Sino-Forest devised two separate “on-book” payables/receivables offsetting arrangements, one in 2010 and one in 2011, whereby Sino-Forest made payments to various companies, including Yuangao and at least two other Sino-Forest nominee companies.<sup>8</sup>

102. To account for the purported profit of RMB 50 million, Sino-Forest had to “collect” more (RMB 233 million) than just the purchase price (RMB 183 million). Consequently, Sino-Forest created additional “payables” to complete the circular flow of funds needed to collect the sales proceeds of RMB 233 million. These “on-book” offsetting arrangements, therefore, included the purported settlement of various accounts payable, not just the Yuangao payable arising from the 450,000 Fraud.

103. The companies referred to paragraph 101 then funnelled the money to Xinqi, Meishan and Haosen who, in turn, repaid the money to the Sino-Panel Companies to achieve the purported collection of the RMB 233 million in revenue.

104. The “on-book” offsetting arrangements required that Suppliers and customers have bank accounts through which the funds could flow. In July and August 2010, Sino-Forest set up bank accounts for the suppliers and customers associated with the 450,000 Fraud to facilitate the circular cash flows. These bank accounts were overseen by Ip, Ho, Person #1 and/or Person #9 (a former Sino-Forest employee and associate of Person #1).

105. These circular cash-flows commenced in July 2010 and were finally concluded in February 2011.

<sup>8</sup> Dao County Jincheng Forestry Development Co., Ltd. and Guangxi Rongshui Taiyuan Wood Co., Ltd.

106. The circular flow of funds underlying the 450,000 Fraud demonstrates that the sales contracts purportedly entered into between the Sino-Panel Companies and Xinqi, Meishan and Haosen are fraudulent and have no true economic substance. As a result of the 450,000 Fraud, Sino-Forest overstated the value of its revenue by approximately \$30 million for Q4 of 2009. The effect of this revenue overstatement on the public disclosure record of Sino-Forest is illustrated in paragraph 129 below.

3) Gengma Fraud # 1

107. Sino-Forest and members of Overseas Management committed fraud ("Gengma Fraud #1") in 2007 related to Standing Timber assets purchased from Gengma Dai and Wa Tribe Autonomous Region Forestry Co., Ltd. ("Gengma Forestry") by Sino-Panel (Gengma) Co., Ltd. ("Sino-Panel Gengma"), a Sino-Forest subsidiary.

108. In 2007, Sino-Panel Gengma purchased certain land use rights and Standing Timber for RMB 102 million (approximately \$14 million) from Gengma Forestry. These contracts were signed by Chan. However, this transaction between Sino-Panel Gengma and Gengma Forestry was not recorded. Instead, Sino-Forest purported to purchase the same assets from Yuda Wood, allegedly paying RMB 509 million (approximately \$68 million) for the Standing Timber in 2007 and RMB 111 million (approximately \$15 million) for certain land use rights during the period from June 2007 to March 2009. This purchase was recorded and these Standing Timber assets remained on the books of Sino-Forest until 2010.

109. Gengma Fraud #1 resulted in an overstatement of Sino-Forest's timber holdings for 2007, 2008 and 2009.

110. In 2010, this Standing Timber was then purportedly sold for RMB 1,579 million (approximately \$231 million). However, these same Standing Timber assets were offered as collateral for a bank loan by Sino-Forest in 2011 so the sale of these assets in 2010 could not have taken place and been recorded as revenue in that year.

111. The effect of the revenue overstatement from Gengma Fraud #1 on the public disclosure record of Sino-Forest is illustrated in paragraph 131 below.

4) Gengma Fraud # 2

112. In 2007, Sino-Forest and members of Overseas Management committed fraud (“Gengma Fraud #2”) in another series of transactions to artificially inflate its assets and revenue from the purchase and sale of Standing Timber.

113. In September 2007, Sino-Forest recorded the acquisition of Standing Timber from Yuda Wood at a cost of RMB 161 million (approximately \$21.5 million) related to Standing Timber in Yunnan Province (the “Yunnan Plantation”). However, Yuda Wood did not actually acquire these assets in the Yunnan Plantation until September 2008.

114. In 2007, Sino-Forest had also purportedly purchased the land use rights to the Yunnan Plantation from Yuda Wood at a cost of RMB 53.4 million (approximately \$7 million), RMB 52.9 million of which was paid to Yuda Wood during the period from January 2009 to April 2009. Sino-Forest then fabricated the sale of the land use rights to Guangxi Hezhou City Kun’an Forestry Co., Ltd. (“Kun’an”) pursuant to a contract dated November 23, 2009. Kun’an was controlled by Sino-Forest through Person #1 and is a company included in the Caretaker Company List referred to in paragraph 57 above.

115. Sino-Forest then purported to sell the Standing Timber in the Yunnan Plantation in a series of transactions between March 2008 and November 2009 for RMB 338 million (approximately \$49 million). As Yuda Wood did not own this Standing Timber asset until September 2008, Sino-Forest could not have recorded the sale of this Standing Timber prior to that time. The effect of this revenue overstatement on the public disclosure record of Sino-Forest is illustrated in paragraph 133 below.

**D. Conclusion Regarding the Standing Timber Fraud**

116. The effect of the above conduct is that Sino-Forest and Overseas Management engaged in deceitful or dishonest conduct related to Sino-Forest's Standing Timber assets and revenue that they knew or ought to have known constituted fraud, contrary to subsection 126.1(b) of the Act and the public interest.

117. Due to the chronic and pervasive nature of the systemic conduct set out above, neither the magnitude of the Standing Timber Fraud by Sino-Forest and Overseas Management nor the magnitude of the risk to the pecuniary interests of Investors can be quantified with certainty.

118. Given their positions as officers of Sino-Forest and/or Sino-Panel, Overseas Management authorized, permitted or acquiesced in the non-compliance with Ontario securities law by Sino-Forest and are deemed to have not complied with Ontario securities law pursuant to section 129.2 of the Act. This conduct was also contrary to the public interest.

119. As CFO of Sino-Forest, Horsley authorized, permitted or acquiesced in Sino-Forest's and Overseas Management's commission of the Standing Timber Fraud and therefore is deemed under section 129.2 of the Act to have not complied with Ontario securities law. This conduct was also contrary to the public interest.

**PART V. MATERIALLY MISLEADING STATEMENTS RELATED TO THE STANDING TIMBER FRAUD**

120. On January 10, 2012, Sino-Forest issued a news release which cautioned that its historic financial statements and related audit reports should not be relied upon.

121. By failing to properly disclose the elements of the Standing Timber Fraud set out above, Sino-Forest made statements in its filings to the Commission during the Material Time which were, in a material respect and at the time and in the light of the circumstances under which they were made, misleading or untrue or did not state facts that were required to be stated or that were



necessary to make the statements not misleading. Overseas Management participated in the conduct that made these statements materially misleading.

122. The misleading, untrue or incomplete statements related to Sino-Forest's description of its primary business were contained in (or absent from) Sino-Forest's continuous disclosure, including its audited annual financial statements, AIFs and MD&A filed with the Commission during the Material Time as required by Ontario securities law.<sup>9</sup> These misleading, untrue or incomplete statements related to Sino-Forest's description of its primary business were contained in (or absent from) Sino-Forest's short form prospectuses filed with the Commission during the Material Time, which incorporated by reference the relevant audited annual financial statements, AIFs and MD&A as required by Ontario securities law.

123. These misleading statements were related to Sino-Forest's primary business in the BVI Model and the WFOE Model, representing approximately 90% of Sino-Forest's stated timber assets as of December 31, 2010 and 75% of its stated revenue from 2007 to 2010.

**A. Materially Misleading Statements Regarding Ownership of Assets and Revenue Recognition**

124. Members of Overseas Management created and executed the Purchase Contracts in the BVI Model in the quarters after the assets related to those transactions were recognized. This made Sino-Forest's audited annual financial statements, AIFs and MD&A for the years 2006, 2007, 2008, 2009 and 2010 materially misleading.

125. Further, given that Sino-Forest did not have sufficient proof of ownership of the majority of its Standing Timber assets due to the courses of conduct set out above, the information regarding Sino-Forest's timber holdings in its audited annual financial statements, AIFs and MD&A for the years 2006, 2007, 2008, 2009 and 2010 was materially misleading. For the same reasons, the information regarding Sino-Forest's timber holdings in its short form prospectuses

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<sup>9</sup> By way of example, these misstatements include Sino-Forest's disclosure of "Plantation Rights Certificates for Our Purchased Plantations" on page 26 of its 2010 AIF and its disclosure of "Implementation and Issuance of new form Plantation Rights Certificate" on pages 46-47 of its 2010 AIF.

filed in 2007 and 2009 (which incorporated by reference the relevant audited annual financial statements, AIFs and MD&A as required by Ontario securities law) was materially misleading.

126. Sino-Forest and members of Overseas Management created and executed the Sales Contracts in the BVI Model in the quarter after the revenue related to those transactions was recognized. This was contrary to the revenue recognition process set out in Sino-Forest's continuous disclosure, including its MD&A and the notes to its audited annual financial statements.

**B: Effect of the Dacheng Fraud, the 450,000 Fraud, Gengma #1 and Gengma #2 on the Reported Revenue of Sino-Forest**

1) The Dacheng Fraud

127. The Dacheng Fraud resulted in Sino-Forest fraudulently overstating its revenue in Q3 of 2009 as set out in this table:

**Approximate Effect of the Dacheng Fraud on Q3 of 2009 (\$ millions)**

Quarterly Reported Revenue	367.0
Fraudulently Overstated Revenue	47.7
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	13.0%

128. Sino-Forest reported its revenue for Q3 of 2009 at page 20 of its annual MD&A for 2009 (dated March 16, 2010) and page 87 of its 2009 Annual Report, summarizing the "2009 Quarterly Highlights".

2) The 450,000 Fraud

129. The 450,000 Fraud resulted in Sino-Forest fraudulently overstating its revenue for Q4 of 2009 as set out in this table:

**Approximate Effect of the 450,000 Fraud on Q4 2009 (\$ millions)**

Quarterly Reported Revenue	469.6
Fraudulently Overstated Revenue	30.1
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	6.4%

130. Sino-Forest reported its revenue for Q4 of 2009 at page 20 of its annual MD&A for 2009 (dated March 16, 2010) and page 87 of its 2009 Annual Report, summarizing the "2009 Quarterly Highlights".

3) Gengma Fraud #1

131. Gengma Fraud #1 resulted in Sino-Forest fraudulently overstating its revenue for Q1 and Q2 of 2010 as set out in this table:

**Approximate Effect of Gengma Fraud #1 on Q1 and Q2 2010 (\$ millions)**

	Q1 2010	Q2 2010
Quarterly Reported Revenue	251.0	305.8
Fraudulently Overstated Revenue	73.5	157.8
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	29.3%	51.6%

132. Sino-Forest reported its revenue for Q1 and Q2 of 2010 at page 20 of its annual MD&A for 2010 (dated March 15, 2011) and page 88 of its 2010 Annual Report, summarizing the "2010 Quarterly Highlights".

4) Gengma Fraud #2

133. Gengma Fraud #2 resulted in Sino-Forest fraudulently overstating its revenue for Q1, Q2 and Q3 of 2008 and Q4 of 2009 as set out in this table:

**Approximate Effect of Gengma Fraud #2 on Q1, Q2 and Q3 of 2008 and Q4 of 2009 (\$ millions)**

	Q1 2008	Q2 2008	Q3 2008	Q4 2009
Quarterly Reported Revenue	136.1	187.1	295.5	469.6
Fraudulently Overstated Revenue	5.7	4.9	5.9	32.6
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	4.2%	2.6%	2.0%	6.9%

134. Sino-Forest reported its revenue for Q1, Q2 and Q3 of 2008 at page 19 of its annual MD&A for 2008 (dated March 16, 2009) and page 73 of its 2008 Annual Report summarizing the "2008 Quarterly Highlights". Revenue for Q4 of 2009 was reported as set out above in paragraph 130.

**C. Materially Misleading Statements Regarding Internal Controls**

135. Sino-Forest's disclosure in its AIFs and annual MD&A for 2006, 2007, 2008, 2009 and 2010 relating to the material weaknesses in its internal controls was misleading, untrue or incomplete. This disclosure was also contained in Sino-Forest's short form prospectuses filed in 2007 and 2009 (which incorporated by reference the relevant AIFs and MD&A as required by Ontario securities law).

136. Sino-Forest did disclose that the concentration of authority in Overseas Management and lack of segregation of duties created a risk in terms of measurement and completeness of transactions, as well as the possibility of non-compliance with existing controls.

137. However, as set out in paragraphs 84 to 86, this disclosure by Sino-Forest was wholly inadequate, failing to reveal the extent of the weaknesses in Sino-Forest's internal controls.

**D. Conclusion Regarding Materially Misleading Statements Related to the Standing Timber Fraud**

138. During the Material Time, given the Standing Timber Fraud, Sino-Forest consistently misled the public in the disclosure required to be made under Ontario securities law. The conduct of Sino-Forest, Chan, Ip, Hung and Ho was contrary to subsection 122(1)(b) of the Act and contrary to the public interest.

139. Further, due to the above conduct, Sino-Forest's audited annual financial statements did not comply with Canadian Generally Accepted Accounting Principles.

140. Given their positions as officers of Sino-Forest, Chan, Ip, Ho and Hung authorized, permitted or acquiesced in Sino-Forest's making of materially misleading statements and thereby committed an offence under subsection 122(3) of the Act. This conduct was also contrary to the public interest.

141. As CFO of Sino-Forest, Horsley authorized, permitted or acquiesced in Sino-Forest's and Overseas Management's making of materially misleading statements and therefore is deemed under section 129.2 of the Act to have not complied with Ontario securities law. This conduct was also contrary to the public interest.

**PART VI. THE GREENHEART TRANSACTION - FRAUD BY CHAN AND MATERIALLY MISLEADING STATEMENTS BY CHAN AND SINO-FOREST**

142. Chan committed fraud in relation to Chan's undisclosed interest and substantial financial benefit in the Greenheart Transaction described below.

143. Chan and Sino Forest made materially misleading statements in Sino-Forest's AIFs for 2008, 2009 and 2010 by not disclosing Chan's interest in the Greenheart Transaction. These misleading statements were also contained in Sino-Forest's short form prospectuses filed in 2009 (which incorporated by reference the relevant AIFs and MD&A as required by Ontario securities law).

144. In 2010, through a complex series of transactions, Sino-Forest completed the purchase of a controlling interest in Greenheart, a public company listed on the Hong Kong Stock Exchange. In 2005, the primary assets of Greenheart's key subsidiary at the time, GRHL, were previously acquired by the original owners of GRHL for approximately \$2 million. These assets consisted of natural forest concessions and operations located in Suriname. The total cost of the Greenheart Transaction to Sino-Forest was approximately \$120 million, composed of a combination of cash and securities of Sino-Forest.

145. Two of the companies holding shares of GRHL, thus benefitting from the Greenheart Transaction, were Fortune Universe Ltd. ("Fortune Universe") and Montsford Ltd. ("Montsford"). Both Fortune Universe and Montsford were BVI shelf companies incorporated in 2004 and subsequently acquired by, or for the benefit of, Chan in 2005.

146. Person #10 was the sole director and shareholder of Fortune Universe and Person #4 was the sole director and shareholder of Montsford. However, Chan arranged for Person #10 and Person #4 to act as Chan's nominees. Chan was the true beneficial owner of Fortune Universe and Montsford.

147. Person #10 was the legal representative and director of one of Sino-Forest's largest Suppliers during the Material Time. Person #4 was an acquaintance of Chan based in the PRC.

148. As a result of the Greenheart Transaction, Fortune Universe and Montsford received over \$22.1 million, comprised of approximately \$3.7 million in cash and approximately \$18.4 million in securities of Sino-Forest. The securities of Sino-Forest received by Fortune Universe and Montsford appreciated in value and were subsequently sold for a total of approximately \$35 million. With the help of Person #11 (Chan's assistant), these securities were sold through brokerage accounts of Fortune Universe and Montsford which were opened at her direction, on the instructions of Chan.

149. While Sino-Forest disclosed that another director of Sino-Forest had an interest in the Greenheart Transaction in its AIFs for 2008, 2009 and 2010, it did not disclose that Chan benefitted directly or indirectly from the Greenheart Transaction through Fortune Universe and Montsford. Chan certified the AIFs for 2008, 2009 and 2010.

150. Chan knew that he was engaging in deceitful or dishonest conduct in relation to the Greenheart Transaction and knew that he was making deceitful or dishonest statements to Investors in Sino-Forest's continuous disclosure.

151. Chan placed the pecuniary interests of Investors at risk and committed fraud, contrary to subsection 126.1(b) of the Act and made materially misleading statements contrary to subsection 122(1)(b) of the Act. This conduct was also contrary to the public interest.

152. Through Chan, Sino-Forest made materially misleading statements contrary to subsection 122(1)(b) of the Act. This conduct was also contrary to the public interest.

153. Given his position as Chairman of the Board and CEO of Sino-Forest, Chan, authorized, permitted or acquiesced in Sino-Forest's making of materially misleading statements and thereby committed an offence under subsection 122(3) of the Act. This conduct was also contrary to the public interest.

154. As Chairman of the Board and CEO of Sino-Forest, Chan authorized, permitted or acquiesced in Sino-Forest's commission of fraud and therefore is deemed under section 129.2 of the Act to have not complied with Ontario securities law. This conduct was also contrary to the public interest.

## **PART VII. CHAN, IP, HUNG, HO AND YEUNG MATERIALLY MISLED STAFF**

### **A. Chan Materially Misled Staff**

155. During his examination by Staff, Chan made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or

untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

156. Chan was asked whether Sino-Forest had any control over certain Suppliers or whether these Suppliers were independent. Chan misled Staff, responding that they were independent companies. Chan repeatedly confirmed that Yuda Wood was an independent company and that it was not controlled by any employee of Sino-Forest. This information was false and misleading.

**B. Ip Materially Misled Staff**

157. During his examination by Staff, Ip made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

158. Ip misled Staff regarding the creation of Confirmations by Sino-Forest. Ip falsely informed Staff as to nature of the interaction between the PRC forestry bureaus and Sino-Forest personnel surrounding the issuance of the Confirmations. Ip also misled Staff about the timing of purported payments made by Sino-Forest to Suppliers. Ip stated that payments were only made once the Purchase Contracts were signed. This information was false and misleading.

**C. Hung Materially Misled Staff**

159. During his examination by Staff, Hung made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

160. Hung falsely described the creation of the Purchase Contracts, Sales Contracts and their attachments, including Confirmations, to Staff. Hung informed Staff that he confirmed the



accuracy of all the information in the Purchase Contracts. Hung also stated that he ensured that the attachments to the Purchase Contracts, including Confirmations and Survey Reports, would be "in place". This information was false and misleading.

161. Hung also misled Staff as to the timing of alleged payments made pursuant to the Purchase Contracts.

**D. Ho Materially Misled Staff**

162. During his examination by Staff, Ho made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

163. Ho was specifically asked about what role he took "in the whole BVI process." Ho replied, "None whatsoever", further stating, "No, I'm not at all involved in the BVI whatsoever." This information was false and misleading.

164. Ho also denied that he was copied on any emails or communications involving the BVI Model. This information was false and misleading.

165. Ho also asserted that Yuda Wood was independent of Sino-Forest and that he had no control over any aspect of its business. This information was false and misleading.

**E. Yeung Materially Misled Staff**

166. During his examination by Staff, Yeung made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

167. Yeung was specifically asked about his involvement in the creation of Yuda Wood. Yeung stated that he assisted with the application process as a favour to his friend, Person #1. He denied that Sino-Forest supplied the registration capital for Yuda Wood. Yeung also denied any knowledge of Sino-Forest creating fraudulent transactions involving the purchase and sale of Standing Timber. This information was false and misleading.

168. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

**DATED** at Toronto, Ontario, this 22nd day of May 2012.

## SCHEDULE "A"

### GLOSSARY OF CERTAIN DEFINED TERMS AND LOCATION IN THE STATEMENT OF ALLEGATIONS

**"AIs"** means the authorized intermediaries to whom Sino-Forest purported to sell assets in the PRC, including Standing Timber (paragraph 45).

**"BVI Model"** means the business model employed by Sino-Forest to buy and sell assets through the BVI Subs in the PRC (paragraph 45).

**"BVI Network"** means the entire network of BVI Subs, Suppliers, AIs and other companies who bought and sold assets in the BVI Model in the PRC (paragraph 56).

**"BVI Subs"** means wholly owned subsidiaries of Sino-Forest incorporated in the British Virgin Islands (paragraph 45).

**"Caretaker Company List"** means the document listing the "peripheral" or "nominee" companies controlled by "caretakers" on behalf of Sino-Forest (paragraph 57).

**"Certificates"** means Plantation Rights Certificates issued by the PRC government (paragraph 72).

**"Company"** means Sino-Forest Corporation including all of its subsidiaries and companies it controls as set out in its public disclosure record and as the context within this Statement of Allegations requires (paragraph 1).

**"Confirmations"** means the confirmations purportedly executed by forestry bureaus that Sino-Forest relied upon to evidence ownership of Standing Timber assets in the BVI Model in the absence of Certificates (paragraph 74).

**"Dacheng"** means Guangxi Dacheng Timber Co. Ltd. (paragraph 90).

**"Dacheng Plantations"** means the timber plantations purchased from Dacheng commencing in 2008 (paragraph 90).

**"Dongkou"** means Dongkou Shuanglian Wood Company Limited (paragraph 60).

**"Farmers' Authorizations"** means farmers' authorization letters (paragraph 72).

**"Fortune Universe"** means Fortune Universe Ltd. (paragraph 145).

**"Gengma Forestry"** means Gengma Dai and Wa Tribe Autonomous Region Forestry Co., Ltd. (paragraph 107).

**"Greenheart"** means the company now known as Greenheart Group Limited (paragraph 12).

**“Greenheart Transaction”** means the series of transactions where Sino-Forest purchased a controlling interest in Greenheart (paragraph 27).

**“GRHL”** means Greenheart Resources Holdings Limited (paragraph 57).

**“Haosen”** means Guangxi Pingle Haosen Forestry Development Co., Ltd. (paragraph 97).

**“Investors”** means the securityholders of Sino-Forest (paragraph 3).

**“Kun’an”** means Guangxi Hezhou City Kun’an Forestry Co., Ltd. (paragraph 114).

**“Material Time”** means the period from June 30, 2006 to January 11, 2012 (paragraph 15).

**“Meishan”** means Guangxi Rongshui Meishan Wood Products Factory (paragraph 97).

**“Montsford”** means Montsford Ltd. (paragraph 145).

**“Offsetting Arrangement”** means the payables/receivables arrangement used in the BVI Model by Sino-Forest to buy and sell Standing Timber (paragraph 48).

**“Overseas Management”** means Allen Chan, Albert Ip, Alfred C.T. Hung, George Ho and Simon Yeung (paragraph 13).

**“Plantation Fibre”** is one of the two subcomponents of Sino-Forest’s core business segment called Wood Fibre Operation (paragraph 41).

**“PRC”** means the People’s Republic of China (paragraph 2).

**“Purchase Contracts”** means the contracts used by Sino-Forest to purchase assets in the BVI Model (paragraph 45).

**“Sales Contracts”** means the contracts used by Sino-Forest to sell assets in the BVI Model (paragraph 45).

**“Shaoyang Jiading”** means Shaoyang Jiading Wood Products Co. Ltd. (paragraph 68).

**“Sino-Forest”** means Sino-Forest Corporation including all of its subsidiaries and companies it controls as set out in its public disclosure record and as the context within this Statement of Allegations requires (paragraph 1).

**“Sino-Panel”** means Sino-Panel (Asia) Inc., a subsidiary of Sino-Forest (paragraph 39).

**“Sino-Panel Companies”** means the three subsidiaries of Sino-Panel which purported to purchase Standing Timber from Yuangao (paragraph 96).

**“Sino-Panel Gengma”** means Sino-Panel (Gengma) Co., Ltd., a Sino-Forest subsidiary (paragraph 107).

**“Sonic Jita”** means Hong Kong Sonic Jita Engineering Co., Ltd. (paragraph 64).

**“Standing Timber”** means all of the Plantation Fibre subcomponent of Wood Fibre Operations and as the context within this Statement of Allegations requires (paragraph 42).

**“Suppliers”** means the parties from whom Sino-Forest purported to buy assets in the PRC, including Standing Timber (paragraph 45).

**“Survey Reports”** means timber survey reports (paragraph 72).

**“WFOE Model”** means the business model employed by Sino-Forest to buy and sell assets through its WFOEs (paragraph 46).

**“WFOEs”** means Wholly Foreign Owned Enterprises which were subsidiaries of Sino-Forest (paragraph 46).

**“Xinqi”** means Gaoyao City Xinqi Forestry Development Co., Ltd. (paragraph 97).

**“Yuangao”** means Guangxi Hexhou City Yuangao Forestry Development Co., Ltd. (paragraph 96).

**“Yuda Wood”** means Huaihua City Yuda Wood Ltd. (paragraph 57).

**“Yunnan Plantation”** means the Standing Timber plantations in Yunnan Province purportedly purchased in 2007 from Yuda Wood (paragraph 113).

## SCHEDULE "B"

### SELECTED INFORMATION FROM THE 2005-2010 AUDITED ANNUAL FINANCIAL STATEMENTS OF SINO-FOREST

#### Reported Revenue

December 31, 2010	\$1,923,536,000
December 31, 2009	1,238,185,000
December 31, 2008 (restated amount)	896,045,000
December 31, 2007	713,866,000
December 31, 2006 (restated amount)	555,480,000
December 31, 2005	493,301,000

#### Reported Total Assets

December 31, 2010	\$5,729,033,000
December 31, 2009	3,963,899,000
December 31, 2008	2,603,924,000
December 31, 2007	1,837,497,000
December 31, 2006	1,207,255,000
December 31, 2005	895,271,000

#### Reported Timber Assets (with % of total assets)

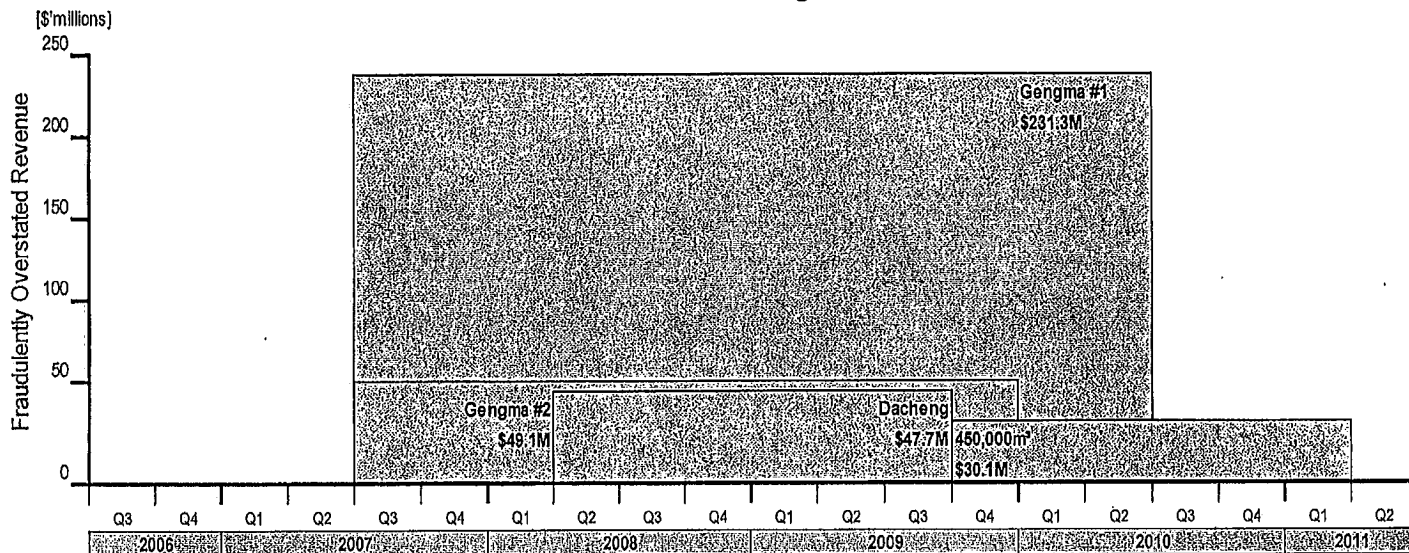
December 31, 2010	\$3,122,517,000 (55%)
December 31, 2009	2,183,489,000 (55%)
December 31, 2008	1,653,306,000 (63%)
December 31, 2007	1,174,153,000 (64%)
December 31, 2006	752,783,000 (62%)
December 31, 2005	513,412,000 (57%)

#### Number of Outstanding Common Shares

December 31, 2010	245,740,889
December 31, 2009	242,129,062
December 31, 2008	183,119,072
December 31, 2007	182,592,961
December 31, 2006	137,999,548
December 31, 2005	137,789,548

SCHEDULE "C"

Sino-Forest Corporation  
Overview of the Standing Timber Fraud



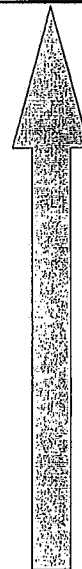
**Resulting Misleading Public Disclosure**  
*Failure to provide full, true and plain disclosure of the Sino-Forest business and its associated risks*



**Secret Control of the 'BVI Network' & 'Peripheral Companies'**  
*Concealment of Sino-Forest's control of Suppliers, AI's and other Nominee Companies in the 'BVI Network'*

**Deceitful and Back-Dated Transaction Documentation Process**  
*Creation of deceitful documentation to evidence the purported purchase/ownership and sale of Standing Timber*

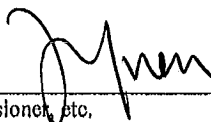
**Significant Internal Control Weaknesses/Failures**  
*Lack of Segregation of Duties, the "Off-book" Offsetting Arrangement*



**TAB D**



THIS IS EXHIBIT "D" REFERRED TO IN THE  
AFFIDAVIT OF W. JUDSON MARTIN, SWORN THIS  
25th DAY OF MAY, 2012



\_\_\_\_\_  
A Commissioner, etc.

**Yuen Tik Yan Joyce**  
Solicitor  
Reed Smith  
Richards Butler  
20/F Alexandra House  
Hong Kong SAR



## OSC Staff Commences Proceedings Before the Commission Against Sino-Forest and Others

**TORONTO, CANADA – May 23, 2012** - Sino-Forest Corporation ("Sino-Forest" or the "Company") was informed yesterday that staff of the Ontario Securities Commission ("OSC" or the "Commission") commenced proceedings before the Commission against the Company and six of its former officers, Allen Chan, Albert Ip, Alfred Hung, George Ho, Simon Yeung and David Horsley (collectively, the "Individual Respondents").

In the notice of hearing and statement of allegations posted yesterday on the OSC's website (<http://www.osc.gov.on.ca>), OSC staff allege that the Company breached Ontario securities laws and acted in a manner that is contrary to the public interest by providing information to the public in documents required to be filed or furnished under Ontario securities laws which was false or misleading in a material respect contrary to section 122 of the Ontario *Securities Act* (the "Act") and by engaging or participating in acts, practices or a course of conduct related to its securities which it knows or reasonably ought to know perpetuate a fraud on any person or company contrary to section 126.1 of the Act. The alleged breaches of Ontario securities laws relate, among other things, to the following allegations:

- (a) the Company had undisclosed control over suppliers, authorized intermediaries and other nominee companies within the business model employed by the Company to buy and sell standing timber through its British Virgin Islands subsidiaries in the People's Republic of China (the "BVI Model");
- (b) the Company had an undisclosed dishonest process of creating deceitful purchase contracts and sales contracts and their key attachments to buy and sell standing timber to inflate assets and revenue; and
- (c) the Company had undisclosed internal control weaknesses/deficiencies that facilitated and concealed the fraudulent conduct of its British Virgin Islands subsidiaries, suppliers, authorized intermediaries and other companies who bought and sold assets in the BVI Model, and the dishonest creation of purchase contracts and sales contracts, including their key attachments.

OSC staff has made allegations against the Individual Respondents, other than Mr. Horsley, consistent with those noted above. In addition, OSC staff has made certain additional allegations against each of the Individual Respondents.

OSC staff has asked the OSC to consider whether it would be in the public interest to make a number of orders, including that trading in any securities of the Company cease permanently, that the Company pay an administrative penalty of not more than \$1 million for each failure by the Company to comply with Ontario securities law, that the Company disgorge to the OSC any amounts obtained as a result of non-compliance with Ontario securities law, and that the Company pay the costs of the OSC's investigation and the costs of or related to any hearing before the OSC. OSC staff is also seeking sanctions against the Individual Respondents.

As previously disclosed, on March 30, 2012, the Company obtained an initial order (the "Order") from the Ontario Superior Court of Justice (the "Court") for creditor protection pursuant to the provisions of the Companies' Creditors Arrangement Act ("CCAA"). On April 16, 2012, the Court extended the stay period under the Order to June 1, 2012. Neither the CCAA nor the Order affects the OSC's investigation in respect of the Company or an action, suit or proceeding that is taken in respect of the Company by OSC staff or before the OSC. However, both the CCAA and the Order prohibit for the duration of the CCAA proceedings the enforcement by the OSC of any payment of an award ordered by the OSC or any non-CCAA court.

On April 9, 2012, the Company announced that it had received an "Enforcement Notice" from staff of the OSC. The Company also announced that it had learned that Enforcement Notices were also received by Messrs. Chan, Ip, Hung, Ho, Yeung and Horsley. Following review of the Enforcement Notice directed at the Company, further discussions with staff of the OSC, together with examination of issues identified in the Enforcement Notice received by the Company, on April 17, 2012, Sino-Forest announced that it had terminated the employment of Messrs. Hung, Ho and Yeung, each of whom had previously been placed on administrative leave from the Company, and that Mr. Ip, who had previously resigned as an officer of the Company, would not serve as a consultant to the Company. The Company also announced that Mr. Chan, who had previously resigned as Chairman, Chief Executive Officer and Director but continued with the Company as Founding Chairman Emeritus, had resigned from the Company and that Mr. Horsley had resigned as the Company's Chief Financial Officer but would continue as an employee of the Company, to assist with the Company's restructuring efforts.

The Company is reviewing OSC staff's allegations and considering what steps if any are appropriate for the Company to take in response to the allegations in the circumstances of the CCAA proceedings, the Order and the Company's limited financial resources.

### **Inquiries**

All inquiries regarding the CCAA proceedings should be directed to the Monitor, FTI Consulting Canada Inc., via email at: [sfc@fticonsulting.com](mailto:sfc@fticonsulting.com), or telephone: (416) 649-8094. Information about the CCAA proceedings, including copies of all court orders and the Monitor's reports, are available at the Monitor's website <http://cfcanda.fticonsulting.com/sfc>.

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**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 OR COMPROMISE OR ARRANGEMENT OF SINO-FOREST CORPORATION**

Court File No. CV-12-9667-00CL

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

Proceedings commenced in Toronto

**AFFIDAVIT OF W. JUDSON MARTIN  
(Sworn May 25, 2012)**

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Lawyers for the Applicant

# **TAB 3**

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

THE HONOURABLE MR.	)	THURSDAY, THE 31 <sup>st</sup>
	)	
JUSTICE MORAWETZ	)	DAY OF MAY, 2012

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

**ORDER**  
**(Stay Extension)**

**THIS MOTION**, made by Sino-Forest Corporation ("SFC") for the relief set out in SFC's notice of motion dated May 25, 2012 was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of W. Judson Martin sworn May 25, 2012 (the "Martin Affidavit") and the Exhibits thereto and the third report of FTI Consulting Canada Inc. in its capacity as monitor (the "Monitor") dated May 25, 2012 (the "Third Report") and on hearing submissions of counsel for SFC, the Monitor, the board of directors of SFC, the Ad Hoc Noteholders and those other parties present,

**SERVICE**

1. THIS COURT ORDERS that the time for the service of the Notice of Motion, the Third Report and the Motion Record is hereby abridged so that this Motion is properly returnable today and hereby dispenses with further service thereof.
2. THIS COURT ORDERS that capitalized terms used herein and not otherwise defined shall have the meaning given to them in the Martin Affidavit.

**EXTENSION OF THE STAY PERIOD**

3. THIS COURT ORDERS that the Stay Period (as defined in the Initial Order) be and is hereby extended to September 28, 2012.

**FOREIGN PROCEEDINGS**

4. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada, the United States, Barbados, the British Virgin Islands, Cayman Islands, Hong Kong, the People's Republic of China or in any other foreign jurisdiction, to give effect to this Order and to assist the Applicant, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicant and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicant and the Monitor and their respective agents in carrying out the terms of this Order.

5. THIS COURT ORDERS that each of the Applicant and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order and any other Order issued in these proceedings.

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**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 OR COMPROMISE OR ARRANGEMENT OF SINO-FOREST CORPORATION**

Court File No. CV-12-9667-00CL

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

Proceedings commenced in Toronto

**ORDER**

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Lawyers for the Applicant

**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 OR COMPROMISE OR ARRANGEMENT OF SINO-FOREST CORPORATION**

Court File No. CV-12-9667-00CL

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

Proceedings commenced in Toronto

**MOTION RECORD  
(Stay Extension Motion  
Returnable May 31, 2012)**

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