

***COURT OF APPEAL FOR ONTARIO***

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

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

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**MOTION RECORD OF THE UNDERWRITERS**

(responding to the motion for leave to appeal  
from the Sanction Order)

VOLUME IV OF IV

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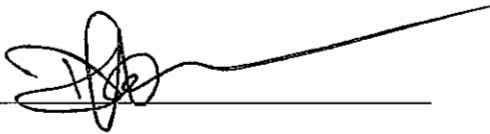
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THIS IS EXHIBIT "C" TO  
THE AFFIDAVIT OF ELIZABETH FIMIO  
SWORN JUNE 8, 2012

A handwritten signature in black ink, appearing to read "D. Holden", is written over a horizontal line. The signature is stylized and includes a long, sweeping horizontal stroke extending to the right.

A Commissioner, etc.

**Daniel Holden**  
*Barrister & Solicitor*

Q.B. No. 0088 of 2011CANADA )  
PROVINCE OF SASKATCHEWAN )

IN THE QUEEN'S BENCH JUDICIAL CENTRE OF REGINA
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Between:

ALLAN HAIGH

Plaintiff,

and

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

Defendants

Brought under *The Class Actions Act*STATEMENT OF CLAIM

## NOTICE TO DEFENDANT

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

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

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

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

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

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

T. LANGFORD  
 BY LOCAL REGISTRAR

Local Registrar

SEAL

DEFINED TERMS

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### CLAIM

(1) *the parties*

(a) *plaintiff*

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

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(b) defendants

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

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

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

(2) the class

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

(3) particulars

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*(4) Sino's class period misrepresentations*

21. During the class period, Sino misrepresented;

(a) Its 2006 Results and AIF;

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

*Sino's 2006 Results and AIF*

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

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

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

*Sino's May 2007 Management Information Circular*

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

*Sino Overstates its Yunnan Forestry Assets*

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

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

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

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*Sino Overstates its Suriname Forestry Assets*

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

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

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

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

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

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

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

\*\*\*\*\*

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

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

#### About Ty Wilkinson

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

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

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

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

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

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

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

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

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

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

*Jiangxi Forestry Assets*

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

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

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



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

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

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

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

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

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

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

*Misrepresentations Regarding Related Parties other than Zhonggan*

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

HOMIX has an R&D laboratory and two engineered-wood production operations based in Guangzhou and Jiangsu Provinces, covering eastern and southern China wood product markets. The company has developed a number of new technologies with patent rights, specifically suitable for domestic plantation logs including poplar and eucalyptus species. HOMIX specializes in curling, drying and dyeing methods for engineered wood and has the know-how to produce recomposed wood products and laminated veneer lumber. Recomposed wood technology is considered to be environment-friendly and versatile as it uses fibre from forest plantations, recycled wood and/or wood residue. This reduces the traditional use of large-diameter trees from natural forests. There is growing demand for recomposed wood technology as it reduces cost for raw material while increases the utilization and sustainable use of plantation fibre for the production of furniture and interior/exterior building materials.

[...]

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

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

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

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

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

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

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

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*Misrepresentations Regarding Sales of Standing Timber*

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

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

*Misrepresentations Regarding Purchases of Forestry Assets*

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

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

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

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

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

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

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

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

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

provided figures and tables regarding Yunnan, and stated that:

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

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

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

provided figures and tables regarding Yunnan, and stated that:

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

and provided a detailed discussion of Sino's Yunnan "holdings" at Appendixes 3 and 4;

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

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

and that:

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

and stated that:

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

and

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

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

*Misrepresentations Regarding Sino's Margins and Taxes*

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

(a) In the 2006 Annual Financial Statements, note 11 [b] "Provision for tax related liabilities" and associated text;

(b) In the 2006 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(c) In the AIF dated March 30, 2007, the section "Estimation of the Company's provision for income and related taxes," and associated text;

(d) In the Q1 and Q2 2007 Financial Statements, note 5 "Provision for Tax Related Liabilities," and associated text;

(e) In the Q3 2007 Financial Statements, note 6 "Provision for Tax Related Liabilities," and associated text;

(f) In the 2007 Annual Financial Statements, note 13 [b] "Provision for tax related liabilities," and associated text;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

#### THE TRUTH IS REVEALED

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

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

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

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

[...]

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

[...]

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

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

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

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

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

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

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

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

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

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

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

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

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

[...]

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

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

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

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

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

[...]

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

[...]

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

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

[...]

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

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

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

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

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

[...]

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

[...]

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

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

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

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

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

[...]

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

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

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

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

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

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

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

[...]

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

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

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

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

[...]

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

---

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

*Negligent Misrepresentation*

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

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

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

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

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

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

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

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

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

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

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

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

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

*Statutory Liability—Secondary Market*

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

*Statutory Liability—Primary Market*

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

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

*Unjust Enrichment of Chan and Horsley*

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

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

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

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

*Unjust Enrichment of Sino*

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

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

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

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

*Oppression*

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

(a) Sino and the Individual Defendants would comply with GAAP, and cause Sino to comply with GAAP;

(b) Sino and the Individual Defendants would take reasonable steps to ensure that the Class Members were made aware on a timely basis of material developments in Sino's business and affairs;

(c) Sino and the Individual Defendants would implement adequate corporate governance procedures and internal controls to ensure that Sino disclosed material facts and material changes in the company's business and affairs on a timely basis;

(d) Sino and the Individual Defendants would not make the misrepresentations particularized above;

(e) Sino stock options would not be backdated or otherwise mispriced; and

(f) the Individual Defendants would adhere to the Code.

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122. Such reasonable expectations were not met as:

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

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

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

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

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*(6) general*

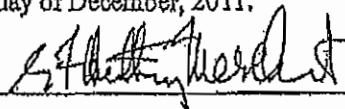
125. The Plaintiff pleads and relies on:

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

*(7) relief sought*

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

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

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


Delivered By:

MERCHANT LAW GROUP LLP,



Address for Service:

100-2401 Saskatchewan Drive  
Regina, Saskatchewan  
S4P 4H8,

Lawyer in Charge:

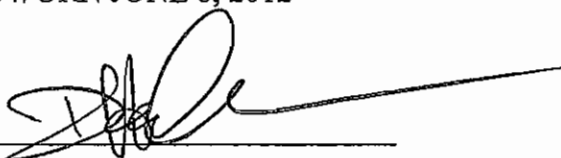
E. F. Anthony Merchant, Q.C.  
Tel: (306) 359-7777  
Fax: (306) 522-3299,

Counsel for the Plaintiffs.

Hi\Wp\dts\Clois Action\51no Parents of C.Wpd

**TAB D**

THIS IS EXHIBIT "D" TO  
THE AFFIDAVIT OF ELIZABETH FIMIO  
SWORN JUNE 8, 2012



A handwritten signature in black ink, consisting of a large, stylized 'D' followed by a long horizontal line extending to the right.

A Commissioner, etc.

**Daniel Holden**  
**Barrister & Solicitor**

SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NEW YORK

DAVID LEAPARD and IMF FINANCE SA on their  
own behalf and on behalf of all others similarly situated,

Plaintiffs,

v.

ALLEN T.Y. CHAN, DAVID J. HORSLEY, KAI KIT  
POON, BANC OF AMERICA SECURITIES LLC,  
CREDIT SUISSE SECURITIES (USA)-LLC, SINO-  
FOREST CORPORATION, ERNST & YOUNG  
GLOBAL LIMITED, and ERNST & YOUNG LLP,

Defendants.

INDEX NO. *650258/2012*

VERIFIED CLASS ACTION  
COMPLAINT

JURY TRIAL DEMANDED

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Plaintiffs, David Leopard and IMF Finance SA, on behalf of themselves and all others similarly situated (the "Class" or "Class Members"), allege the following upon personal knowledge as to themselves and their own acts and upon information and belief as to all other matters. Plaintiffs' information and belief is based on the investigation of counsel including, inter alia, review and analysis of (i) government and regulatory documents relating to Defendant Sino-Forest Corporation ("Sino-Forest" or the "Company"); (ii) press releases, Company filings and other public statements by Sino-Forest; (iii) reports of securities analysts; and (iv) other publicly available materials. Many of the facts related to Plaintiffs' allegations are known only to Defendants or are exclusively within their custody or control. Plaintiffs believe that substantial additional evidentiary support for the allegations set forth below will be developed after reasonable opportunity for discovery.

## I. INTRODUCTION

1. Plaintiffs bring this class action on behalf of (i) all persons or entities who, from March 19, 2007 through August 26, 2011 (the "Class Period") purchased the common stock of Sino-Forest on the Over-the-Counter ("OTC") market and who were damaged thereby; and (ii) all persons or entities who, during the Class Period, purchased debt securities issued by Sino-Forest other than in Canada and who were damaged thereby.

2. Sino-Forest is a Canadian company engaged in the commercial forest plantation business whose principal operations are in the People's Republic of China ("PRC" or "China"). Among Sino-Forest's businesses are the ownership and management of forest plantation trees, sales of standing timber and wood logs, and the manufacture of related wood products. Substantially all of the Company's sales for 2008, 2009 and 2010 were supposedly generated in the PRC. The Company maintains offices in Toronto, Hong Kong and the PRC. Its common

stock is registered in Canada and trades on the Toronto Stock Exchange, and also trades in the United States on the OTC market. Sino-forest's debt securities are also traded in the open market.

3. Sino-Forest portrayed itself as one of the world's largest and most successful forestry companies. According to the Company's Annual Information Form for the year ended December 31, 2010 (the "2010 Annual Form") Sino-Forest "had approximately 788,700 hectares of forest plantations under management which are located primarily in southern and eastern China." Between 2006 and 2010, Sino-Forest's assets (primarily plantation acreage) purportedly grew nearly five-fold from approximately \$1.2 billion to over \$5.7 billion, while revenues grew from \$555 million to \$1.9 billion and net income more than tripled from \$113 million to \$395 million as reflected in the Company's financial statements<sup>1</sup> From 2007 through 2010, the Company's financial statements were audited by Defendant Ernst & Young LLP which certified they had been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") and that the audit had been conducted in conformance with Canadian Generally Accepted Auditing Standards ("Canadian GAAS").

4. Sino-Forest's tremendous growth was ostensibly fueled by increasingly large acquisitions of valuable tree plantations and revenues generated from operations relating to that business. In addition, the Company's escalating growth allowed it to raise enormous sums of capital from investors around the world through the sale of debt securities and common stock, including the sale of \$600 million in notes which occurred in October 2010 (the "Note Offering") that will come due in 2017 (the "2017 Notes"). The Note Offering was underwritten

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<sup>1</sup> Except where otherwise indicated, all amounts in this Complaint are in U.S. dollars.

by Defendants Banc of America Securities LLC and Credit Suisse Securities (USA) LLC. In total, the Company issued *over \$1.8 billion* in debt instruments during the Class Period.

5. However, in stark contrast to the investing public's perception of an enormously successful forestry business in the fast growing PRC market, Sino-Forest was, in fact, materially misleading both investors and regulators. Sino-Forest's assets, revenues and income were all materially overstated. In addition, the Company's financial statements and other disclosures were materially misleading because they failed to disclose that many of Sino-Forest's significant business transactions were with unknown or related parties. Further, Sino-Forest had misrepresented and failed to disclose the true terms of certain agreements it had entered into in the PRC for the acquisition of plantation acreage, vastly overstating the amount of timber it had acquired during the Class Period. In many instances, no documentation or inadequate documentation existed to support Sino-Forest's timber holdings and related assets and the valuations attributed to those properties on Sino-Forest's financial statements. Sino-Forest failed to disclose that the Company lacked adequate internal controls to substantiate its financial performance or verify its assets and contractual relationships; that its operations were permeated by unsubstantiated and undisclosed related party transactions; and that its financial statements were misleading and not prepared in accordance with the applicable accounting standards.

6. Information regarding Sino-Forest's fraud first came to light on June 2, 2011, when Muddy Waters, a firm that specializes in analyzing Chinese companies whose stock trades in the U.S. and Canada, published a detailed report alleging improper and illegal conduct at the Company. Over the ensuing weeks, there was a flurry of articles, investigations, and news reports about the Company's misconduct, as well as denials by the Company of the allegations published by Muddy Waters. On June 18, 2011, *The Globe and Mail* reported on its own



investigation regarding some of the allegations against Sino-Forest, finding that there were “doubts about the company’s public statements regarding the value of [its] assets” and “broader questions about its business practices.”

7. Ultimately, in late August 2011, the Ontario Stock Commission (“OSC”) confirmed that there was evidence of fraud at Sino-Forest and ordered a halt in trading of Sino-Forest’s common stock on the Toronto Stock Exchange, effective August 26th. Reportedly, the OSC accused Sino-Forest of “fraudulently inflating its revenues and exaggerating the extent of its timber holdings.” The OSC also noted that the Company had “engaged in significant non-arms-length transactions.” Similarly, trading of Sino-Forest common stock was halted in the U.S. on the OTC Bulletin Board. Two days later it was reported that the Company’s CEO, Defendant Chan, had resigned; that three of the Company’s vice-presidents were placed on leave; and that another senior vice-president was relieved of most of his duties. Sino-Forest has since not filed any required periodic reports or issued financial statements for the third quarter of 2011. On November 11, 2011, the Company announced that it was also the subject of a criminal investigation by the Royal Canadian Mounted Police with respect to the allegations surrounding its business and finances. Sino-Forest has failed to make the most recent payments due on its outstanding debt, been forced to seek waivers of default from its debt holders and has now belatedly advised the investing public that its historical financial statements and audit reports should not be relied upon.

8. The disclosures relating to Defendants’ misconduct caused the trading prices of the Company’s stock and its debt securities to decline dramatically, thereby damaging Class Members. Sino-Forest’s common stock, which traded as high as \$26.64, last traded at \$1.38

before trading was halted in the U.S. Moreover, Sino-Forest's debt securities are now priced at a fraction of their original value.

9. The Individual Defendants earned millions of dollars in compensation because of Sino-Forest's artificially inflated stock price. Moreover, their misleading portrayal of the Company's finances allowed Sino-Forest to raise billions of dollars by issuing debt and equity securities to investors. This was critical to the Company's survival since the Company had a negative cash flow -- it was spending more money than it was taking in -- yet was spending enormous sums purportedly to purchase new assets. Sino-Forest's inflated stock price also allowed it to use its shares as currency to acquire other companies and assets.

10. It was only because of Defendants' concealment of Sino-Forest's true financial condition that the Company was able to complete the \$600 million Note Offering in October 2010. Investors would not have purchased these notes or would not have purchased them at the prices they did, if the truth about Sino-Forest had been known.

11. Thus, during the Class Period, Defendants, acting in concert with others, made materially false statements and misleading statements and omitted material facts about the true financial condition and business operations of Sino-Forest, causing the prices of Sino-Forest's common stock and Debt Securities to be artificially inflated during the Class Period. With respect to the claims asserted against the Banc of America Securities LLC, Credit Suisse Securities (USA) LLC, Ernst & Young Global Limited, and Ernst & Young LLP, which are based on negligence, negligent misrepresentation, gross negligence and breach of fiduciary duty, Plaintiffs specifically disclaim any allegations of fraud or fraudulent intent.

## II. PARTIES

### A. Plaintiffs

12. Plaintiff David Leopard is a resident of South Carolina and purchased the common stock of Sino-Forest during the Class Period in the OTC market and suffered damages when the price of those shares declined as a result of Defendants' misconduct.

13. Plaintiff IMF Finance SA ("IMF") is an entity with offices in the British Virgin Islands and purchased 2017 Notes pursuant to the October 2010 Note Offering and suffered damages when the price of the 2017 Notes declined as a result of Defendants' misconduct. Plaintiff IMF asserts claims on behalf of purchasers of Sino-Forest debt securities including purchasers of the 2017 Notes.

### B. Defendants

14. Defendant Sino-Forest purports to be a commercial forest plantation operator, principally in the PRC but with additional operations in other locations. At all material times, Sino-Forest had its registered office located in Mississauga, Ontario and its common stock traded on the OTC market in the United States using the symbol "SNOFF." As a reporting issuer in Ontario, Canada, Sino-Forest was required to file certain periodic reports regarding its business and operations, including audited financial statements, which were made available to investors. Sino-Forest's common stock and various debt instruments are traded in Canada, the United States and elsewhere.

15. Sino-Forest derives substantial revenue from interstate or international commerce.

16. Defendant Allen T. Y. Chan is a co-founder of Sino-Forest and was the Chairman, Chief Executive Officer and a director of the Company from 1994 until his recent resignation in the wake of the disclosure of the misconduct described in this Complaint. As

Sino-Forest's CEO, Chan certified the accuracy of the Company's securities filings, including its financial statements, during the Class Period. Chan signed each of the Company's Annual Consolidated Financial Statements issued from 2006 through 2010. Chan is a resident of Hong Kong and, on information and belief, is a citizen of the PRC.

17. During the Class Period, Chan received substantial compensation from the Company. For example, for 2008 to 2010, Chan's total compensation was, respectively, \$5.0 million, \$7.6 million, and \$9.3 million. In addition, during the Class Period, while in possession of material adverse information regarding the business and finances of Sino-Forest, Chan sold nearly \$3 million worth of Sino-Forest common stock to unsuspecting investors.

18. As of May 1, 1995, shortly after Sino-Forest became a reporting issuer, Chan held 18.3% of Sino-Forest's outstanding common shares and 37.5% of its preference shares. As of April 29, 2011, he held 2.7% of Sino-Forest's common shares.

19. Defendant David J. Horsley has been Sino-Forest's Chief Financial Officer ("CFO"), since October 2005. In his position as Sino-Forest's CFO, Horsley was responsible for the Company's accounting, internal controls and financial reporting, including the preparation of the Company's financial statements. Horsley signed and certified the Company's disclosure documents during the Class Period. Horsley resides in Ontario.

20. During the Class Period, Horsley received substantial compensation from Sino-Forest. For 2008 to 2010, Horsley's total compensation was, respectively, \$1.7 million, \$2.5 million, and \$3.1 million. During the Class Period, while in possession of material adverse information concerning the business and finances of Sino-Forest, Horsley sold almost \$11 million worth of shares of Sino-Forest common stock.

21. Defendant Kai Kit Poon is a co-founder of Sino-Forest, a member of its Board of Directors and has been President of the Company since 1994. Poon resides in Hong Kong and, on information and belief, is a citizen of the PRC. During the Class Period, while in possession of material adverse information concerning the business and finances of Sino-Forest, Poon sold almost \$30 million worth of shares of Sino-Forest common stock.

22. Defendants Chan, Horsley and Poon are collectively referred to as the Individual Defendants. The Individual Defendants and Sino-Forest are collectively referred to as the Sino-Forest Defendants.

23. Defendant Banc of America Securities LLC (“BOA”) is a financial services company which, using the name “BofA Merrill Lynch,” acted as one of two “Joint Global Coordinators and Lead Bookrunning Managers” for the Offering. In this capacity, BOA acted as an underwriter for the Offering. BOA operates in and has its principal place of business in New York County, New York. Defendant BOA and Defendant Credit Suisse Securities (USA) LLC are collectively referred to as the Underwriter Defendants. This Complaint seeks damages on behalf of the purchasers of the 2017 Notes against any and all Bank of America entities that may be liable for the misconduct described herein.

24. Defendant Credit Suisse Securities (USA) LLC (“Credit Suisse”) is a financial services company which acted as one of two “Joint Global Coordinators and Lead Bookrunning Managers” for the Note Offering. In this capacity, Credit Suisse acted as an underwriter for this offering. Credit Suisse operates in and has offices in New York County, New York. This Complaint seeks damages on behalf of the purchasers of the 2017 Notes against any and all Credit Suisse entities that may be liable for the misconduct described herein.

25. BOA and Credit Suisse are collectively referred to as the Underwriter Defendants. The Underwriter Defendants who are located in New York, NY, offered and sold the 2017 Notes pursuant to a materially false and misleading Offering Memorandum dated October 14, 2010 (the "Offering Memorandum") to certain Class Members in the United States who purportedly satisfied the requirements to be considered a "qualified institutional buyer" pursuant to Rule 144 of the U.S. Securities and Exchange Commission ("SEC"). The Underwriter Defendants also sold certain notes in the offering to foreign investors relying on the exemption set forth in SEC Regulation S.

26. Defendant Ernst & Young Global Limited is a UK private company limited by guarantee which operates worldwide and which, through affiliated entities, provides audit, accounting and other services. Defendant Ernst & Young LLP, a part of Ernst & Young Global Limited, has offices in Toronto, Canada, has been Sino-Forest's auditor since August 13, 2007 and was also Sino-Forest's auditor from 2000 to 2004. This Complaint seeks damages against any and all Ernst & Young entities that may be liable for the misconduct described herein.

27. Ernst & Young Global Limited and Ernst & Young LLP are collectively referred to as "E&Y" or as "the E&Y Defendants." E&Y does business in New York.

28. For Sino-Forest's 2007 through 2010 fiscal years, E&Y provided an "Auditor's Report" addressed directly to Sino-Forest's shareholders, which gave the Company a "clean" audit opinion on its financial statements. At all material times, E&Y knew that its audit opinion was directed to Sino-Forest's shareholders, prospective shareholders and prospective purchasers of Sino-Forest's securities, and that investors would and did rely on E&Y's statements relating to Sino-Forest in making their investment decisions. E&Y's opinion informed the Company's investors and the purchasers of its securities that, based on its audit, Sino-Forest's financial

statements were presented in accordance with Canadian GAAP and that it had performed its audit in accordance with applicable auditing standards. E&Y's audit opinion was materially false and misleading and was recklessly or negligently issued to investors, including Plaintiffs and Class Members.

29. The Individual Defendants, as the most senior officers of Sino-Forest, are liable to Plaintiffs and the Class because they knew of, directed and participated in the misconduct described in this Complaint and also assisted and conspired with others involved in the misconduct. Sino-Forest is liable for the misconduct of its employees and agents. Furthermore, the representations made in the financial statements and in the Offering Memorandum were materially inaccurate and inconsistent with the truth such that their falsity would have been discovered with minimal due diligence. Nevertheless, despite the obviously false and misleading nature of these statements, E&Y and the Underwriter Defendants recklessly or negligently facilitated the improper conduct of Sino-Forest and the Individual Defendants; E&Y by certifying the Company's financial statements; and the Underwriter Defendants by failing to perform adequate due diligence and disseminating the misleading Offering Memorandum to investors.

C. Jurisdiction and Venue

30. The Court possesses jurisdiction over this action pursuant to NYCPLR §§ 301 and 302(a).

31. This court has jurisdiction, and venue is proper because, in connection with the Note Offering, Sino-Forest "... irrevocably and unconditionally submits to the non-exclusive jurisdiction of any New York State or United States Federal court sitting in the Borough of Manhattan, New York City over any suit, action or proceeding arising out of or relating to this

Indenture, any Note or any Subsidiary Guarantee.” In addition, the Indenture provides that “[a]s long as any of the Notes remain Outstanding, the Company and each of the Subsidiary Guarantors will at all times have an authorized agent in New York City, upon whom process may be served in any legal action or proceeding arising out of or relating to this Indenture, any Note or any Subsidiary Guarantee.” Finally, as contemplated by the Indenture, “[e]ach of the Notes, the Subsidiary Guarantees and the Indenture shall be governed by, and construed in accordance with, the laws of the State of New York.”

32. In addition, the Underwriter Defendants are located in New York and all Defendants do substantial business in New York. All Defendants participated in certain transactions and activities in New York relating to the Note Offering. Also, purchases and sales of Sino-Forest common stock occurred on the OTC market in the United States, including New York. Moreover, the trustee for the 2017 Notes is the Law Debenture Trust Company of New York which is located at 400 Madison Avenue, Suite 4D, New York, New York 10017.

### III. BACKGROUND

33. Although ostensibly a forestry company, Sino-Forest’s purported business was, in many respects, more that of a trader or financial intermediary than of a traditional forestry company. The Company seldom sold wood products to end-user customers. Instead, it claimed that most of its earnings came from buying logs and buying the right to harvest trees and then reselling these logs and rights to harvest trees at higher prices.

34. Sino-Forest’s corporate structure is a complex web of dozens of interconnected Canadian, Chinese, Hong Kong, Cayman Islands and British Virgin Islands subsidiaries, most of which are wholly-owned or in which the Company has a majority interest. Sino-Forest’s most



recently released corporate organizational chart, attached as Exhibit A, illustrates in part, the complexity.

35. One specific example of this complexity is Sino-Forest's relationship with one of its most important subsidiaries, Greenheart Group Ltd. ("Greenheart"). Sino-Forest's 64 percent interest in Greenheart was acquired using shares of Company stock. Greenheart trades on the Hong Kong Stock Exchange. Greenheart controls most of Sino-Forest's supposedly substantial forestry assets outside of China. But, Sino-Forest also holds a 39.6 percent stake in Greenheart Resources Holdings Ltd. ("GRH"), a subsidiary of Greenheart. GRH, in turn, indirectly owns 100 percent of Greenheart's forest assets and operations in the western part of Suriname, supposedly one of Sino-Forest's principal timber holdings.

36. Sino-Forest's business model is further complicated by the fact that much of its business is done through what it describes as "Authorized Intermediaries" ("AIs"), supposedly independent companies which are largely responsible for the actual sale of forestry products to the users of these products. Despite the critical role that these Authorized Intermediaries play in its business, little is known of the financial relationships with these AIs and Sino-Forest has, with one exception, refused to disclose the identity of these companies.

37. Because Sino-Forest principally operates in China, Sino-Forest's convoluted structure and business practices did not initially arouse investor suspicions. Because of the unusual aspects of doing business in China, which tightly regulates foreign investment, a number of legitimate foreign companies who operate in that country have unusually complex structures. But, unbeknownst to investors, there was little or no business justification for the way Sino-Forest structured itself and its operations. Sino-Forest's structure was not meant to facilitate

compliance with Chinese law, but to make it easier for Defendants to materially mislead investors about the Company's operations, revenue, earnings and assets.

38. Investors were further assured of the legitimacy of Sino-Forest's finances and operations because of annually issued clean audit opinions from E&Y and by the due diligence purportedly conducted by BOA and Credit Suisse in connection with the Company's offering of the 2017 Notes.

39. The purported steady and impressive growth of Sino-Forest helped fuel a series of capital raising activities by the Company. By making the Company appear to be on a much more economically sound footing than was actually the case, Sino-Forest was able to raise the funds it needed to finance its rapid expansion. Because the Company's cash flow did not cover its operating expenses, the Company would not have been able to continue to operate absent cash infusions from debt and equity investors.

40. During the Class Period, Sino-Forest conducted numerous debt and equity offerings, issuing over \$1.8 billion in debt securities to investors and also sold investors hundreds of millions of dollars of common stock. Specifically, the following securities were issued to investors:

- On July 17, 2008, the Company closed an offering of convertible guaranteed senior notes (the "2013 Convertible Notes") for gross proceeds of \$300,000,000. On August 6, 2008, the Company issued an additional \$45,000,000 of 2013 Convertible Notes pursuant to the exercise of an over-allotment option granted to the underwriters in connection with the offering, increasing the gross proceeds to \$345,000,000.

- On June 24, 2009, the Company offered to eligible holders of outstanding Senior Notes due in 2011 (the “2011 Senior Notes”) to exchange these notes for up to \$300,000,000 of new guaranteed senior notes due 2014 (the “2014 Senior Notes”). On July 27, 2009, the Company completed this exchange offer, issuing an aggregate principal amount of \$212,330,000 of 2014 Senior Notes, representing approximately 70.8% of the aggregate principal amount of the 2011 Senior Notes.
- In June 2009, the Company completed a public offering and international private placement of 34,500,000 common shares (including 4,500,000 common shares issued upon the exercise of the underwriters’ over-allotment option) for gross proceeds of approximately \$339,810,000.
- On December 17, 2009, the Company closed an offering of convertible guaranteed senior notes (the “2016 Convertible Notes”) for gross proceeds of \$460,000,000.
- In December 2009, the Company completed a public offering of 21,850,000 common shares (including an overallotment exercise) for gross proceeds of approximately \$345,318,000.
- In May 2010, Sino-Forest issued 1,990,566 shares of common stock as a \$33.3 million payment to acquire 34% of Greenheart Resources.
- In August 2010, the Company issued \$2.3 million shares of common stock in partial payment of its acquisition of Mandra Forestry Holdings Limited, a company which supposedly owned the rights to technology relevant to the Company’s business. In connection with this acquisition of Mandra, the

Company also exchanged nearly \$195 million of Mandra notes for Sino-Forest notes—the Sino-Forest notes had a longer duration and lower interest rate than the Mandra notes for which they were exchanged.

- On October 21, 2010, the Company completed the \$600,000,000 Note Offering of the 2017 Notes.

41. Thus, during the Class Period, while Defendants were issuing materially false and misleading financial statements and other reports to investors, Sino-Forest was taking advantage of the illusory growth portrayed to investors through these large debt and equity offerings, which in less than three years, cumulatively totaled over \$2.5 billion.

#### IV. FALSE AND MISLEADING STATEMENTS

42. During the Class Period, Defendants made numerous statements that were materially false and misleading and which had the effect of artificially inflating the value of Sino-Forest's securities. These false statements were contained in the Company's public filings, press releases, reports and other statements to the investing public. In general, during the Class Period, the Company reported steadily increasing holdings of timber assets (mostly in the PRC) achieved through acquisitions and purchases, and increasing revenues and earnings, all of which contributed to the Company's rising stock price and its ability to issue additional debt and equity securities to investors.

##### A. Misrepresentations and Omissions With Respect to Sino-Forest's Financial Statements

43. Sino-Forest's financial statements, which it published to investors on a quarterly and annual basis via press releases and public filings, consistently portrayed Sino-Forest as a profitable and rapidly expanding company. As set forth in Sino-Forest's 2006 Annual

Consolidated Financial Statements, dated March 19, 2007; its 2007 Annual Consolidated Financial Statements dated March 18, 2008; its 2008 Annual Consolidated Financial Statements dated March 16, 2009; its 2009 Annual Consolidated Financial Statements dated March 16, 2010; and its 2010 Annual Consolidated Financial Statements dated March 15, 2011, the Company's revenue, earnings and assets supposedly grew during the Class Period as follows:

	2006	2007	2008	2009	2010
<b>Assets</b>	\$1,207,255,000	\$1,837,497,000	\$2,603,924,000	\$3,963,899,000	\$5,729,033,000
<b>Revenue</b>	\$555,480,000	\$713,866,000	\$896,045,000	\$1,238,185,000	\$1,923,536,000
<b>Net Income</b>	\$113,480,000	\$152,273,000	\$228,593,000	\$286,370,000	\$395,426,000

44. Each of the annual financial statements, except for the 2006 statements, were accompanied by an audit opinion from E&Y stating that E&Y had conducted annual audits in accordance with Canadian GAAS and that these financial statements were presented in accordance with Canadian GAAP. Defendant Chan signed each annual financial statement.

45. The Company also issued materially false and misleading unaudited "Interim Financial Statements," during the Class Period, which incorporated prior period audited financial statements and similarly overstated the Company's revenue, earnings and assets. The Company's materially false and misleading quarterly financial statements (through 2010) which, like the annual financial statements, showed increasing revenue, earnings and assets, were released on the following dates:

<b>Document</b>	<b>Date of Filing</b>
2007 Q-1 Interim Financial Statements	5/14/2007
2007 Q-2 Interim Financial Statements	8/13/2007
2007 Q-3 Interim Financial Statements	11/12/2007
2008 Q-1 Interim Financial Statements	5/13/2008
2008 Q-2 Interim Financial Statements	8/12/2008
2008 Q-3 Interim Financial Statements	11/13/2008

Document	Date of Filing
2009 Q-1 Interim Financial Statements	5/11/2009
2009 Q-2 Interim Financial Statements	8/10/2009
2009 Q-3 Interim Financial Statements	11/12/2009
2010 Q-1 Interim Financial Statements	5/12/2010
2010 Q-2 Interim Financial Statements	8/10/2010
2010 Q-3 Interim Financial Statements	11/10/2010

46. Sino-Forest's quarterly and annual financial statements (through December 31, 2010) were materially false and misleading because they failed to comply with Canadian GAAP. Specifically, at the time each of these financial statements was issued, they overstated the Company's assets, inflated the reported revenue and earnings and misled investors regarding the Company's then current financial situation and its future prospects. Because, among other things, the Company lacked adequate internal controls to substantiate its financial performance, and its operations were permeated by unsubstantiated and undisclosed related party transactions, these financial statements were not prepared in accordance with the applicable accounting standards. Sino-Forest's quarterly financial statements for the first two quarters of fiscal year 2011 also overstated the Company's assets, revenues and net earnings at the time they were issued and were not presented in accordance with the applicable Canadian accounting standards.

**B. Other Misrepresentations and Omissions In Annual And Quarterly Filings**

47. In addition to filing false and misleading financial statements, the Company also made numerous other false and misleading statements to investors in other periodic securities filings made pursuant to Canadian disclosure regulations. During the Class Period, the Sino-Forest Defendants repeatedly made statements in Sino-Forest's periodic filings that falsely and misleadingly described the Company as a fast-growing, legitimate business which followed good corporate governance practices.

48. The Company's periodic reports to investors included (in addition to the separately filed financial statements) a "Management Discussion and Analysis" ("MD&A") that Sino-Forest filed each quarter during the Class Period, "Annual Information Forms" ("AIFs") and annual reports. These documents provided narrative explanations of the Company's business, operations and financial performance for the specific period, and of the Company's financial condition and future prospects. Canadian law specifically requires that the MD&A discuss important trends and risks that have affected the Company and that are reasonably likely to affect it in future. The dates of these false and misleading statements are set out in the table below.

Document	Date of Filing
2006 MD&A	3/19/2007
2006 AIF	3/30/2007
2006 Annual Report	5/4/2007
2007 Q-1 MD&A	5/14/2007
2007 Q-2 MD&A	8/13/2007
2007 Q-3 MD&A	11/12/2007
2007 MD&A	3/18/2008
2007 AIF	3/28/2008
2007 Annual Report	5/6/2008
2008 Q-1 MD&A	5/13/2008
2008 Q-2 MD&A	8/12/2008
2008 Q-3 MD&A	11/13/2008
2008 MD&A	3/16/2009
2008 AIF	3/31/2009
2008 Annual Report	5/4/2009
2009 Q-1 MD&A	5/11/2009
2009 Q-2 MD&A	8/10/2009
2009 Q-3 MD&A	11/12/2009
2009 MD&A	3/16/2010

Document	Date of Filing
2009 AIF	3/31/2010
2009 Annual Report	5/11/2010
2010 Q-1 MD&A	5/12/2010
2010 Q-2 MD&A	8/10/2010
2010 Q-3 MD&A	11/10/2010
2010 MD&A	3/15/2011
2010 AIF	3/31/2011
2010 Annual Report	5/10/2011

49. Thus, beginning at least as early as March 19, 2007, the Company's MD&A and annual filings were materially false and misleading with respect to the Company's operations and financial performance because they described the Company as a fast-growing, legitimate business which followed good corporate governance practices, while failing to disclose that the Company lacked adequate internal controls to substantiate its financial performance or verify its assets and contractual business relationships, that its operations were permeated by unsubstantiated and undisclosed related party transactions and that the Company's actual financial condition and future prospects were much worse than these public statements indicated.

C. False Certifications

50. Each annual financial statement, AIF and MD&A filing was accompanied by separate certifications signed by Chan and Horsley which asserted the following:

1. Review: I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Sino-Forest Corporation (the "issuer") for the financial year ended December 31...

2. No misrepresentations: Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement



not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. Fair presentation: Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

51. Similarly, each of the quarterly interim financial statements and quarterly MD&As were accompanied by separate certifications signed by Chan and Horsley which also asserted the following:

1. Review: I have reviewed the interim financial report and interim MD&A (together, the "interim filings") of Sino-Forest Corporation (the "issuer") for the interim period ended....

2. No misrepresentations: Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.

3. Fair presentation: Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

52. However, these publicly filed certifications were materially false and misleading because the Company's quarterly and annual financial statements overstated its assets, revenues and earnings, and the narrative statements were materially false and misleading. These statements failed to disclose that the Company lacked adequate internal controls to substantiate its financial performance or verify its assets and contractual business relationships, that the Company and its operations were permeated by unsubstantiated and undisclosed related party

transactions, and that the document being certified contained materially false and misleading information which materially overstated the Company's current financial situation and its future prospects.

D. Misrepresentations and Omissions Relating To Yunnan Forestry Assets

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

54. Similar representations regarding the acquisition of these assets were also made in Sino-Forest's Q1 2007 MD&A. Moreover, throughout the Class Period, Sino-Forest discussed its purported Yunnan acquisitions in other filings and public statements. In the Company's 2010 AIF, filed on March 31, 2010, the Company asserted that "[a]s of December 31, 2010, we have acquired approximately 190,300 hectares of plantation trees for US\$925.9 million under the terms of the master agreement" which had been entered into in March 2007. It made a similar statement in its 2010 annual report, which was filed on May 10, 2011.

55. However, as subsequently disclosed, Sino-Forest's and Defendants' statements concerning the acquisition of assets in Yunnan Province were materially false and misleading because, among other reasons, Sino-Forest had acquired the rights to far less timber than the Company had claimed and/or the value attributed to the timber assets purportedly owned by Sino-Forest was materially overstated. As a result, the Company's representations relating to its financial results and business were materially misleading as Defendants failed to disclose the true amount of timber acquired from Gengma Forestry, thereby overstating the assets carried on the balance sheet.

E. Misrepresentations and Omissions Relating to the Offering of 2017 Notes

56. On October 14, 2010, Sino-Forest, through the Underwriter Defendants, offered and sold the 2017 Notes. The Underwriter Defendants served as Joint Global Coordinators and Lead Bookrunning Managers. The 2017 Notes were purportedly exempt from registration under the U.S. Securities Act because they were offered, pursuant to SEC Rule 144A, to qualified institutional buyers (including those in the U.S.), and in offshore transactions to investors other than U.S. persons under SEC Regulation S.

57. The 2017 Notes were sold pursuant to the Offering Memorandum, which was materially false and misleading as described below, and which was prepared by the Sino-Forest Defendants and the Underwriter Defendants. The Offering Memorandum specifically incorporates by reference Sino-Forest's misleading 2007, 2008 and 2009 annual financial statements, its unaudited interim financial statements for the six months ended June 30, 2009 and June 30, 2010, and Defendant E&Y's audit reports dated March 13, 2009 and March 16, 2010 (with E&Y's consent). The Offering Memorandum states that the documents incorporated by reference "form [an] integral part of [the] Offering Memorandum."

58. As underwriters of the Note Offering, the Underwriter Defendants had a duty to investors to conduct an adequate due diligence with respect to the representations in the Offering Memorandum. The Underwriter Defendants were reckless or negligent in performing due diligence on the Note Offering by failing, among other things, to determine the legitimacy of the multiple related party transactions at the Company or to ascertain the true value of the assets, properties and business of Sino-Forest, resulting in the issuance of a materially false and misleading Offering Memorandum.

59. The Offering Document was signed by the Underwriter Defendants and contained both Sino-Forest's misleading financial statements and the misleading narrative description of the Company and its future prospects, including the portrayal of the Company as a fast-growing, legitimate business which followed good corporate governance practices with positive future prospects for growth. In particular, the Offering Memorandum cited the Company's competitive strengths including, among others, the following: (i) "Leading commercial forest plantation operator in the PRC with established track record;" (ii) "First mover advantage with strong track record of obtaining and developing commercial tree plantations and ability to leverage our industry foresight;" (iii) "Future growth supported by long-term master agreements at agreed capped prices;" (iv) "Strong research and development capability, with extensive forestry management expertise in the PRC;" and (v) "Diversified revenue and asset base."

60. As described above, the statements in the Offering Document were materially false and misleading because, contrary to the financial results reported in its financial statements, and contrary to the description of Company with major strengths as a forest plantation operator, the Company was engaged in fraudulent practices, resulting in the overstatement of assets, revenues and earnings, and misleading statements about its contractual relationships with certain

parties in the PRC related to the purchase of timber acreage. Thus, at the time of the Note Offering, investors were misled because the Company's actual financial condition and future prospects were much worse than these public statements indicated.

F. Misrepresentations and Omissions Relating to Code of Business Conduct

61. At all material times, Sino-Forest maintained it had in place a Code of Business Conduct (the "Code"), which governed its employees, officers and directors. The full text of the code was posted on the Company's Internet site and available to investors. It stated that the members of senior management "are expected to lead according to high standards of ethical conduct, in both words and actions." The Code further required that Sino-Forest representatives act in the best interests of shareholders, that corporate opportunities not be used for personal gain, that insiders not trade in Sino-Forest securities based on undisclosed knowledge stemming from their position or employment with Sino-Forest, that the Company's books and records be honest and accurate, that conflicts of interest be avoided, and that any violations or suspected violations of the Code, and any concerns regarding accounting, financial statement disclosure, internal accounting or disclosure controls or auditing matters, be reported.

62. Nonetheless, as explained in this Complaint, the publicly disclosed Code contained materially false and misleading statements because, as described herein, Sino-Forest's top executives did not actually follow the provisions of the Code.

V. INITIAL DISCLOSURE OF FRAUD AT SINO-FOREST

63. A report published on June 2, 2011 by Muddy Waters (the "Report"), a research firm that specializes in analyzing Chinese companies traded in the United States and Canada, reported that Sino-Forest and its financial statements were permeated by fraud.

64. The Report detailed the extensive investigative effort and resources that Muddy Waters had undertaken to discover the truth about the Company:

In order to conduct our research, we utilized a team of 10 persons who dedicated most to all of their time over two months to analyzing [Sino-Forest]. The team included professionals who focus on China from the disciplines of accounting, law, finance, and manufacturing. Our team read over 10,000 pages of documents in Chinese pertaining to the company. We deployed professional investigators to five cities. We retained four law firms as outside counsel to assist with our analysis.

65. The Muddy Waters report concluded that the Company was extensively involved in business practices that were “blatantly illegal” and that the Company’s financial statements and other reports to investors were permeated by fraud. According to the Report, Sino-Forest’s remarkably consistent growth during the Class Period was illusory – simply the result of “a Ponzi scheme,” rather than a real expansion in Sino-Forest’s business. According to Muddy Waters, the Company used its supposed growth and profitability to raise money from private lenders and the financial markets. This money, in turn, was used to bolster an appearance of further growth and increased profitability, which in turn opened the door to additional funding from private lenders and the capital markets. According to the Report, however, the capital raised by Sino-Forest was not used to expand the Company’s business, but was instead largely siphoned off by insiders in undisclosed related party transactions.

66. At the heart of the misconduct at Sino-Forest, according to Muddy Waters, is the Company’s use of AIs. The Report noted that AIs apparently act as both buyers and sellers in Sino-Forest transactions. For example, in one case uncovered by Muddy Waters, an AI purchased logs from Sino-Forest and delivered them to a chipping facility. Once the logs reached the facility they were sold back to Sino-Forest. Sino-Forest then turned around and sold the logs back to the AI who then proceeded to turn the logs into wood chips. The purpose of

these transactions, which were pointless from a business perspective, was to create the appearance of additional revenue for Sino-Forest.

67. The Report also disclosed that Sino-Forest had vastly overstated its forestry assets. In China's Yunnan Province alone the overstatement is potentially hundreds of millions of dollars. As noted above, in March 2007 Sino-Forest publicly announced that it had entered into an agreement to purchase up to 200,000 hectares of trees in Lincang City in Yunnan for \$700 million to \$1.4 billion, but a review of relevant government documents by Muddy Waters indicated that the actual size of this purchase was about 40,000 hectares.

68. Furthermore, although Sino-Forest generally does not identify the companies from which it purchases forestry assets, Muddy Waters was able to identify many of these companies by means that included careful review of government records. Muddy Waters visited many of these entities, finding that they "generally operated out of apartments while purportedly each doing annual revenue in the hundreds of millions from TRB [Sino-Forest] alone." This discovery supports Muddy Waters' conclusion that a substantial portion of the Company's reported purchases of forestry assets were greatly exaggerated or never occurred at all.

69. The Report also noted that Sino-Forest had engaged in substantial transactions with undisclosed related parties, transactions which are in violation of the applicable accounting rules and which require disclosure of related party transactions. An example is Jiangxi Zhonggan Industrial Development Company Ltd., which was incorporated just months before Sino-Forest entered into an approximately \$700 million contract with it in June 2009. The legal representative and President of this company is Sino-Forest Executive Vice President, Lam Hong Chiu. According to Muddy Waters, Zhonggan's 2008 and 2009 audit report shows "numcrous large transactions between the Company, TRB, and other parties." Separately, Muddy Waters

identified Huaihua Yuda Wood Company Ltd., as “an undisclosed TRE subsidiary that has been receiving massive amounts of money from TRE’s subsidiaries.”

70. . On publication of the Muddy Waters Report, the price of Sino-Forest’s securities dropped dramatically. On June 2, 2011, the Company’s shares, which had ended trading at \$18.64 on June 1, ended trading on the OTC market at \$7.33 and then fell further, to \$5.41 on June 3, a price drop of 71% over two days on substantially larger volume than normal. The prices of the Company’s debt securities also declined significantly.

#### VI. SINO-FOREST’S DENIALS AND FURTHER MISLEADING STATEMENTS

71. Soon after publication of the Muddy Waters Report, Defendants began an organized campaign to further mislead investors by falsely claiming that there was no misconduct at the Company. These misleading statements (§§ 72-76) continued to prop up the prices of Sino-Forest securities until trading was halted on August 26, 2011.

72. In a June 3, 2011 press release, the Company asserted that “[t]he Board of Directors and management of Sino-Forest wish to state clearly that there is no material change in its business or inaccuracy contained in its corporate reports and filings that needs to be brought to the attention of the market. Further we recommend shareholders take extreme caution in responding to the Muddy Waters report.” The release also quoted Chan as saying the following: “let me say clearly that the allegations contained in this report [by Muddy Waters] are inaccurate and unfounded.” The release quoted Horsley as saying “I am confident that the [Sino-Forest Board of Directors’] independent committee’s examination will find these allegations to be demonstrably wrong.”

73. In a June 6, 2011 press release, Sino-Forest further stated that “The Company believes Muddy Waters’ report to be inaccurate, spurious and defamatory.” The press release



quoted Chan as saying the following: "I stand by our audited financial statements, including the revenue and assets shown therein. All material related party transactions are appropriately disclosed in our financial statements. We do business with the parties identified in the report at arm's length. Those parties are not related or connected to the Company or any of its management."

74. During a June 14 conference call with investors, Chan suggested that the Muddy Waters allegations were entirely inaccurate, accusing Muddy Waters of a "pattern of sloppy diligence and gross inaccuracy."

75. Moreover, even after the release of the Muddy Waters Report, the Sino-Forest Defendants continued their practice of making false and misleading statements about Sino-Forest's financial condition and future prospects. On both June 14, 2011 and August 15, 2011, Sino-Forest filed, respectively, its Interim Financial Statements and its MD&A covering the first quarter. These filings (which investors were later told they should not rely upon) contained material misrepresentations and omissions similar to those made in filings earlier in the Class Period: they falsely portrayed the Company as a fast-growing, legitimate business which followed good corporate governance practices with positive future prospects for growth and they materially overstated the Company's revenue, earnings and assets.

76. The August 15, 2011 MD&A also made the following false statement: "[u]nder the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has actually acquired 230,200 hectares of plantation trees for \$1,193,459,000 as at March 31, 2011." In fact, as the Muddy Waters Report had disclosed, the Company had vastly overstated the value of its holdings in Yunnan under the March 2007 agreement.

## VII. CONFIRMATION OF THE FRAUD

77. After publication of the Muddy Waters Report, additional investigations and disclosures evidence that numerous statements by Sino-Forest during the Class Period were materially false and misleading or omitted material information.

### A. The Globe and Mail Investigation

78. A June 18, 2011 article in the highly respected Globe and Mail, Canada's largest-circulation national newspaper, confirmed that Sino-Forest had provided materially inaccurate information about the Company's holdings in Yunnan, which comprised a substantial portion of the Company's supposed forestry assets. The article stated, in part:

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

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

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

79. *The Globe and Mail* article reported that in an interview with officials involved in the Sino-Forest transactions indicated that it had acquired less than 14,000 hectares. The article went on to say:

Mr. Xie's account corroborates the assertions of senior forestry officials in the province. Speaking on condition of anonymity, these officials challenged the company's statements that it controls more than 200,000 hectares of Yunnan trees, and said they are now investigating.

80. *The Globe and Mail* further reported:

In a written response to questions from *The Globe*, Sino-Forest said it stands by its public statements regarding its Yunnan holdings. The company said it has purchased about 13,300 hectares of 'forestry assets and leased land' directly from Gengma Forestry, and another 180,000 hectares of 'forestry assets only' from other sellers, using Gengma as a purchasing agent.

'The agreement has not been yet fulfilled as we have not completed the purchase of 200,000 hectares,' the company said.<sup>2</sup>

That statement from Sino-Forest appears to contradict its own publicly filed financial reports. In its first quarter 2011 report, the company said that 'under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has actually acquired 230,200 hectares of plantation trees for \$1,193,459,000 as at March 31, 2011.'

The company's 2010 annual information form filed with regulators earlier this year said that as of December 31, 2010, Sino-Forest had 'acquired approximately 190,300 hectares of plantation trees for \$925.9-million (U.S.) under the terms of the master agreement.'

The *Globe's* investigation of the company's dealings and holdings in Yunnan points to inconsistencies in the company's accounting of its timber rights and raises broader questions about its business practices.

81. In addition, it was reported that:

As of the end of 2010, the company claimed control of about 800,000 hectares of trees in nine Chinese provinces plus New Zealand. Its operation in Yunnan province, in addition to being its largest, is also the one for which it has made additional disclosures recently in an attempt to defuse the allegations made in the Muddy Waters report.

So far, however, it has disclosed purchase agreements as well as forest and woodland rights certificates for about 7,000 hectares of forest in Yunnan. The company has not disclosed significant

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<sup>2</sup> Unless otherwise indicated, all emphasis in quotations is added.

documentation regarding its forestry holdings in other provinces.

To find Gengma Forestry, Sino-Forest's local partner in the so-called 'Yunnan master agreement' – the 2007 deal said to be worth as much as \$1.4-billion – you have to duck down an alleyway behind the drugstore on the main street of this nondescript trading city, then up a dusty cement staircase.

On the landing is the litter-strewn office with an open door and a window protected by metal bars. Despite signing a deal with Sino-Forest that should guarantee a windfall, the company has clearly fallen on hard times. 'Our relations with [Sino-Forest] were not totally good. They talked about a lot of things, but in the end it was hard to get money from them,' said Zhang Ling, Gengma Forestry's office manager.

82. Statements of local officials in Yunnan province also contradict the reported size of Sino-Forest's holdings:

Senior forestry officials in the province challenged the company's assertion that it controls about 200,000 hectares of forest in the region. Speaking on condition they not be identified, they said their records showed Sino-Forest manages far less than that and said the Yunnan Forestry Bureau would begin an investigation aimed at determining the company's true holdings.

83. Not only have the size of the holdings been questioned, but so has the value as reported in *The Globe and Mail*:

In addition to the questions about Sino-Forest's disclosures on the size of its holdings, forestry officials, as well as local timber brokers who spoke to *The Globe* raised questions regarding the value Sino-Forest attributes to its Yunnan assets.

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

84. Subsequently, in early September 2011, *The Globe and Mail* reported that “A Globe investigation, based on interviews with people associated with Sino-Forest and an examination of legal and regulatory documents in Hong Kong and mainland China, has uncovered a pattern of questionable deals and disclosures from the company that date back to its earliest days.”

**B. Investigations and Regulatory Actions**

85. On August 26, 2011 the Ontario Stock Commission issued a “Temporary Order” that said the following: “Sino-Forest and certain of its officers and directors including Chan appear to be engaging or participating in acts, practices or a course of conduct related to its securities which it and/or they know or reasonably ought to know perpetuate a fraud on any person or company contrary to section 126.1 of the [Ontario Securities] Act and contrary to the public interest.”

86. The Commission halted trading in Sino-Forest’s stock on the Toronto Stock Exchange effective August 26, 2011 and demanded that several of Sino-Forest’s executives resign. Trading was halted in the U.S. on the OTC Bulletin Board at 5:30 p.m. on August 26, 2011.

87. On August 28, *The Globe and Mail* reported that CEO Chan had resigned. The newspaper also reported that “[t]hree Sino-Forest vice-presidents – Alfred Hung, George Ho and Simon Yeung – have been placed on administrative leave. Senior vice-president Albert Ip has been relieved of most of his duties but remains with the Company to assist the internal probe.” The newspaper also explained why Chan’s departure had occurred: “According to people familiar with the case, Mr. Chan was confronted by company officials in Hong Kong last week after a review of e-mail accounts outside the company’s network revealed questionable

transactions and money transfers.” Despite this evidence of misconduct, Chan remains with the Company, having been granted the title “Founding Chairman Emeritus.”

88. In late August Standard & Poor’s Ratings Services announced that it was withdrawing its ratings on the Company’s debt because “[r]ecent developments point towards a higher likelihood that allegations of fraud at the company will be substantiated.”

89. As a result of the suspension in the trading of Sino-Forest’s common stock and disclosure of the suspected fraud, the shares are now virtually worthless and the value of its Debt Securities, including the 2017 Notes have declined substantially. On November 11, 2011, it was announced that the Royal Canadian Mounted Police had commenced a criminal investigation.

90. Subsequently, on January 10, 2012, Sino-Forest announced that investors should no longer rely upon its historical financial statements and related audit reports. The Company stated that there was “no assurance” that it would be able to release third quarter financial results or audited financial statements for its 2011 fiscal year. The Company further disclosed in the January 10, 2012 announcement that it was still unable to explain or resolve outstanding issues, relating to its financial results and business relationships, including matters raised by documents identified by its auditor E&Y and the OSC.

#### **VIII. MOTIVATION FOR FRAUD**

91. The Sino-Forest Defendants had ample motive to commit fraud: the exaggerated revenue, earnings and assets allowed the Company to continue to raise substantial funds from lenders and investors, inflated the Company’s stock price and provided a personal financial windfall to the Individual Defendants who sold highly inflated stock to unsuspecting investors.

92. In addition to the billions of dollars raised by Sino-Forest during the Class Period (described above), Company insiders also benefited directly by the inflated value of Sino-

Forest's stock because of their substantial stock holdings and because part of their compensation was in the form of stock options. Documents filed by the Company revealed that the Individual Defendants have sold over \$44 million of Company stock since 2006.

**Defendants' Sales Of Shares During Class Period**

Defendant	Net Shares Sold	Value \$Can	Value \$U.S. (on 11/15/11 \$Can 1=\$US 0.98494)
Chan	182,000.00	\$3,003,200.20	\$2,957,970
Horsley	531,431.00	\$11,157,962.93	\$10,989,900
Poon	3,037,900	\$30,054,387.32	\$29,601,800
<b>TOTAL</b>	<b>3,751,331</b>	<b>\$44,215,550.45</b>	<b>\$43,549,670</b>

**IX. CLASS ALLEGATIONS**

93. Plaintiffs bring this action on their own behalf and, pursuant to Article 9 of the New York Civil Practice Law and Rules ("CPLR"), as a class action on behalf of themselves and all persons or entities who purchased (i) Sino-Forest's common stock during the Class Period on the OTC market who were damaged thereby; and (ii) all persons or entities who, during the Class Period, purchased Debt Securities issued by Sino-Forest other than in Canada and who were damaged thereby. Excluded from the Class are Defendants, the officers and directors of Sino-Forest during any portion of the Class Period, members of the immediate families of the foregoing persons and the legal representatives, heirs, successors or assigns of such persons and any entity in which any Defendant has or had a controlling interest. The Class specifically excludes any investor who purchased Sino-Forest securities on the Toronto Stock Exchange or in Canada.

94. The claims of Plaintiffs and the members of the Class have a common origin and share a common basis. The claims of all Class Members originate from the same improper conduct and arise from securities purchases entered into on the basis of the same materially

misleading statements and omissions by Defendants during the Class Period. If brought and prosecuted individually, each Class Member would necessarily be required to prove their respective claims upon the same facts, upon the same legal theories and would be seeking the same or similar relief, resulting in duplication and waste of judicial resources.

95. The members of the Class are so numerous that joinder of all members is impracticable. Although all Class Members cannot be identified without discovery, Plaintiff believes that there are many thousands of class members. Sino-Forest has over 246 million shares outstanding which actively traded on the OTC market (as well as in Canada on the Toronto Stock Exchange) and there are approximately \$1.8 billion in Debt Securities outstanding including, approximately, \$600 million in 2017 Notes.

96. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- a. Whether Defendants made materially false and misleading statements or omissions;
- b. Whether Defendants engaged in any acts that operated as a fraud or deceit, or negligently misrepresented the Company's financial condition to the Class;
- c. Whether Defendants breached their fiduciary duties to Plaintiffs and the class or were negligent in the performance of their duties;
- d. Whether Defendants' acts proximately caused injury to the Class or irreparably harmed the Class, and if so, the appropriate relief to which the Class is entitled; and,
- e. Whether Defendants' acts constitute violations of law for which the Class is entitled to recover damages or other relief.



97. The prosecution of separate actions by individual members of the Class would also create a risk of inconsistent or varying adjudications with respect to individual members of the Class which would establish incompatible rights and standards of conduct for the parties involved in this case. The prosecution of separate actions by individual members of the Class would also create a risk of adjudications with respect to individual members of the Class which would, as a practical matter, be dispositive of the interests of other members of the Class or substantially impair or impede their ability to protect their interests.

98. Plaintiffs have engaged counsel experienced in complex class litigation and will fairly and adequately represent the interests of the Class. Plaintiffs' interests are co-extensive with and not antagonistic to those of the absent members of the Class.

99. The members of the Class cannot reasonably be expected to litigate this matter individually. Whether litigated individually or as a class, the causes of action asserted in this Complaint involve complex issues of law and will likely require extensive and costly factual discovery, especially if this case proceeds to trial. The costs of successfully prosecuting such litigation will likely be beyond the resources of most members of the Class.

#### **X. APPLICATION OF THE FRAUD ON THE MARKET PRESUMPTION**

100. During the Class Period, Sino-Forest was a high profile Company which regularly provided purportedly accurate information to investors about the Company's operations. The Company was followed by numerous securities analysts. The securities at issue, Sino-Forest common stock and debt securities, were actively traded on efficient markets and publicly disclosed information about the Company was incorporated in the price of these securities within a reasonable amount of time.

A. Common Stock

101. During the Class Period, Sino-Forest common stock was traded on the OTC market in the United States, which is an open, well-developed and efficient market. Sino-Forest common stock was traded on the Toronto Stock Exchange, an open, well developed and efficient market. There was a substantial volume of trading in both the United States and Canada and the price of the shares traded in the United States was affected in the same way as the price of shares traded in Canada.

102. The OTC market has no fixed location but investors throughout the United States, including in New York County, New York, can purchase OTC securities through registered brokers. The principal regulator of the OTC market is the Financial Industry Regulatory Authority which has its principal offices in New York, NY and Washington, DC.

B. 2017 Notes and Other Debt Securities

103. According to the Company, the 2017 Notes "offering was made on a private placement basis in Canada, the United States and internationally pursuant to available exemptions, through a syndicate of initial purchasers." The indenture agreement which governs the 2017 Notes provided that the notes are governed by New York law.

104. The 2017 Notes were initially purchased by the Underwriter Defendants. In the purchase agreement between the Underwriter Defendants and Sino-Forest, Banc of America Securities LLC listed its address as One Bryant Park, New York, NY 10036 and Credit Suisse Securities (USA) LLC listed its address as Eleven Madison Avenue New York, NY 10010. During the Class Period and after their issuance there was an efficient market for the 2017 Notes.

105. The 2017 Notes could only be legally sold to non-U.S. persons and to U.S. persons who were qualified institutional buyers. There is an open and well developed market for

such securities which are issued by large and well known issuers such as Sino-Forest and, specifically, there was an active and well-developed market for the 2017 Notes and Sino-Forest's other Debt Securities during the Class Period. Class Members were able to purchase 2017 Notes and other Debt Securities in the OTC market.

106. Accordingly, Class Members who purchased Sino-Forest common stock or 2017 Notes, and other Debt Securities in the secondary market are entitled to a presumption of reliance on the accuracy of the prices paid.

## XI. CAUSES OF ACTION

### COUNT ONE AGAINST SINO-FOREST AND THE INDIVIDUAL DEFENDANTS FOR FRAUD

107. Plaintiffs repeat and reallege each of the allegations set forth in above. This claim is asserted against Sino-Forest and the Individual Defendants for common law fraud.

108. As set forth herein, Sino-Forest and the Individual Defendants knowingly or recklessly engaged and participated in a continuous course and scheme of fraudulent conduct to disseminate materially false information about Sino-Forest's financial condition or failed to disclose material information with the purpose of inflating the prices of Sino-Forest's common stock, the 2017 Notes and Sino-Forest's other debt securities. As intended by the Sino-Forest Defendants, Plaintiffs and Class Members reasonably relied on these false and misleading statements and failures to disclose and suffered substantial damages as a result.

109. As a direct and proximate result of Sino-Forest and the Individual Defendants' fraud, Plaintiffs and the Class have suffered economic losses in an amount to be determined at trial. Sino-Forest and the Individual Defendants are jointly and severally liable to the Class for common law fraud.

COUNT TWO  
AGAINST SINO-FOREST AND THE INDIVIDUAL DEFENDANTS FOR CIVIL  
CONSPIRACY TO DEFRAUD

110. Plaintiffs repeat and reallege each of the allegations set above. This claim is asserted against Sino-Forest and the Individual Defendants for civil conspiracy to commit fraud.

111. In furtherance of a scheme to defraud investors, the Sino-Forest Defendants corruptly agreed to combine their respective skills, expertise, resources, and reputations, thereby causing injury to Plaintiffs and the Class.

112. As set forth in detail above, one or more of the conspirators made false representations of material facts, with scienter, and Plaintiffs' and Class Members justifiably relied upon these misrepresentations and were injured as a result.

113. As a direct and proximate consequence of the foregoing, Plaintiffs and the Class have suffered economic losses in an amount to be determined at trial. Because Sino-Forest and the Individual Defendants conspired amongst themselves and with others to carry out this fraudulent scheme, the Sino-Forest Defendants are jointly and severally liable both for their own knowledge and conduct and for the knowledge and conduct of their co-conspirators in furtherance of the fraud.

COUNT THREE  
AGAINST SINO-FOREST AND THE INDIVIDUAL DEFENDANTS FOR AIDING AND  
ABETTING FRAUD

114. Plaintiffs repeat and reallege each of the allegations set forth above. This claim is asserted against Sino-Forest and the Individual Defendants for aiding and abetting common law fraud. The Sino-Forest Defendants were aware of the fraudulent scheme that is the subject of this Complaint and each of these Defendants provided substantial assistance to the perpetrators of this scheme.

115. As a direct and proximate result of the Sino-Forest Defendants' aiding and abetting of the fraud, Plaintiffs and the Class have suffered economic losses in an amount to be determined at trial. Sino-Forest and the Individual Defendants are jointly and severally liable to the Class for aiding and abetting common law fraud.

**COUNT FOUR**  
**AGAINST SINO-FOREST FOR UNJUST ENRICHMENT**

116. Plaintiffs repeat and reallege each of the allegations set forth above. This claim is asserted against Sino-Forest for unjust enrichment.

117. In connection with the fraudulent scheme set out in this Complaint Defendant Sino-Forest received payment for the sale of the 2017 Notes. Defendant Sino-Forest would not have been able to sell the 2017 Notes or would only have been able to sell these notes at a lower price had the true facts about Sino-Forest's business and financial condition been known. Consequently, Sino-Forest unjustly received money from the purchasers of its securities and it would be unjust to allow Sino-Forest to keep this improperly earned money and should be required to repay it.

**COUNT FIVE**  
**AGAINST E&Y FOR BREACH OF FIDUCIARY DUTY**

118. Plaintiffs repeat and reallege each of the allegations set forth above. This claim is asserted against the E&Y Defendants for breach of fiduciary duties. Plaintiffs specifically disclaim any allegation of fraud or fraudulent intent of E&Y with respect to this count.

119. The E&Y Defendants had a fiduciary relationship to Plaintiffs and Class Members in that the E&Y Defendants owed Plaintiffs and Class Members a duty of ordinary and reasonable care and good faith which arose from the relationships between the E&Y Defendants

and the Plaintiffs and Class Members who were the intended users of the financial statements certified by the E&Y Defendants. The E&Y Defendants breached these fiduciary duties by certifying materially false and misleading financial statements, having known of the material misstatements or omissions, or having failed to do reasonable due diligence which would have discovered the false and misleading nature of these financial statements.

120. The E&Y Defendants breached their fiduciary duties to Plaintiffs by failing to perform their audits of Sino-Forest's final statements in accordance with Canadian GAAS by, *inter alia*, failing to obtain competent evidentiary material in support of the Company's representations in its financial statements and E&Y's audit opinion.

121. As a direct and proximate result of the E&Y Defendants' breach of fiduciary duty, Plaintiffs and the Class have suffered economic losses in an amount to be determined according to proof at trial. The E&Y Defendants are jointly and severally liable to the Class for breach of fiduciary duty.

**COUNT SIX**  
**AGAINST E&Y FOR NEGLIGENT MISREPRESENTATION**

122. Plaintiffs repeat and reallege each of the allegations set forth above. This claim is asserted against the E&Y Defendants for negligent misrepresentation. Plaintiffs specifically exclude any allegations of fraud or fraudulent intent of E&Y with respect to this count.

123. The E&Y Defendants had a special relationship of trust and confidence with Plaintiffs and Class Members because of their status as outside auditors of Sino-Forest that gave rise to a duty to exercise due care in the performance of their duties. These Defendants knew or were reckless in not knowing that Plaintiffs and Class Members were relying on them to exercise reasonable care in the performance of their duties.

124. As set forth herein, the E&Y Defendants negligently made false and misleading statements that inflated the price of Sino-Forest's securities, including by negligently failing to disclose material information they were obligated to disclose. The E&Y defendants negligently misrepresented to Plaintiffs and Class Members that they had performed audits of Sino-Forest's financial Statements in accordance with Canadian GAAS and that the Company's financial statement were properly presented in accordance with Canadian GAAP.

125. Plaintiffs and Class Members reasonably relied on these false and misleading statements and failures to disclose and suffered substantial damages as a result. The E&Y Defendants were at least negligent in making such statements, including because they failed to conduct appropriate due diligence before making such statements by, *inter alia*, failing to obtain competent evidentiary material in support of the Company's representations in its financial statements and E&Y audit opinion.

126. As a direct and proximate result of the E&Y Defendants' negligent misrepresentations, Plaintiffs and the Class have suffered economic losses in an amount to be determined according to proof at trial. The E&Y Defendants are jointly and severally liable to the Class for negligent misrepresentation.

**COUNT SEVEN**  
**AGAINST E&Y FOR GROSS NEGLIGENCE**

127. Plaintiffs repeat and reallege each of the allegations set forth above. This claim is asserted against the E&Y Defendants for gross negligence. Plaintiffs specifically exclude any allegations of fraud or fraudulent intent of E&Y with respect to this count.

128. The E&Y Defendants had a special relationship with Plaintiffs and Class Members because of their status as outside auditors of Sino-Forest, a relationship that gave rise

to a duty to exercise due care in the performance of the E&Y Defendants' duties. The E&Y Defendants knew or were reckless in not knowing that Class Members were relying on them to exercise reasonable diligence in the performance of their duties. The E&Y Defendants were grossly negligent in the performance of their duties, including by failing to conduct adequate due diligence. The E&Y Defendants breached their finding changes to Plaintiffs by failing to perform their audits of Sino-Forest's final statements in accordance with Canadian GAAS by, *inter alia*, failing to obtain competent evidentiary material in support of the Company's representations in its financial statements and E&Y audit opinion.

129. As a direct and proximate result of the E&Y Defendants' gross negligence, Plaintiffs and the Class have suffered economic losses in an amount to be determined by proof at trial. The E&Y Defendants are jointly and severally liable to the Class for gross negligence.

**COUNT EIGHT**  
**AGAINST E&Y FOR NEGLIGENCE**

130. Plaintiffs repeat and reallege each of the allegations set forth above. This claim is asserted against the E&Y Defendants for negligence. Plaintiffs specifically exclude any allegations of fraud or fraudulent intent of E&Y with respect to this count.

131. The E&Y Defendants had a special relationship with Class Members because of their status as independent auditor of Sino-Forest, a relationship that gave rise to a duty to exercise due care in the performance of the E&Y Defendants' duties. The E&Y Defendants knew or were reckless in not knowing that Plaintiffs and Class Members were relying on the E&Y Defendants to exercise reasonable diligence in the performance of their duties. The E&Y Defendants were negligent in the performance of their duties; specifically the E&Y Defendants breached their duties to Plaintiffs by failing to perform their audits of Sino-Forest's final



statements in accordance with Canadian GAAS, including by failing to conduct adequate due diligence by, *inter alia*, failing to obtain competent evidentiary material in support of the Company's representations in its financial statements and E&Y audit opinion.

132. As a direct and proximate result of the E&Y Defendants' negligence, Plaintiffs and the Class have suffered economic losses in an amount to be determined by proof at trial. The E&Y Defendants are jointly and severally liable to the Class for negligence.

COUNT NINE  
AGAINST THE UNDERWRITER DEFENDANTS FOR NEGLIGENT  
MISREPRESENTATION

133. Plaintiff IMF repeats and realleges each of the allegations set forth above. This claim is asserted against the Underwriter Defendants for negligent misrepresentation on behalf of all Class Members who purchased the 2017 Notes on the Offering. Plaintiff IMF specifically excludes any allegations of fraud or fraudulent intent of Underwriter Defendants with respect to this count.

134. The Underwriter Defendants had a special relationship with IMF and those Class Members who purchased the 2017 Notes from the Underwriter Defendants because of their status as underwriters, which gave rise to a duty to exercise due care in the performance of their duties. The Underwriter Defendants knew or were reckless in not knowing that each Class Member who purchased the 2017 Notes was relying on them to exercise reasonable care in the performance of their duties.

135. As set forth herein, the Underwriter Defendants negligently made false and misleading statements that inflated the price of the 2017 Notes, including by negligently failing to disclose material information they were obligated to disclose. Plaintiff IMF and Class Members reasonably relied on these false and misleading statements and failures to disclose and

suffered substantial damages as a result. The Underwriter Defendants were at least negligent in making such statements, including because they failed to conduct appropriate due diligence before making such statements.

136. As a direct and proximate result of the Underwriter Defendants' negligent misrepresentation, Plaintiffs and the members of the Class have suffered economic losses in an amount to be determined by proof at trial. The Underwriter Defendants are jointly and severally liable to the Class for negligent misrepresentation.

**COUNT TEN**  
**AGAINST THE UNDERWRITER DEFENDANTS FOR GROSS NEGLIGENCE**

137. Plaintiff IMF repeats and realleges each of the allegations set above. This claim is asserted against the Underwriter Defendants for negligent misrepresentation on behalf of all Class Members who purchased the 2017 Notes on the Offering. Plaintiffs specifically exclude any allegations of fraud or fraudulent intent of the Underwriter Defendants with respect to this count.

138. The Underwriter Defendants had a special relationship with Plaintiff IMF and Class Members because of their status as underwriters that gave rise to a duty to exercise due care in the performance of their duties. These Defendants knew or were reckless in not knowing that Class Members were relying on them to exercise reasonable diligence in the performance of their duties. These Defendants were grossly negligent in the performance of their duties, including by failing to conduct adequate due diligence.

139. As a direct and proximate result of the Underwriter Defendants' gross negligence, Plaintiff IMF and the Class have suffered economic losses in an amount to be determined by

proof at trial. The Underwriter Defendants are jointly and severally liable to Plaintiff IMF and the Class for gross negligence.

**COUNT ELEVEN**  
**AGAINST THE UNDERWRITER DEFENDANTS FOR NEGLIGENCE**

140. Plaintiff IMF repeats and realleges each of the allegations set forth above. This claim is asserted against the Underwriter Defendants for negligence on behalf of Plaintiff IMF and all Class Members who purchased the 2017 Notes on the Offering. Plaintiff specifically excludes any allegations of fraud or fraudulent intent of the Underwriter Defendants with respect to this count.

141. The Underwriter Defendants had a special relationship with Class Members who purchased the 2017 Notes from them because of their status as underwriters that gave rise to a duty to exercise due care in the performance of their duties. The Underwriter Defendants knew or were reckless in not knowing that Plaintiff IMF and Class Members were relying on them to exercise reasonable diligence in the performance of their duties. The Underwriter Defendants were negligent in the performance of their duties, including by failing to conduct due diligence.

142. As a direct and proximate result of the Underwriter Defendants' negligence, Plaintiff IMF and the Class have suffered economic losses in an amount to be determined at trial. The Underwriter Defendants are jointly and severally liable to Plaintiff IMF and the Class for negligence.

**XII. PRAYER FOR RELIEF AND JURY DEMAND**

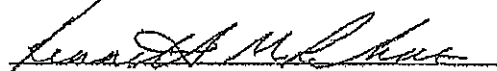
WHEREFORE, Plaintiffs and the Class hereby demands a trial by jury, and seek a judgment:

- A. Awarding Plaintiffs and the Class all compensatory damages they suffered, including lost profits and consequential and incidental damages, as a result of the wrongful conduct of the Defendants, in an amount to be determined at trial;
- B. Awarding Plaintiffs and the Class damages arising from Defendants' unjust enrichment;
- C. Awarding Plaintiffs and the Class punitive damages in an amount to be determined at trial;
- D. Awarding Plaintiffs and the Class pre-judgment and post-judgment interest;
- E. Awarding Plaintiffs and the Class their costs, expert fees, expenses and attorneys' fees incurred in connection with this action to the maximum extent permitted by law;
- F. Awarding Plaintiffs and the Class such other and further relief as the Court finds just and proper.

Dated: January 27, 2012

Respectfully submitted,

COHEN MILSTEIN SELLERS &  
TOLL PLLC



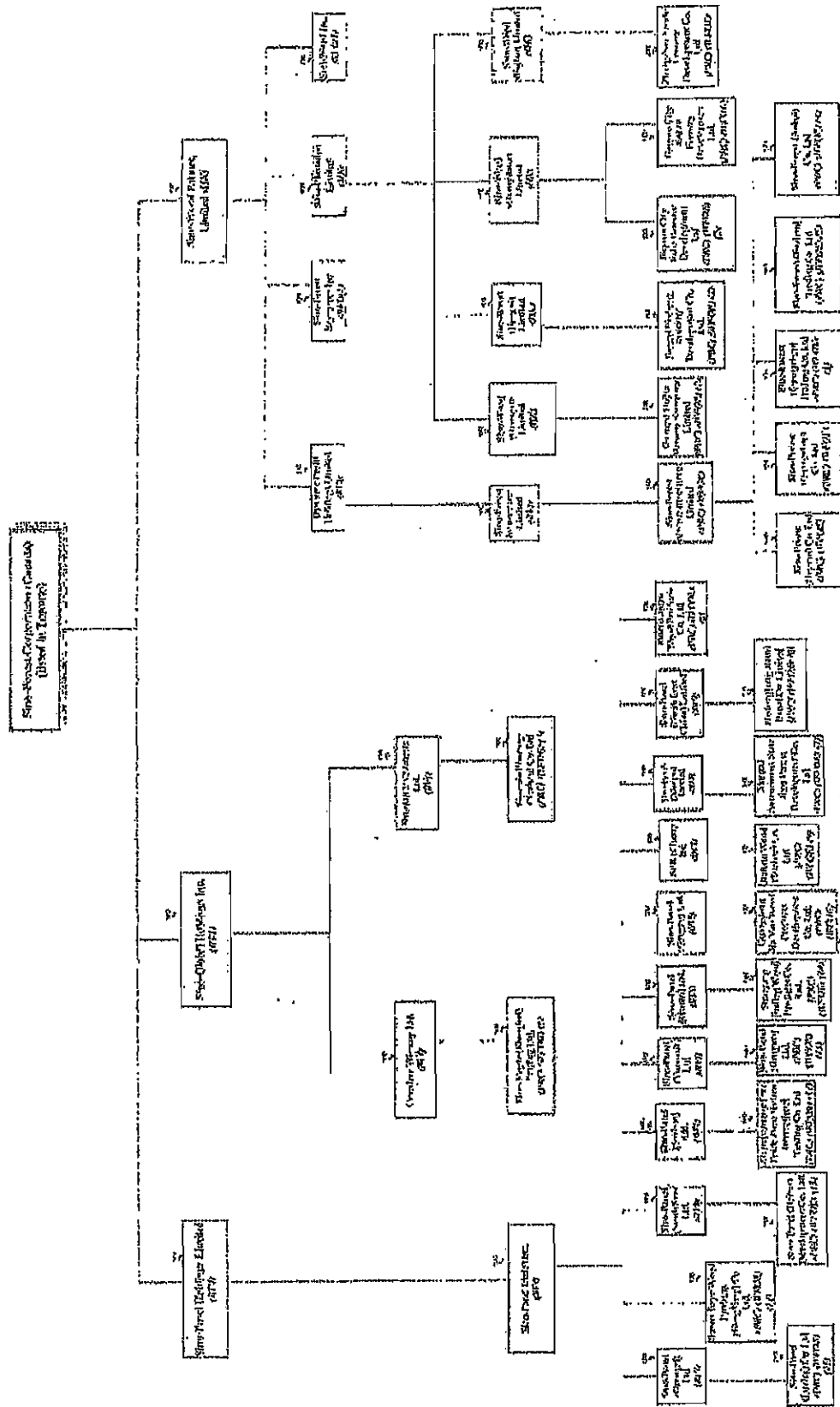
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-and-

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*Attorneys for Plaintiff and the Proposed  
Class*

Exhibit A (Sino-Forest Organizational Chart)



SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NEW YORK

DAVID LEAPARD and IMF FINANCE SA, on their  
own behalf and on behalf of all others similarly situated,

Plaintiffs,

v.

ALLEN T.Y. CHAN, DAVID J. HORSLEY, KAI KIT  
POON, BANC OF AMERICA SECURITIES LLC,  
CREDIT SUISSE SECURITIES (USA) LLC, SINO-  
FOREST CORPORATION, ERNST & YOUNG  
GLOBAL LIMITED, and ERNST & YOUNG LLP,

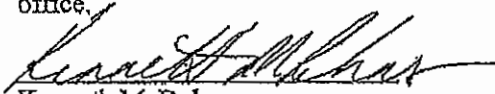
Defendants.

INDEX NO.

VERIFICATION

STATE OF NEW YORK )  
CITY OF NEW YORK )  
COUNTY OF NEW YORK )

Kenneth M. Rehns, being duly sworn, states that he is one of the attorneys for Plaintiffs in this action and that the foregoing complaint is true to his own knowledge, except as to matters therein stated on information and belief and as to those matters he believes to be true; that the ground of his belief as to all matters not stated upon his knowledge are upon review of publicly available securities filings, media and newspaper articles and information contained on the Internet; and that the reason why the verification is not made by Plaintiffs David Leopard and IMF Finance SA is that these Plaintiffs are not in the county where Plaintiff's attorney has his office.

  
Kenneth M. Rehns


  
Notary Public

Sworn before me this 27<sup>th</sup> day of January, 2012

JESSE J. LEE  
Notary Public, State of New York  
No. 01LEG167858  
Qualified in New York County  
Commission Expires June 4, 2015

# TAB E

THIS IS EXHIBIT "E" TO  
THE AFFIDAVIT OF ELIZABETH FIMIO  
SWORN JUNE 8, 2012

  
\_\_\_\_\_

A Commissioner, etc.

**Daniel Holden**  
*Barrister & Solicitor*





**Sino-Forest Announces that Approximately 72% of Noteholders  
have signed Support Agreement**

**TORONTO, CANADA – June 8, 2012** – Sino-Forest Corporation ("Sino-Forest" or the "Company") announced today that holders of approximately 72% of the aggregate principal amount of the Company's outstanding notes have agreed to be parties to the restructuring support agreement (the "Support Agreement") entered into by, among others, the Company and an ad hoc committee of its noteholders (the "Ad Hoc Committee") on March 30, 2012, which provides for the material terms of a transaction (the "Transaction") which would involve either a sale of the Company to a third party or a restructuring under which the noteholders would acquire substantially all of the assets of the Company, including the shares of all of its direct subsidiaries which own, directly or indirectly, all of the business operations of the Company.

On March 30, 2012, the Company announced that it had reached agreement with the Ad Hoc Committee on the material terms of the Transaction. On March 30, 2012, the members of the Ad Hoc Committee, who hold approximately 40% of the aggregate principal amount of the Company's 5% Convertible Senior Notes due 2013, 10.25% Guaranteed Senior Notes due 2014, 4.25% Convertible Senior Notes due 2016 and 6.25% Guaranteed Senior Notes due 2017 (collectively, the "Notes" and holders of Notes, the "Noteholders") executed the Support Agreement in which they agreed to support and vote for the Transaction. As announced on March 30, 2012, the Company continued to solicit additional Noteholder support for the Transaction and all Noteholders who wished to become "Consenting Noteholders" and participate in the Early Consent Consideration (as defined in the Support Agreement) were invited and permitted to do so until the early consent deadline of May 15, 2012.

Noteholders holding in aggregate approximately 72% of the principal amount of the Notes, and representing over 66.67% of the principal amount of each of the four series of Notes, have now agreed to be parties to the Support Agreement.

### **Inquiries**

All inquiries regarding the Company's proceedings under the *Companies' Creditors Arrangement Act* ("CCAA") should be directed to the Monitor 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://cfcanada.fticonsulting.com/sfc>.

**FOR OTHER INQUIRIES PLEASE CONTACT:  
BRUNSWICK GROUP LIMITED  
Tel: + 1 646 625 7452**

**FOR MEDIA INQUIRIES PLEASE CONTACT:  
BRUNSWICK GROUP LIMITED  
Email: [sinoforest@brunswickgroup.com](mailto:sinoforest@brunswickgroup.com)**

New York  
Stan Neve  
Tel: +1 212 333 3810

Hong Kong  
Tim Payne  
Cindy Leggett-Flynn  
Tel: +852 3512 5000

**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 ELIZABETH FIMIC  
(Sworn June 8, 2012)**

**BENNETT JONES LLP**  
One First Canadian Place  
Suite 3400, P.O. Box 130  
Toronto, Ontario  
M5X 1A4

Robert W. Staley (LSUC #27115J)  
Kevin Zych (LSUC #33129T)  
Derek J. Bell (LSUC #43420J)  
Jonathan Bell (LSUC #55457P)  
Tel: 416-863-1200  
Fax: 416-863-1716

Lawyers for the Applicant

**TAB 6**

Court File No. \_\_\_\_\_

**Sino-Forest Corporation**

**PRE-FILING REPORT OF THE PROPOSED MONITOR**

**March 30, 2012**

Court File No. \_\_\_\_\_

**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

**PRE-FILING REPORT TO THE COURT  
SUBMITTED BY FTI CONSULTING CANADA INC.,  
IN ITS CAPACITY AS PROPOSED MONITOR**

**INTRODUCTION**

1. FTI Consulting Canada Inc. (“**FTI Canada**” or the “**Proposed Monitor**”) has been informed that Sino-Forest Corporation (the “**Company**”) intends to make an application under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) and to seek an initial order (the “**Initial Order**”) from the Ontario Superior Court of Justice (Commercial List) (the “**Court**”), granting, *inter alia*, a stay of proceedings against the Company until April 29, 2012, (the “**Stay Period**”) and appointing FTI Canada as monitor of the Company’s CCAA Proceedings (defined below). The proceedings commenced by the Company under the CCAA, if granted, will be referred to herein as the “**CCAA Proceedings**”.
2. FTI Canada is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, and is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA. FTI Canada has provided its consent to act as Monitor.

### Engagement of FTI Consulting and Preparation of this Report

3. FTI was originally retained through its Hong Kong office, FTI Consulting (Hong Kong) Limited (“**FTI HK**” and together with FTI Canada, “**FTI Consulting**”) in October 2011. The purpose of FTI HK’s retainer was primarily in connection with the work being done to determine whether the Q3 Results (defined below) could be issued. The scope of FTI HK’s retention was expanded in January 2012. The expanded role of FTI HK included assisting management in the review and preparation of detailed cash flow forecasts and analysis of outstanding receivables, including collection options. FTI Canada has been formally retained since March 12, 2012. FTI HK and FTI Canada have worked together in advising the Company and in the preparation of this report.
4. Since its engagement, FTI Consulting has worked with the Company and its advisors extensively. Among other things, FTI Consulting has:
  - (a) Attended in-person meetings involving Houlihan (defined below), senior management including the chief executive officer, chief financial officer and Allen Chan (Sino-Forest’s founder and chief executive officer up to August 2011) and others in order to gain information regarding Sino-Forest and its situation;
  - (b) Attended in-person and telephone meetings with other stakeholders including the Ad Hoc Noteholders (defined below), the Board (defined below) and others;
  - (c) Engaged legal counsel in Canada who has also participated in certain of these meetings;
  - (d) Had a local team review certain Sino-Forest documents and engage in discussions with Sino-Forest in both Hong Kong and the PRC (defined below);
  - (e) Met with Sino-Forest finance personnel located in Canada, Hong Kong

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and the PRC;

- (f) Obtained financial and other information produced by Sino-Forest relating to its operations, its cash flow forecasts and current financial situation;
  - (g) Reviewed redacted versions of the IC Reports (defined below);
  - (h) Reviewed certain of the books and records of the Company;
  - (i) Reviewed the Note Indentures (defined below) and related guarantee and security documents; and
  - (j) Reviewed various other documents and materials relevant to the Company and its business.
5. As a result of these efforts, FTI Consulting has become familiar with the Company's current state of affairs including the basis on which it is now seeking CCAA protection, and approval of the Sale Process (defined below).
6. Although this Report has been prepared in anticipation of FTI Canada's appointment as monitor of the Company, it has been prepared with the same duty and care and with the same level of diligence as though FTI Canada had already been appointed to such role.
7. In preparing this report, the Proposed Monitor has relied upon unaudited financial information of the Company, the Company's books and records, certain financial information prepared by the Company, the IC Reports (defined below) and discussions with the Company's management. Other than as described in paragraph 4 above, the Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Proposed Monitor expresses no opinion or other form of assurance on the information contained in this Report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this Report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.



### Purpose of this Report

8. The purpose of this report is to:
- (a) Inform the Court on the following:
    - (i) an overview of the Company and its current situation;
    - (ii) an outline of the Proposed Monitor's understanding of circumstances that have led to the Company's current request for relief;
    - (iii) the proposed restructuring activities of the Company including the Support Agreement (defined below);
    - (iv) the Sale Process to be undertaken for the business and assets of the Sino-Forest Companies (defined below);
    - (v) the Company's March 29 Forecast (defined below); and
  - (b) Support the Company's application and recommend that the Court grant the proposed Initial Order and Sale Process Order including the following relief:
    - (i) a stay of proceedings to April 29, 2012;
    - (ii) approval of certain payments during the CCAA Proceedings;
    - (iii) approval of a charge securing the fees and expenses of the Monitor, its counsel and counsel to the Company, counsel to the Board (defined below), Houlihan, FTI HK, counsel to the Ad Hoc Noteholders (defined below) and the financial advisor to the Ad Hoc Noteholders in the aggregate amount of CAD\$15 million (the "**Administration Charge**");
    - (iv) approval of a charge securing an indemnity in favour of the

directors and officers of the Company in the aggregate amount of CAD\$3.2 million (the “**Directors’ Charge**”);

- (v) approval of the engagement of Houlihan Lokey Capital, Inc. (“**Houlihan**”), pursuant to an engagement letter dated as of December 22, 2011, (the “**Financial Advisor Agreement**”);
  - (vi) approval of the Sale Process (defined below); and
  - (vii) authorizing and directing the Company and the Proposed Monitor to engage in certain procedures to notify the Company’s noteholders regarding certain issues related to the Support Agreement (defined below).
9. Unless otherwise stated, all monetary amounts contained herein are expressed in US Dollars.
10. The terms “**Sino-Forest Companies**” and “**Sino-Forest**” refer to the global enterprise as a whole but do not include references to the Greenheart Group (defined below).
11. This report focuses on the Company’s current situation and immediate need for court protection. This report should be read in conjunction with the affidavit of W. Judson Martin, vice-chairman and chief executive officer of the Company, sworn March 30, 2012 (the “**Martin Affidavit**”) which provides an overview as to Sino-Forest’s history, business and operations and is therefore not repeated herein.

## **BACKGROUND**

### **Overview of Sino-Forest**

12. Sino-Forest conducts business as a forest plantation operator in the People’s Republic of China (“**PRC**”). Its principal businesses include ownership and management of forest plantation trees, the sale of standing timber and wood logs

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and complementary manufacturing of downstream engineered-wood products.

13. The Company is a public holding company whose common shares are listed on the Toronto Stock Exchange (“TSX”). Prior to August 26, 2011 (the date of the Cease Trade Order, defined below), the Company had 246,095,926 common shares issued and outstanding and trading under the trading symbol “TRE” on the TSX.
14. On June 2, 2011, Muddy Waters, LLC (“MW”), which held a short position on the Company’s shares, issued a report (the “MW Report”) alleging, among other things, that Sino-Forest is a “ponzi-scheme” and a “near total fraud”. The MW Report was issued publicly and immediately caught the attention of the media on a world-wide basis.
15. Since the issuance of the MW Report, the Company has devoted extensive time and resources to investigate and address the allegations in the MW Report as well as responding to additional inquiries from, among others, the Ontario Securities Commission (the “OSC”), the Royal Canadian Mounted Police (“RCMP”) and the Hong Kong Securities and Futures Commission (“HKSF”).
16. To carry out this work, on June 2, 2011, the Company’s board of directors (the “Board”) appointed a three (3) person independent committee (the “IC”) to investigate the allegations contained in the MW Report. The IC retained three (3) law firms in Canada, Hong Kong and the PRC as well as financial advisors to assist in the IC investigation.
17. The IC ultimately issued three (3) reports on August 10, 2011, November 13, 2011 and January 31, 2012 (the “First Interim Report” the “Second Report” and the “Final Report” and collectively, the “IC Reports”). The IC was able to reach many conclusions addressing many of the allegations contained in the MW Report. However, the IC was unable to make certain conclusions, particularly as it related to certain of Sino-Forest’s relationships with third party intermediaries and suppliers. The inability of the IC (and others) to have conclusively resolved those

- / -

issues has had an ongoing impact on the Company, namely the ability of the Company to issue its Q3 Results and the 2011 Financial Statements (both defined below).

18. With the issuance of its Final Report, the IC concluded its active investigation. However, the Board established a Special Restructuring Committee of the Board comprised exclusively of directors independent of management of the Company for the purpose of supervising, analyzing and managing strategic options available to the Company.
19. Despite the work that was done by the IC, the IC's advisors, the Company (including senior management) and others in the last nine months, it is apparent to the Proposed Monitor that the MW Report, the subsequent litigation and regulatory investigations and other issues continue to have a significant negative impact on the Company and have threatened the long term viability of Sino-Forest's operations. For the reasons discussed below, the Proposed Monitor is of the view that the events and occurrences over the last nine months have led the Company and the business into a stalemate that cannot be resolved without a Court supervised solution.

#### **Current State of Sino-Forest**

20. The Proposed Monitor understands that the current state of the Sino-Forest Companies is effectively as follows:
  - (a) Business impact:
    - (i) The ability of Sino-Forest to access new offshore capital injections for expansion has dried up and PRC funding has been substantially curtailed given the uncertainty around the Company;
    - (ii) The Proposed Monitor understands that operations in the trading and standing timber business outside the PRC and the standing timber business in the WFOEs are effectively frozen, the trading

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business has stopped importing (other than the existing Thai Redwood transaction which is ongoing) and manufacturing is operating at lower levels than normal;

- (iii) Many customers have ceased paying their receivables despite concentrated efforts by Sino-Forest to collect on outstanding balances, which, the Proposed Monitor understands includes SFC's counsel in the PRC sending legal demand letters to 12 BVI trading companies for accounts receivable totalling approximately \$126 million and 5 WFOE companies totalling approximately RMB 224.5 million;
  - (iv) Sino-Forest has had to reserve millions of dollars to pay suppliers for outstanding debts, in order to avoid litigation or further hostile situations from its suppliers and landlords/farmers (which the Proposed Monitor understands has historically involved threats of violence and occupation of Sino-Forest offices in Hunan);
  - (v) The Company has been unable to release its financial results for the nine-month period ended September 30, 2011 (the "**Q3 Results**") and for reasons discussed below, is unlikely to be in a position to release such statements in the near term, if ever;
  - (vi) The Company has been unable to release its 2011 audited financial statements for the year ended December 31, 2011 ("**2011 Financial Statements**") and for reasons discussed below, is unlikely to be in a position to release such statements in the near term, if ever;
- (b) Financial situation:
- (i) As of March 23, 2012, the Company has approximately \$70.5 million in cash;

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- (ii) The ability to repatriate funds from the PRC into off shore (i.e. non-PRC) companies is limited by many factors including the historic “BVI” corporate structure, state administration of foreign exchange (“SAFE”) regulations and other currency control issues (which are discussed extensively in the Martin Affidavit);
  - (iii) The Company has limited prospects of being able to raise further capital or debt in the near future;
  - (iv) Sino-Forest has not been able to secure or renew certain existing onshore banking facilities, has been unable to obtain offshore letters of credit to facilitate Sino-Forest’s trading business, and all offshore banking facilities have been repaid and frozen, or cancelled;
  - (v) Sino-Forest’s operating subsidiaries have lost access to capital injections, local bank financing and intercompany funding for expansion opportunities due to the Company’s financial situation;
  - (vi) Due to the business constraints above, Sino-Forest’s operations are now operating on a significant burn as they are being pressured to continue to honour payables while collecting minimal receivables and failing to generate significant new sales;
- (c) Legal and Regulatory Proceedings:
- (i) Sino-Forest continues to divert significant resources to address the ongoing regulatory and criminal investigations by the OSC and the RCMP as well as inquiries from the HKSFC;
  - (ii) Numerous class actions have been commenced in Canada and the US and more are threatened;
  - (iii) The OSC has issued a Cease Trade Order in respect of the Company’s shares, which is ongoing;

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- (d) Default under the Note Indentures:
- (i) As a result of the Company's failure to issue its Q3 Results, the Company is in default (the "**Financial Reporting Covenant Default**") under its four (4) series of issued notes (the "**Notes**") and is unlikely to be in a position to cure such default in the near term, if ever;
  - (ii) On January 12, 2012, the Company announced that holders of a majority of its 2014 Senior Notes and 2017 Senior Notes (who had issued default notices under their respective note indentures) had agreed to waive (the "**Waiver Agreements**") the Financial Reporting Covenant Default on certain terms and conditions (discussed below) including a covenant to make certain interest payments;
  - (iii) The Waiver Agreements terminate on the earlier of April 30, 2012 and any earlier termination of the Waiver Agreements in accordance with their terms;
  - (iv) The failure to deliver the 2011 Financial Statements by March 31, 2011 will constitute a further default under the Note Indentures (subject to a 30 day cure period);
- (e) Failure to Produce Q3 Results and 2011 Audited Statements
- (i) As set out in the IC's Second Report, subsequent to August 26, 2011, a number of documents came to the IC's attention that required further investigation and review;
  - (ii) On or before November 15, 2011, the deadline for the release of the Q3 Results, the Board's audit committee recommended and the Board agreed that the Company should defer the release of the Q3 Results until certain issues could be resolved to the satisfaction of

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the Board and the Company's external auditor;

- (iii) The issues included (A) determining the nature and scope of the relationships between Sino-Forest and certain of its AIs (defined below) and suppliers, as discussed in the Second Report, and (B) the satisfactory explanation and resolution of issues raised by certain documents identified by the IC's advisors, the Company's counsel, the Company's auditors, and/or by OSC staff;
- (iv) Although the Company (and the IC) continued to work to resolve these issues, the allegations set out in the MW Report and raised by the OSC, the Company subsequently announced that there was no assurance that it would be able to release the Q3 Results, or, if able, as to when such release would occur;
- (v) Those same issues outlined above remain gating items to the Company's ability to release 2011 Audited Financial Statements;
- (f) Political Factors:
  - (i) Sino-Forest requires ongoing support from all levels of the PRC government to operate its business in a manner that will be profitable;
  - (ii) To date, the PRC government has been supportive, but has recently expressed concern regarding the ongoing distress of the business and has indicated that it expects the Company to propose a viable solution in the near future; and
  - (iii) Loss of support from the PRC government would likely be fatal to any chance of success in restructuring the Company in a way that maximizes value for the Company's stakeholders.

21. In summary, Sino-Forest's state of affairs is such that it cannot maintain a status quo for much longer.



## CIRCUMSTANCES OF THE CCAA APPLICATION

22. The Martin Affidavit provides a detailed outline of Sino-Forest's corporate structure, business, reported assets and financial information. The Martin Affidavit also provides a detailed chronology of the Company and its actions since the issuance of the MW Report in June 2011 including the formation of the IC, the issuance and conclusions set out in the IC Reports, the Class Actions, the OSC, RCMP and HKSFCA investigations and the defaults under the Notes.
23. This Report does not propose to repeat those details. Instead, the Proposed Monitor has focused on the following areas, which it believes are relevant for understanding the basis on which it is recommending the granting of the Initial Order and the approval of the Sale Process at this time:
- (a) Sino-Forest's historical method of doing business and certain of the legal issues that are embedded within that structure;
  - (b) the role of the PRC government and the forestry industry in the PRC; and
  - (c) Sino-Forest's current options.

### **The Company's history**

24. Sino-Forest operates through two different corporate models – the "BVI" model and the "WFOE" model. It is significant to understand the corporate models used by Sino-Forest in its operations because of the corresponding issues associated with repatriating value offshore from each of those various entities.

#### *BVI Forestry Holding Companies ("BVIs")*

25. Until 2004, Sino-Forest used the BVI model exclusively to invest in timber rights in the PRC. The Proposed Monitor understands that the BVI model essentially involves the use of a British Virgin Island company to invest in timber rights in the PRC. Due to the restrictions on foreign companies under PRC law which do not permit foreign companies to conduct business in the PRC without business

licenses granted by competent government authorities, BVIs must carry on their sale activities through authorized intermediaries (“AIs”) onshore. Further, BVIs are not permitted to have bank accounts in the PRC. It is the AIs who enter into the direct contracts for the sale of standing timber with end customers. AIs are also responsible for remitting taxes arising from sales to the relevant PRC tax authorities. Once money is in the BVI system, it has never been repatriated off shore and any profit has always been re-invested in further plantation timber rights. The only exception to that are in the small instances where Sino-Forest has tested its on-shoring strategy (discussed in further detail below).

26. The BVI model was the model used by Sino-Forest when it started operations in 1994 due to the restrictions on foreign business operations in the PRC. Over the years, the BVI model was therefore used to purchase significant amounts of Sino-Forest’s reported timber holdings (approximately 60% of its reported timber holdings). From an investor/creditor perspective, the model is problematic for a number of reasons including:
- (a) BVIs are restricted from carrying on business directly in the PRC – as such, many of the title verification issues that were contained in the MW Report and arose during the IC investigation were due to the fact that when BVIs purchase timber, they are only purchasing the timber rights and not any underlying land use rights (which interests are capable of being registered in most parts of the PRC);
  - (b) BVIs must sell through the AIs. This has resulted in a certain lack of transparency in a number of issues that were the focus of the MW Report and the IC investigation – including the relationships between the AIs and certain of the suppliers, an inability to see into the books and records of the AIs to verify booked sales, and the extent to which the AIs had, in fact, remitted applicable taxes to relevant tax authorities; and
  - (c) The Proposed Monitor understands that for various reasons, but primarily related to the SAFE regulations, there is no way for a BVI to efficiently

repatriate cash off shore without giving rise to significant negative tax consequences - as such, since the businesses' inception, all profit has simply been further re-invested in the BVI model in new trees.

#### *WFOEs*

27. In 2004, the Ministry of Commerce for the PRC began allowing wholly foreign owned enterprises (“WFOEs”) to conduct business in the trading of timber on shore in the PRC. Post 2004, almost all of Sino-Forest’s new capital invested in timber assets has been employed through the WFOE model. The Proposed Monitor understands that the WFOE model is preferable for several reasons including:
- (a) WFOEs can conduct business on shore in the PRC and as such, they do not need to use the AI model. They can (and do) transact directly with customers;
  - (b) Financial information as to the WFOE holdings on Sino-Forest’s books and records is more readily verifiable and therefore more transparent in nature;
  - (c) WFOEs can acquire land use rights through pre-paid long term leases. The ability of WFOEs to invest in land use rights is advantageous because (i) for the most part, it appears that these rights can be registered and are therefore more easily verifiable; (ii) the WFOE can finance its business against its land rights; and (iii) it is viewed favourably by the PRC because it is evidence of Sino-Forest’s long term intentions within the forestry industry in the PRC; and
  - (d) WFOEs are preferable from a foreign investor perspective because there is an identifiable process for the repatriation of funds off-shore to the foreign investor parent.
28. As of December 31, 2010, approximately 40% of Sino-Forest’s reported timber

holdings were held through the WFOE structure.

### *On-shoring*

29. As part of its long term strategy, the Company has been considering options to transition its BVI assets into WFOE assets. This process is referred to as “on-shoring”. The Proposed Monitor understands there is no single standard protocol for on-shoring Sino-Forest’s assets and that Sino-Forest is looking into various alternative methods of migrating the ownership of the BVI assets. At its root, on-shoring requires the creation of a new WFOE that is capitalized to receive timber rights from the BVIs and at the same time, acquire the accompanying underlying land use rights. The Proposed Monitor understands that the precise methods for successfully on-shoring varies on a county to county basis and requires extensive negotiations with various stakeholders including potentially the land owners and tax authorities. It could also involve the cooperation of suppliers and AIs.
30. The Proposed Monitor understands there are no assurances that on-shoring will be successful on a large scale basis and that, even if the Company is successful in on-shoring certain of its assets, that does not necessarily mean it will be successful in other regions. However, the Company has indicated that it believes there are incentives for parties to cooperate with an on-shoring process as it generally involves the promotion of business in more rural areas, the ongoing employment of individuals in those regions and cash injections to the land owners on the pre-paid leases.

### **The Role of the PRC Government**

31. Based on the conversations that the Proposed Monitor has had with members of senior management of the Company and various of its advisors, the Proposed Monitor understands that the PRC government has and will continue to play a key role in any successful restructuring.
32. The forestry industry in the PRC is subject to The Forestry Law which provides for a limited system pursuant to which verification as to legal ownership of timber

or land may be obtained. The Monitor has also been advised that it is not clear that the Forestry Law has been fully implemented on a nation-wide basis such that, in some instances, no verification from regional forestry bureaus may be available.

33. The Company has advised that the PRC has taken numerous steps in the last years to promote the timber plantation industry including opportunities for foreign investment. It is also apparent that navigating timber operations within the PRC has obvious political and state related implications due to the role of the Chinese government in business operations in China generally, the geographic location of many of the plantations, the reliance upon provincial and other registries for asset verification, and the uncertainty surrounding certain taxation and other laws in the PRC that could have significant implications on Sino-Forest's business structure and/or ability to expand.
34. Further, it is clear that in many instances, there is an emphasis put on "business relationships" among parties that is paramount to any contractual or legal relationship that may have been entered into by the parties. These relationships are relied upon for the conduct of business in this industry in the PRC. In the course of its investigation, the IC reported that it was apparent that integral to Sino-Forest's business model was its relationships with business partners.
35. The Company has advised the Proposed Monitor that it believes that the PRC has been and will continue to be supportive of Sino-Forest as an ongoing business. Sino-Forest is the largest private forestry operator in the PRC and it has complied with and promoted PRC policy in terms of growth and efficiency in the natural resource sector over its 18 years of business. All of these factors have resulted in Sino-Forest having a positive and encouraging relationship with the PRC government. Consequently, the PRC government has, by and large, been facilitative of Sino-Forest's business. Ongoing support will be required if this restructuring process is to be successful. Maintaining relations with the PRC government both nationally and locally will also be crucial to Sino-Forest's on-shoring strategy.

36. Through extensive discussions that the Proposed Monitor has had with the Company and various advisors to the Company, it has become apparent that much of Sino-Forest's historical success has been due to the leadership of Allen Chan. Although Mr. Chan resigned as CEO and chairman after the issuance of the MW Report, Mr. Chan has remained involved in Sino-Forest and, in particular, plays a key role in maintaining and building on existing PRC relations. The Martin Affidavit also contains further detail as to the importance of Mr. Chan in any restructuring.
37. It is equally clear to the Proposed Monitor that the PRC government has the ability to be a significant impediment to solutions that it does not view as favourable or in furtherance of PRC policy. The Company and Houlihan have both expressed the view that if attempts were made to break up the company, that could be viewed as being contrary to the general direction of, and have a significant impact on, the PRC's natural resource growth policies and would likely be viewed negatively by the PRC government. Further, the PRC government is cognizant of the location of many of the Sino-Forest plantations and their proximity to state run facilities and has expressed concern to the Company as to how these issues will be addressed going forward if ownership is to change hands.

### **The Company's Options**

38. The Proposed Monitor is aware that the Company, in consultation with its various advisors, has considered many alternatives to solve both the Company's current problems as well as to provide longer term solutions to the issues inherent in the BVI structure. For various reasons, the options of maintaining the status quo or attempting to liquidate the assets (i.e. timber) are not feasible options notwithstanding the guarantees and pledges that may have given the noteholders certain rights to do so. Some of the issues that would prohibit status quo or liquidation are as follows:

- (a) Status quo – as set out above and in the Martin Affidavit, the MW Report

and subsequent events have left the Sino-Forest business paralyzed and unable to continue. Sources of outside funding for expansion have dried up, sales have been halted while the business continues to burn money necessary to its operations. Further, the Company has advised that based on meetings between members of senior management and the PRC, the PRC is not content to allow Sino-Forest's current situation to continue indefinitely and has insisted that a path forward for Sino-Forest be proposed;

- (b) Liquidation – It is not clear to the Proposed Monitor that a liquidation could even be achieved in this circumstance. However, even if it could be, liquidating the timber assets within the PRC is unlikely to achieve any desired result. As set out above, given the historical structural issues inherent within the BVI structure, it is doubtful that any proceeds of a liquidation could be moved off shore successfully.

- 39. The Proposed Monitor is aware that the Company and its advisors have engaged in extensive conversations and negotiations with an ad hoc committee of noteholders (the “Ad Hoc Noteholders”) for the past several months as to the various options available to Sino-Forest as well as the noteholders.
- 40. The Proposed Monitor understands that these extensive arm's length negotiations involved email, telephonic and in-person meetings between the various parties and have included, at different times, the Company's senior management (including Mr. Martin, the Company's chief financial officer, Mr. David Horsley and Mr. Chan), Houlihan, the Company's legal advisors, certain of the Ad Hoc Noteholders themselves and their legal and financial advisors. During the course of these meetings, the parties have explored the options available to both the Company and the noteholders including the liquidation option.

#### **THE SUPPORT AGREEMENT AND PROPOSED RESTRUCTURING**

- 41. Following extensive arm's length negotiations, the Company and the Ad Hoc

Noteholders have reached agreement on the terms of a support agreement (the “**Support Agreement**”). The Proposed Support Agreement has been executed by holders of the Notes holding approximately 40% of the Notes. The Support Agreement contemplates (and provides incentive for) additional noteholders becoming party to the Support Agreement by way of Joinder Agreement. As set out below, it is contemplated that the Proposed Monitor will post a copy of the Support Agreement on its website. The material terms of the Support Agreement are set out in the Martin Affidavit.

42. The Proposed Monitor has reviewed the terms of the Support Agreement. The Proposed Monitor believes that the terms of the Support Agreement are reasonable in the circumstances. In reaching that conclusion, the Proposed Monitor first considered the fact that Sino-Forest’s situation is not that of a typical debtor. The Company’s options in terms of realizing value on its assets are limited given not only the legal impediments, but also the nature and location of the physical assets. Further, other considerations included the following:
- (a) Neither maintaining the status quo nor liquidation are realistic options;
  - (b) The debt outstanding under the Indentures constitutes an overwhelming majority of the Company’s overall debt;
  - (c) The Support Agreement proposes a solution through the use of a CCAA plan that provides for, among other things:
    - (i) a structured solution pursuant to which the business operations will be liberated from the existing legal challenges facing the Company (namely the extensive litigation and contingent claims) and put into a new structure which will ultimately be able to work to fix the structural issues in Sino-Forest’s business;
    - (ii) participation rights for certain junior constituents whose claims rank behind the noteholders;



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- (iii) a framework for the litigation and/or resolution of the claims faced by the Company;
- (d) As discussed below, there are significant challenges to finding another buyer of the business;
- (e) Notwithstanding those challenges, the Support Agreement contemplates a Sale Process (defined and discussed below) to determine whether a higher or better option is available; and
- (f) As discussed above, neither maintaining the status quo nor liquidation are desirable or possibly viable options.

## THE PROPOSED SALE PROCESS

### Sale Process Terms

- 43. As contemplated under the Support Agreement, the Company is also seeking approval of certain sale process procedures (the “Sale Process”) and related relief. If approved, the Company, in consultation with the Proposed Monitor and Houlihan, will immediately commence a marketing process for the Sino-Forest business.
- 44. The material terms of the Sale Process are set out in the Martin Affidavit. The Proposed Monitor has been consulted in the development of the proposed Sale Process terms and believes they are reasonable in the circumstances.
- 45. The Company, the Proposed Monitor, Houlihan, and advisors to the Ad Hoc Noteholders have had extensive discussions as to the appropriate time frame in which the business may be marketed. The Proposed Monitor believes that it is appropriate for the Company to seek approval of the Sale Process as part of its initial application based on the following factors:
  - (a) As set out above, the growth of the forestry business and the trading business has effectively come to a halt and are rapidly burning cash;

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- (b) The Sino-Forest business is extremely complicated – for any buyer, there will be significant legal, tax, regulatory, political and cultural considerations that will need to be addressed;
  - (c) Given the extensive negative publicity that has surrounded the business, buyers will likely require extensive due diligence and that may include not just document review, but meetings in HK as well as the PRC, site visits and other time intensive exercises;
  - (d) Timber is a seasonal business with the majority of sales taking place in Q3 and Q4 of each year – if a transaction is not completed before the end of Q3 of this year, that will effectively result in a further year with few or no sales; and
  - (e) The Company needs to be able to demonstrate to the PRC government, in the near future, that it has a clear path forward, absent which it risks losing its support.
46. The proposed Sale Process is intended to be a market test of the terms of the proposed restructuring set out in the Support Agreement. However, given the size of the business and the issues surrounding the business, both Houlihan and the Company have indicated that there is likely to be a limited landscape of potential buyers. The Proposed Monitor agrees that this may be the case but nonetheless believes that it is important as part of the CCAA Proceedings that the Sale Process be commenced to determine what other interest may exist.
47. Given the urgency described above, the Proposed Monitor is aware that Houlihan has already commenced certain efforts in respect of the proposed Sale Process. Given the circumstances of this situation, the Proposed Monitor is of the view that such actions by Houlihan have been prudent.

#### **Retention of Houlihan**

48. In anticipation of a potential filing and Sale Process, the Company retained

Houlihan pursuant to the terms of the Financial Advisor Agreement. The terms of the Financial Advisor Agreement, including the proposed fee structure, are set out in the Martin Affidavit. The Proposed Monitor is aware that the Company considered at least three (3) other candidates, all of whom are well-known international investment banks, prior to retaining Houlihan.

49. The Proposed Monitor understands that the Board's decision to retain Houlihan was based on Houlihan's experience in debt restructurings including working with noteholders as well as its extensive presence in North American and Asian markets.
50. The Proposed Monitor has reviewed the terms of the Financial Advisor Agreement. The Proposed Monitor believes that, in the circumstances, it is reasonable for the Company to have retained Houlihan and negotiated the terms contained in the Financial Advisor Agreement. Accordingly, the Proposed Monitor recommends the approval of the Financial Advisor Agreement.

## **THE COMPANY'S CASH FLOW FORECAST**

### **Cash Flow Projections**

51. The Company, with the assistance of the Proposed Monitor, has prepared consolidated 13-week cash flow projections of its receipts and disbursements (the "**March 29 Forecast**"). The March 29 Forecast, together with the management's report on the cash-flow statement as required by section 10(2)(b) of the CCAA, is attached hereto as Appendix A. The March 29 Forecast shows a negative net cash flow of approximately \$19.3 million in the period March 31 to June 29, 2012, and is summarized below:

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	\$000 CAD
Cash inflow	
Interest Income	\$ 412
<b>Total cash inflows</b>	<b>\$ 412</b>
Cash outflow	
Payroll and Benefits	\$ 181
Board & Committee Fees	\$ 253
Travel	\$ 315
Rent, Communication & Utilities	\$ 60
Taxes & Other	\$ 195
<b>Total cash outflows</b>	<b>\$ 1,004</b>
<b>Net Operating Cashflow</b>	<b>\$ (591)</b>
Restructuring Costs	
Professional Fees	\$ 18,730
<b>Total Restructuring Costs</b>	<b>\$ 18,730</b>
<b>Net Cash Flow</b>	<b>\$ (19,321)</b>
Opening Cash Balance	\$ 67,846
Net Cash Balance	\$ (19,321)
Ending Cash Balance	\$ 48,525

52. It is anticipated that the Company's projected liquidity requirements throughout the CCAA Proceedings will be met by existing cash available to the Company.

#### **Proposed Monitor's Report on the Reasonableness of the Cash Flow Projections**

53. Section 23(1)(b) of the CCAA states that the Proposed Monitor shall:

“review the company's cash-flow statement as to its reasonableness and file a report with the court on the Proposed Monitor's findings;”

54. Pursuant to section 23(1)(b) of the CCAA and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1 (“CAIRP SOP 09-1”), the Proposed Monitor hereby reports as follows:

- (a) The March 29 Forecast has been prepared by the management of the

Applicant for the purpose described in Note 1, using the Probable and Hypothetical Assumptions set out in Notes 2 to 6;

- (b) The Proposed Monitor's review consisted of inquiries, analytical procedures and discussion related to information supplied by certain of the management and employees of the Company. Since Hypothetical Assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the March 29 Forecast. The Proposed Monitor has also reviewed the support provided by management of the Company for the Probable Assumptions, and the preparation and presentation of the Cash-Flow Statement;
- (c) Based on its review, nothing has come to the attention of the Proposed Monitor that causes it to believe that, in all material respects:
  - (i) the Hypothetical Assumptions are not consistent with the purpose of the March 29 Forecast;
  - (ii) as at the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the March 29 Forecast, given the Hypothetical Assumptions; or
  - (iii) the March 29 Forecast does not reflect the Probable and Hypothetical Assumptions;
- (d) Since the March 29 Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the March 29 Forecast will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by the

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Proposed Monitor in preparing this report; and

- (e) The March 29 Forecast has been prepared solely for the purpose described in Note 1 on the face of the March 29 Forecast and readers are cautioned that it may not be appropriate for other purposes.

## RELIEF SOUGHT

### The Stay of Proceedings

- 55. For the reasons set out herein, the Company requires a stay of proceedings while it carries out its proposed restructuring activities. The Monitor believes that the initial 30-day request is fair and reasonable in the circumstances.

### Payments During the CCAA Proceedings

- 56. The Company intends to make certain ordinary course payments during the course of the CCAA Proceedings in accordance with and as set out in the March 29 Forecast. The Monitor believes this course of action is fair and reasonable in the circumstances.

### Administration Charge

- 57. The Company is seeking an Administration Charge in the amount of CAD\$15 million with priority over all encumbrances against the Company's assets other than the Company's assets which are subject to *Personal Property Security Act* registrations (the "Encumbered Property"). Based on personal property registry searches that were conducted by the Proposed Monitor's counsel as of March 28, 2012, other than the Indenture Trustees under the Notes who have security in respect of the pledged shares of the Company's subsidiaries there was only one registration that appeared on its face to be with respect to specific equipment.
- 58. The beneficiaries of the Administration Charge if granted would be the Proposed Monitor, the Proposed Monitor's counsel, counsel to the Board, FTI HK, counsel to the Company, Houlihan, counsel to the Ad Hoc Noteholders and the financial

advisor to the Ad Hoc Noteholders.

59. The Proposed Monitor has reviewed the underlying assumptions upon which the Company has based the quantum of the proposed Administration Charge, the complexities of the CCAA Proceedings and the services to be provided by the beneficiaries of the Administration Charge and believes that the limit of CAD\$15 million is reasonable in the circumstances.
60. The Proposed Monitor also believes that it is appropriate that the other proposed beneficiaries of the Administration Charge be afforded the benefit of a charge as they will be undertaking a necessary and integral role in the CCAA Proceedings.

#### **The Directors' Charge**

61. The Company is seeking the Directors' Charge in the amount of CAD\$3.2 million with priority over all encumbrances on the Company's assets other than the Administration Charge and the Encumbered Property. The Proposed Monitor understands that the Board has insisted on the protection of the Directors' Charge in order to remain on the Board during the course of the CCAA Proceedings. The Martin Affidavit also sets out a summary of the current insurance policies that are available to the Board as well as the exclusions and possibility of non-renewal at the end of the term.

#### **The Financial Advisor Agreement**

62. Houlihan's engagement is reasonable given the Company's proposed Sale Process. As set out above, Houlihan was considered along with other international investment banks and selected on merit-based criteria.

#### **Publication of Notices Support Agreement**

63. The proposed initial order contemplates that the Monitor will, among other things,
  - (a) Without delay, post a copy of the Support Agreement on its website at <http://cfcanada.fticonsulting.com/sfc>; and

- (b) Publish a notice in the Globe and Mail and the Wall Street Journal (in form and substance satisfactory to the Company, the Monitor and counsel to the Ad Hoc Noteholders) notifying noteholders of the Support Agreement and the deadline of 5:00pm (Toronto time) on the Consent Date (as defined in the Support Agreement) by which any noteholders (other than an Initial Consenting Noteholder) who wishes to become entitled to the Early Consent Consideration pursuant to the Support Agreement must execute and return a Joinder Agreement.

### **The Sale Process**

64. As set out above, the proposed Sale Process is contemplated by the Support Agreement and is intended to test the market to determine whether a higher or better offer than the transaction contemplated under the Support Agreement is available. Further, given the circumstances and complexities of the situation as set out above, the Proposed Monitor recommends approval of the Sale Process Order on the date of this application.

### **CONCLUSION**

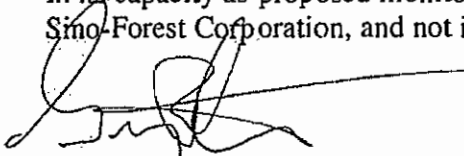
65. The Proposed Monitor is of the view that the relief requested by the Company is necessary, reasonable and justified. The Proposed Monitor is also of the view that granting the relief requested will provide the Company the best opportunity to undertake the CCAA Proceedings, to preserve value and maximize recoveries for the Company's stakeholders. As set out above, absent a restructuring, the Monitor is of the view that the business has little chance of viability. Further, given the circumstances, liquidation would likely destroy any stakeholder value.
66. Accordingly, the Proposed Monitor respectfully recommends that the Company's request for the Initial Order and the Sale Process Order.



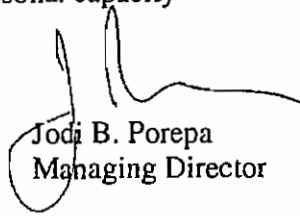
The Proposed Monitor respectfully submits to the Court this Pre-Filing Report.

Dated this 30<sup>th</sup> day of March, 2012.

FTI Consulting Canada Inc.  
In its capacity as proposed monitor of  
Sino-Forest Corporation, and not in its personal capacity



Greg Watson  
Senior Managing Director



Jodi B. Porepa  
Managing Director

**APPENDIX A**

**Attached.**

Court File No. \_\_\_\_\_

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

(the "Applicants")

REPORT ON CASH FLOW STATEMENT  
(paragraph 10.2(b) of the CCAA)

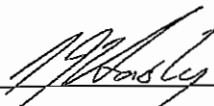
The management of Sino-Forest ("SFC" or the "Company") has developed the assumptions and prepared the attached statement of projected cash flow of SFC as of the 29th day of March 2012, consisting of a 13 week cash flow for the period March 31, 2012 to June 29, 2012 (the "March 29 Cash Flow").

The hypothetical assumptions are reasonable and consistent with the purpose of the projections as described in Note 1 to the cash flow, and the probable assumptions are suitably supported and consistent with the plans of SFC and provide a reasonable basis for the March 29 Cash Flow. All such assumptions are disclosed in Notes 2 to 6.

Since the March 29 Cash Flow is based on future events, actual results will vary from the information presented and the variations may be material.

The March 29 Cash Flow has been prepared solely for the purpose outlined in Note 1, using the probably and hypothetical assumptions set out in Notes 2 to 6. Consequently readers are cautioned that the March 29 Cash Flow may not be suitable for other purposes.

Dated at Hong Kong this 30<sup>th</sup> day of March 2012.

  
\_\_\_\_\_  
David Horsley  
Senior Vice President & Chief Financial Officer  
Sino-Forest Corporation

Sino-Forst Corporation  
 13 Week Cash Flow Forecast  
 (CAD \$000)

	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13	Total
	6-Apr	13-Apr	20-Apr	27-Apr	4-May	11-May	18-May	25-May	1-Jun	8-Jun	15-Jun	22-Jun	29-Jun	13 Week Total
<b>Cash inflow</b>														
Week Ending														
Cash inflow	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 412
Interest Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 412
<b>Total cash inflow</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 824
<b>Cash outflow</b>														
Payroll and Benefits	\$ -	\$ 30	\$ -	\$ -	\$ 30	\$ -	\$ 30	\$ -	\$ 30	\$ -	\$ 30	\$ -	\$ 30	\$ 181
Board & Committee Fees	\$ 71	\$ -	\$ -	\$ -	\$ 91	\$ -	\$ -	\$ -	\$ 91	\$ -	\$ -	\$ -	\$ -	\$ 253
Travel	\$ 26	\$ 26	\$ 26	\$ 26	\$ 26	\$ 26	\$ 26	\$ 26	\$ 26	\$ 26	\$ 26	\$ 26	\$ 26	\$ 315
Rent,Communication & Utilities	\$ 1	\$ 16	\$ 1	\$ 1	\$ 1	\$ 1	\$ 16	\$ 1	\$ 1	\$ 1	\$ 16	\$ 1	\$ -	\$ 60
Taxes & Other	\$ 33	\$ 10	\$ 13	\$ 14	\$ 29	\$ 9	\$ 13	\$ 29	\$ 13	\$ 9	\$ 13	\$ 9	\$ -	\$ 195
<b>Total cash outflow</b>	\$ 131	\$ 83	\$ 40	\$ 41	\$ 178	\$ 37	\$ 86	\$ 56	\$ 162	\$ 37	\$ 86	\$ 37	\$ 30	\$ 1,004
<b>Net Operating Cash flow</b>	\$ (131)	\$ (83)	\$ (40)	\$ (41)	\$ (178)	\$ (37)	\$ (86)	\$ (56)	\$ (162)	\$ (37)	\$ (86)	\$ (37)	\$ 382	\$ (591)
<b>Restructuring Costs</b>														
Professional Fees	\$ 1,910	\$ 1,101	\$ 929	\$ 2,859	\$ 929	\$ 929	\$ 945	\$ 2,875	\$ 945	\$ 945	\$ 945	\$ 945	\$ 2,475	\$ 18,730
<b>Total Restructuring Costs</b>	\$ 1,910	\$ 1,101	\$ 929	\$ 2,859	\$ 929	\$ 929	\$ 945	\$ 2,875	\$ 945	\$ 945	\$ 945	\$ 945	\$ 2,475	\$ 18,730
<b>Net Cash Flow</b>	\$ (2,041)	\$ (1,183)	\$ (969)	\$ (2,900)	\$ (1,107)	\$ (965)	\$ (1,031)	\$ (2,931)	\$ (1,107)	\$ (982)	\$ (1,031)	\$ (982)	\$ (2,093)	\$ (19,321)
<b>Operating Cash Balance</b>	\$ 67,846	\$ 65,804	\$ 64,621	\$ 63,653	\$ 60,753	\$ 59,646	\$ 58,681	\$ 57,650	\$ 54,719	\$ 53,612	\$ 52,630	\$ 51,599	\$ 50,617	\$ 67,846
<b>Net Cash Balance</b>	\$ (2,041)	\$ (1,183)	\$ (969)	\$ (2,900)	\$ (1,107)	\$ (965)	\$ (1,031)	\$ (2,931)	\$ (1,107)	\$ (982)	\$ (1,031)	\$ (982)	\$ (2,093)	\$ (19,321)
<b>Ending Cash Balance</b>	\$ 65,804	\$ 64,621	\$ 63,653	\$ 60,753	\$ 59,646	\$ 58,681	\$ 57,650	\$ 54,719	\$ 53,612	\$ 52,630	\$ 51,599	\$ 50,617	\$ 48,525	\$ 48,525

**Notes**

- 1 The purpose of this Cash Flow Forecast is to determine the liquidity requirements for Sino-Forst Corporation during the CCAA Proceedings.
- 2 Receipts have been forecast based on historical payment patterns.
- 3 Payroll costs and other operating expenses are forecast based on historical analysis and management forecast.
- 4 Board and Committee Fees are based on board resolutions passed to date.
- 5 Travel costs have been forecast based on expected travel costs to be incurred throughout the CCAA proceedings between Canada and Hong Kong.
- 6 Estimated restructuring costs are based on projected costs associated with legal and professional fees relating to the CCAA Proceedings.

Court File No.:

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

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
(Commercial List)

(PROCEEDING COMMENCED AT TORONTO)

**PRE-FILING REPORT OF THE PROPOSED  
MONITOR, FTI CONSULTING CANADA INC.**

**GOWLING LAFLEUR HENDERSON LLP**  
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Lawyers for the Proposed Monitor,  
FTI Consulting Canada Inc.

**TAB 7**

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

**Sino-Forest Corporation**

**FOURTH REPORT OF THE MONITOR**

**July 10, 2012**

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

**FOURTH REPORT TO THE COURT  
SUBMITTED BY FTI CONSULTING CANADA INC.,  
IN ITS CAPACITY AS MONITOR**

**INTRODUCTION**

1. On March 30, 2012 (the "**Filing Date**"), Sino-Forest Corporation (the "**Company**") filed for and obtained protection under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). Pursuant to the Order of this Honourable Court dated March 30, 2012 (the "**Initial Order**"), FTI Consulting Canada Inc. was appointed as the Monitor of the Company (the "**Monitor**") in the CCAA proceedings. Pursuant to an Order of this Court made on May 31, 2012, this Court granted an Order extending the Stay Period (as defined in the Initial Order) to September 28, 2012. The proceedings commenced by the Company under the CCAA will be referred to herein as the "**CCAA Proceedings**".
2. On the Filing Date, the Court also issued an Order authorizing the Company to conduct a Sale Process (the "**Sale Process Order**"). A copy of the Sale Process Order is attached as Appendix A hereto.
3. The purpose of this Fourth Report of the Monitor (the "**Fourth Report**") is to provide this Honourable Court with an update as to the status of the Sale Process including the intended next steps of the Company as required by the endorsement



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of Justice Morawetz made on May 31, 2012.

4. In preparing this Fourth Report, the Monitor has relied upon unaudited financial information of the Company, the Company's books and records, certain financial information prepared by the Company, the Reports of the Independent Committee of the Company's Board of Directors dated August 10, 2011, November 13, 2011, and January 31, 2012, and discussions with the Company's management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this Fourth Report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this Fourth Report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in US Dollars.
6. The term "**Sino-Forest**" refers to the global enterprise as a whole but does not include references to the Greenheart Group. "**Sino-Forest Subsidiaries**" refers to all of the direct and indirect subsidiaries of the Company, but does not include references to the Greenheart Group.
7. Other than with respect to the section labelled "UPDATE ON SALE PROCESS", capitalized terms not defined in this Fourth Report are as defined in the pre-filing report of the proposed monitor dated March 30, 2012 (the "**Pre-Filing Report**") and the affidavit of W. Judson Martin sworn March 30, 2012 (the "**Initial Order Affidavit**").

## GENERAL BACKGROUND

### Sino-Forest Business

8. Sino-Forest conducts business as a forest plantation operator in the People's

Republic of China (“**PRC**”). Its principal businesses include ownership and management of forest plantation trees, the sale of standing timber and wood logs, and complementary manufacturing of downstream engineered-wood products.

9. The Company is a public holding company whose common shares are listed on the Toronto Stock Exchange (“**TSX**”). Prior to August 26, 2011 (the date of the Cease Trade Order, defined below), the Company had 246,095,926 common shares issued and outstanding and trading under the trading symbol “**TRE**” on the **TSX**.
10. On June 2, 2011, Muddy Waters, LLC (“**MW**”), which held a short position on the Company’s shares, issued a report (the “**MW Report**”) alleging, among other things, that Sino-Forest is a “ponzi-scheme” and a “near total fraud”. The **MW Report** was issued publicly and immediately caught the attention of the media on a world-wide basis.
11. Subsequent to the issuance of the **MW Report**, the Company devoted extensive time and resources to investigate and address the allegations in the **MW Report** as well as responding to additional inquiries from, among others, the Ontario Securities Commission, the Royal Canadian Mounted Police and the Hong Kong Securities and Futures Commission.
12. In view of the **MW Report**, the subsequent litigation and regulatory investigations and other issues continue to have a significant negative impact on the Company and have threatened the long term viability of Sino-Forest’s operations. For the reasons discussed in the Pre-Filing Report and the Initial Order Affidavit, the Company and the business was placed into a stalemate that could not be resolved without the Court supervised solution offered by the CCAA Proceedings.
13. The Pre-Filing Report and the Initial Order Affidavit provide a detailed outline of Sino-Forest’s corporate structure, business, reported assets and financial information as well as a detailed chronology of the Company and its actions since the issuance of the **MW Report** in June 2011.

**UPDATE ON SALE PROCESS**

14. Capitalized terms used in this section and not otherwise defined have the meaning given to them in the sale process procedures (“SPP”) approved pursuant to the Sale Process Order.
15. As set out in the Initial Order Affidavit and the Pre-Filing Report, the Company and a group of ad hoc noteholders (the “**Initial Consenting Noteholders**”) negotiated and entered into a restructuring support agreement (the “**Support Agreement**”) that provided for a restructuring transaction (the “**Restructuring Transaction**”) for the Company and its assets.
16. In connection with the commencement of the Proceedings, and as contemplated by the Support Agreement, the Company sought and obtained the Sale Process Order which provided for the implementation of a solicitation process in accordance with Court-approved sale process procedures.
17. The purpose of the SPP was to determine whether any parties were willing to purchase substantially all of Sino-Forest's business operations for an amount provided for under the SPP. Under the terms of the Sale Process Order, the Company's financial advisor, Houlihan Lokey (“**HL**”), conducted the Sale Process which is described in the following paragraphs.
18. Throughout the conduct of the SPP, the Monitor was advised and, in some cases, directly involved, in the steps being taken.
19. Upon the granting of the Sale Process Order, the following steps were taken:
  - (a) On April 5, 2012, the Monitor caused notice of the SPP to be published in the Globe and Mail and the Wall Street Journal. A copy of the publication notices were attached as Appendices F & G to the Monitor's First Report;
  - (b) On March 30, 2012, the Company issued a press release regarding the SPP;

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- (c) The Company, with the assistance of HL and the Monitor, prepared a “teaser” letter that was sent to potentially interested parties;
  - (d) HL, in consultation with the Company and the Monitor,
    - (i) Selected a group of eighty-five (85) of strategic and financial buyers (comprised of buyers who had either contacted HL or the Company or were otherwise chosen to be in the group) and provided those potentially interested parties with copies of the teaser letter;
    - (ii) Negotiated fourteen (14) confidentiality agreements (“CAs”) with those parties who indicated an interest in the business;
  - (e) Certain of these bidders were ultimately deemed to be “Phase I Qualified Bidders” in accordance with the SPP requirements;
  - (f) On or about June 28, 2012 (the “Phase I Bid Deadline”), a number of non binding letters of intent (the “LOIs”) were received by the Company.
20. Pursuant to the SPP, upon receipt of the LOIs the Company, in consultation with HL and the Monitor, was required to determine whether any such LOIs constituted “Qualified Letters of Intent” and to notify parties as to whether their LOI constituted a Qualified Letter of Intent within seven (7) business days of the Phase 1 Bid Deadline. If a Qualified Letter of Intent was received during Phase 1, the Company would continue to Phase 2 of the SPP.
21. The SPP provided that the Company would terminate the SPP at the end of Phase 1 if, *inter alia*, no Qualified Letters of Intent were received.
22. Upon receipt of the LOIs, the Company and HL, in consultation with the Monitor, reviewed the terms of the LOIs to determine whether any of them met the requirements of the SPP.
23. The Company has determined that none of the LOIs constitute a Qualified Letter

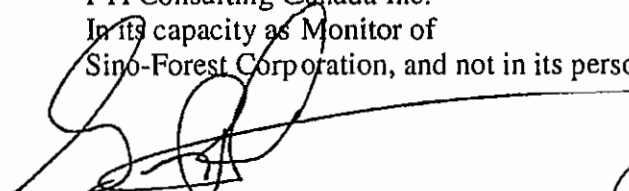
- 6 -

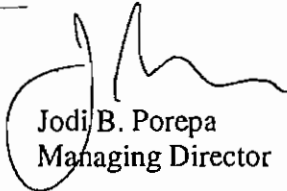
of Intent as provided for under the SPP. The Monitor understands that the advisors to the Ad Hoc Noteholders concur in this determination. As a result, on July 10, 2012, the Company issued a press release announcing the termination of the SPP. The Company also announced that it intends to proceed with the Restructuring Transaction as contemplated by the Support Agreement. As set out in the Support Agreement, the implementation of a Restructuring Transaction pursuant to a CCAA plan would be subject to all requisite Court approvals. A copy of the press release is attached as Appendix B hereto.

24. The Monitor has not included a summary of the LOIs due to the commercially sensitive nature of the contents of those LOIs. However, as set out above, the Monitor has independently reviewed the LOIs and is of the view, under the terms of the SPP, none of the LOIs constitute a Qualified Letter of Intent. In light of the fact that no Qualified Letters of Intent were received, the Monitor is of the view that the termination of the Sale Process is appropriate in the circumstances

Dated this 10<sup>th</sup> day of July, 2012.

FTI Consulting Canada Inc.  
In its capacity as Monitor of  
Sino-Forest Corporation, and not in its personal capacity

  
Greg Watson  
Senior Managing Director

  
Jodi B. Porepa  
Managing Director

**TAB 8**

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

## **Sino-Forest Corporation**

### **SUPPLEMENTAL REPORT TO THE THIRTEENTH REPORT OF THE MONITOR**

**December 4, 2012**

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

**SUPPLEMENTAL REPORT TO THE  
THIRTEENTH REPORT TO THE COURT  
SUBMITTED BY FTI CONSULTING CANADA INC.,  
IN ITS CAPACITY AS MONITOR**

1. The purpose of this Supplemental Report to the Thirteenth Report (the “**Supplemental Report**”) is to supplement the Thirteenth Report of the Monitor dated November 22, 2012 (the “**Thirteenth Report**”) by:
  - (a) Reporting on amendments to the Plan since the October 19 Plan (defined below) that was described in the Thirteenth Report;
  - (b) to report on the results of the Meeting (defined below); and
  - (c) to provide the Monitor’s recommendation that the Court approve the Plan.
2. Capitalized terms used herein and not otherwise defined have the meaning given to them in the Plan and, if not defined in the Plan, the Thirteenth Report. Paragraphs 5 and 6 of the Thirteenth Report are incorporated herein by reference.
3. The following appendices have been attached to this Supplemental Report:
  - (a) Appendix A – The Plan of Compromise and Reorganization dated December 3, 2012 (the “**Plan**”)



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- (b) Appendix B – Blackline of the October 19 Plan to the Plan
- (c) Appendix C – Blackline of the November 28 Plan to the Plan
- (d) Appendix D – Copy of the Company’s press releases dated November 28, 2012, November 30, 2012 and December 3, 2012
- (e) Appendix E – Copy of the Emails to the Service List dated November 28, 2012, November 30, 2012 and December 3, 2012
- (f) Appendix F – Voting Procedures
- (g) Appendix G - Form of Resolution
- (h) Appendix H – Copy of the Minutes of the Meeting including Scrutineer’s Report
- (i) Appendix I – OSC Notice of Hearing and Statement of Allegations against EY
- (j) Appendix J – Letter from Wardle Daley Bernstein re Claim of David Horsley dated November 29, 2012 and responding letter of Bennett Jones LLP dated November 30, 2012
- (k) Appendix K – Proof of Claim (excluding Tab 1 and 2) of David Horsley for vacation pay, termination and severance dated November 1, 2012
- (l) Appendix L - Letter from Davis LLP re Kai Kit Poon dated November 28, 2012 and responding letter of Gowling Lafleur Henderson LLP dated November 29, 2012

## **AMENDMENTS TO THE PLAN**

### *Changes to the Plan (Non-Third Party Defendants)*

4. As result of numerous negotiations which have occurred since the October 19 Plan was filed, a number of changes to the Plan have been agreed upon. Certain of those changes relate specifically to certain Third Party Defendants and those changes are summarized in

the next section below. A summary of certain of the other changes contained in the Plan is as follows:

- (a) Reserves (which are also discussed in more detail below):
  - (i) the amount of the Administration Charge Reserve will be \$500,000 or such other amount as may be agreed to by the Monitor and the ICNs;
  - (ii) there will be no Directors' Charge Reserve nor will there be any amount in the Unresolved Claims Reserve set aside for OSC claims against Directors and Officers;
  - (iii) the Unresolved Claims Reserve will now consist of Plan consideration sufficient to make potential distributions under the Plan in respect of the following in the event that they become Proven Claims: (a) indemnity claims of Third Party Defendants for Indemnified Noteholder Class Action Claims up to the Indemnified Noteholder Class Action Limit; (b) Defence Costs Claims of up to \$12 million<sup>1</sup> or such other amount as may be agreed by the Monitor and the ICNs; and (c) other unresolved Affected Creditor Claims of up to \$500,000 or such other amount as may be agreed by the Monitor and the ICNs;
  - (iv) the Monitor's Post-Implementation Charge Reserve will be \$5 million or such other amount as may be agreed to by the Monitor and the ICNs; and
  - (v) The Unaffected Claims Reserve will be \$1.5 million or such other amount as may be agreed to by the Monitor, the Company and the ICNs.
- (b) Matters relating to the Litigation Trust:
  - (i) the amount of the Litigation Funding Amount is \$1 million; and

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<sup>1</sup> Please see the section below entitled "Additional Information Relating to the Reserves" for the Monitor's report on the adjustment to the calculation of the Defence Costs Claims Limit (defined below).

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- (ii) at any date prior to the Plan Implementation Date, the Company and the ICNs may agree to exclude one or more claims, actions or causes of action from the Litigation Trust Claims that would otherwise be assigned to the Litigation Trust on Plan Implementation (“**Excluded Litigation Trust Claims**”).
- (c) Certain provisions relating to the creation of “Newco II” in connection with the implementation of the restructuring transaction have been incorporated throughout the Amended Plan. Newco II will be a wholly-owned subsidiary of Newco to which Newco will transfer the SFC Assets on the Plan Implementation Date. Following implementation of the Plan, Newco II will own the SFC Assets.
- (d) Unaffected Claims no longer includes Claims for termination pay or severance pay payable by the Company to any Person who ceased to be an employee, director or officer of the Company prior to the date of the Plan. Any claims in this regard will now be treated as Unresolved Claims.
- (e) Persons with Unresolved Claims shall have standing in any proceeding in respect of the determination or status of any Unresolved Claims and Goodmans LLP shall have standing in any such proceeding on behalf of the ICNs.
- (f) The due diligence condition precedent in favour of the ICNs now extends to the Plan Implementation Date with respect to any new material information or events arising or discovered on or after the date of the Sanction Hearing provided that any “new material information or events” does not include any information or events disclosed prior to the date of the Sanction Hearing in a press release or affidavit of the Company or a report of the Monitor that has been filed with the Court.
- (g) Within three (3) business days of the Plan Implementation Date, a foreign representative of the Company will commence a proceeding in the United States for the purpose of seeking recognition of the Plan and the Sanction Order and shall use its reasonable best efforts to obtain such recognition.

*Changes to the Plan (Third Party Defendants)*

5. In addition to the foregoing changes, the Plan was also amended to incorporate changes that relate specifically to the Underwriters and Ernst & Young as well as additional changes to provide a mechanism for a Plan release in the event that the Underwriters and BDO enter into settlements with the Class-Action Plaintiffs or the Litigation Trustee (on behalf of the Litigation Trust), all of which is discussed below.
6. Changes relating to the Underwriters:
  - (a) Claims of the Underwriters against the Company for indemnification in respect of any Noteholder Class Action Claims (other than claims against them for fraud or criminal conduct) shall, for the purposes of the Plan, be deemed to be valid and enforceable Class Action Indemnity Claims against the Company.
  - (b) The Underwriters shall not be entitled to any distributions under the Plan.
  - (c) All Causes of Action against the Underwriters by the Company or the Trustees are deemed to be Excluded Litigation Trust Claims.
  - (d) Any portion or amount of liability of the Underwriters for the Noteholder Class Action Claims (other than such claims for fraud or criminal conduct) that exceeds the Indemnified Noteholder Class Action Limit is released under the Plan.
  - (e) The Underwriters are Named Third Party Defendants (as discussed and defined below).
7. Changes relating to Ernst & Young (as defined in the Plan):
  - (a) Any and all indemnification rights and entitlements of Ernst & Young and any indemnification agreement between Ernst & Young and the Company shall be deemed to be valid and enforceable in accordance with their terms for the purposes of determining whether the Claims of Ernst & Young for

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indemnification in respect of the Noteholder Class Action Claims are valid and enforceable within the meaning of section 4.4(b) the Plan.<sup>2</sup>

- (b) Ernst & Young shall not be entitled to any distributions under the Plan.
- (c) The Sanction Order shall contain a stay against Ernst & Young between the Plan Implementation Date and the earlier of the Ernst & Young Settlement Date (as defined in the Plan) or such other date as may be ordered by the Court on a motion to the Court.
- (d) In addition to the foregoing, Ernst & Young has now entered into a settlement with the Ontario Plaintiffs and the Quebec Plaintiffs, which is still subject to several conditions and approval of the Ernst & Young Settlement itself, does not form part of the Sanction Order. Section 11.1 of the Plan contains provisions that provide a framework pursuant to which a release of the Ernst & Young Claims<sup>3</sup> under the Plan would happen if several conditions were met. That release will only be granted if all conditions are met including further Court approval. A summary of those terms is as follows:
  - (i) Notwithstanding anything to the contrary in the Plan, subject to (A) the granting of the Sanction Order; (B) the issuance of the Settlement Trust Order (as may be modified in a manner satisfactory to the parties to the Ernst & Young Settlement and the Company (if occurring on or prior to the Plan Implementation Date), the Monitor and the ICNs, as applicable, to the extent, if any, that such modifications affect the Company, the Monitor or the ICNs, each acting reasonably); (C) the granting of an Order under Chapter 15 of the United States Bankruptcy Code recognizing and enforcing the Sanction Order and the Settlement Trust Order in the United States; (D) any other order necessary to give effect to the Ernst & Young

<sup>2</sup> Section 4.4(b) of the Plan, among other things, establishes the Indemnified Noteholder Class Action Limit.

<sup>3</sup> "Ernst & Young Claims" has the definition given to it in the Plan and does not include any proceedings or remedies that may be taken against Ernst & Young by the Ontario Securities Commission or by staff of the Ontario Securities Commission and the jurisdiction of the Ontario Securities Commission is expressly preserved.

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Settlement (the orders referenced in (C) and (D) being collectively the “**Ernst & Young Orders**”); (E) the fulfillment of all conditions precedent in the Ernst & Young Settlement and the fulfillment by the Ontario Class Action Plaintiffs of all of their obligations thereunder; and (F) the Sanction Order, the Settlement Trust Order and all Ernst & Young Orders being final orders and not subject to further appeal or challenge, Ernst & Young shall pay the settlement amount as provided in the Ernst & Young Settlement to the trust established pursuant to the Settlement Trust Order (the “**Settlement Trust**”);

- (ii) Upon receipt of a certificate from Ernst & Young confirming it has paid the settlement amount to the Settlement Trust in accordance with the Ernst & Young Settlement and the trustee of the Settlement Trust confirming receipt of such settlement amount, the Monitor shall deliver to Ernst & Young the Monitor’s Ernst & Young Settlement Certificate. The Monitor shall thereafter file the Monitor’s Ernst & Young Settlement Certificate with the Court;
- (iii) Notwithstanding anything to the contrary in the Plan, upon receipt by the Settlement Trust of the settlement amount in accordance with the Ernst & Young Settlement: (A) all Ernst & Young Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled, barred and deemed satisfied and extinguished as against Ernst & Young; (B) section 7.3 of the Plan shall apply to Ernst & Young and the Ernst & Young Claims *mutatis mutandis* on the Ernst & Young Settlement Date; and (C) none of the plaintiffs in the Class Actions shall be permitted to claim from any of the other Third Party Defendants that portion of any damages that corresponds to the liability of Ernst & Young, proven at trial or otherwise, that is the subject of the Ernst & Young Settlement; and
- (iv) In the event that the Ernst & Young Settlement is not completed in accordance with its terms, the Ernst & Young Release will not become

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effective (and any claims against Ernst & Young will be assigned to the Litigation Trust).

8. Changes relating to Named Third Party Defendants:

- (a) The Plan now provides a mechanism that would provide the framework for any Eligible Third Party Defendants<sup>4</sup> to become a “Named Third Party Defendant” with the consent of such Third Party Defendant, the Monitor, the ICNs, counsel to the Ontario Plaintiffs and, if occurring prior to the Plan Implementation Date, the Company. As set out above, the Underwriters have become Named Third Party Defendants pursuant to the Plan.
- (b) The deadline for an Eligible Third Party Defendant to become a Named Third Party Defendant is 10am on December 6, 2012 or such later date as may be consented to by the Monitor, the Company (if on or prior to the Plan Implementation Date) and the ICNs. As set out above, the Underwriters have become Named Third Party Defendants.
- (c) Any Named Third Party Defendants will not be entitled to any distributions under the Plan.
- (d) If an Eligible Third Party Defendant becomes a Named Third Party Defendant, then any indemnification rights and entitlements of such party and any indemnity agreements between such party and by the Company shall be deemed valid and enforceable in accordance with their terms for the purpose of determining whether the Claims of that Named Third Party Defendant for indemnification in respect of the Noteholder Class Action Claims are valid and enforceable within the meaning of section 4.4(b) the Plan.

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<sup>4</sup> The Eligible Third Party Defendants are the Underwriters, BDO and, if the Ernst & Young Settlement is not completed, Ernst & Young.

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- (e) The Plan now provides the framework pursuant to which a Named Third Party Defendant Settlement would be approved and such Named Third Party Defendant would obtain a release under the Plan as follows:
- (i) Notwithstanding anything to the contrary in the Plan, subject to: (A) the granting of the Sanction Order; (B) the granting of the applicable Named Third Party Defendant Settlement Order; and (C) the satisfaction or waiver of all conditions precedent contained in the applicable Named Third Party Defendant Settlement, the applicable Named Third Party Defendant Settlement shall be given effect in accordance with its terms;
  - (ii) Upon receipt of a certificate (in form and in substance satisfactory to the Monitor) from each of the parties to the applicable Named Third Party Defendant Settlement confirming that all conditions precedent thereto have been satisfied or waived, and that any settlement funds have been paid and received, the Monitor shall deliver to the applicable Named Third Party Defendant a Monitor's Named Third Party Defendant Settlement Certificate stating that (A) each of the parties to such Named Third Party Defendant Settlement has confirmed that all conditions precedent thereto have been satisfied or waived; (B) any settlement funds have been paid and received; and (C) immediately upon the delivery of the Monitor's Named Third Party Settlement Certificate, the applicable Named Third Party Defendant Release will be in full force and effect in accordance with the Plan. The Monitor shall thereafter file the Monitor's Named Third Party Settlement Certificate with the Court; and
  - (iii) Notwithstanding anything to the contrary in the Plan, upon delivery of the Monitor's Named Third Party Settlement Certificate, any claims and Causes of Action shall be dealt with in accordance with the terms of the applicable Named Third Party Defendant Settlement, the Named Third Party Defendant Settlement Order and the Named Third Party Defendant Release. To the extent provided for by the terms of the applicable Named



Third Party Defendant Release: (A) the applicable Causes of Action against the applicable Named Third Party Defendant shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled, barred and deemed satisfied and extinguished as against the applicable Named Third Party Defendant; and (B) section 7.3 of the Plan shall apply to the applicable Named Third Party Defendant and the applicable Causes of Action against the applicable Named Third Party Defendant *mutatis mutandis* on the effective date of the Named Third Party Defendant Settlement.

*Other Changes that Relate to the Third Party Defendants*

9. Indemnified Noteholder Class Action Limit:

- (a) It has been clarified that in the event that a Third Party Defendant is found to be liable for or agrees to a settlement in respect of Noteholder Class Action Claims (other than for fraud or criminal conduct), and such amounts are paid by the Third Party Defendant, then the amount of the Indemnified Noteholder Class Action Limit applicable to the remaining Third Party Defendants shall be reduced by the amount of such judgement or settlement.<sup>5</sup>

10. Document Preservation.

- (a) Prior to Plan Implementation, the Company shall:<sup>6</sup>
  - (i) preserve or cause to be preserved copies of any documents (as such term is defined in the *Rules of Civil Procedure* (Ontario)) that are relevant to the issues raised in the Class Actions; and
  - (ii) make arrangements acceptable to SFC, the Monitor, the ICNs, counsel to Ontario Class Action Plaintiffs, counsel to Ernst & Young, counsel to the Underwriters and counsel to any other Eligible Third Party Defendant if

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<sup>5</sup> Section 4.4(b)(iii)

<sup>6</sup> Section 8.2(x)

they become a Named Third Party Defendants to provide the parties to the Class Actions with access thereto, subject to customary commercial confidentiality, privilege or other applicable restrictions, including lawyer-client privilege, work product privilege and other privileges or immunities, and to restrictions on disclosure arising from s. 16 of the *Securities Act* (Ontario) and comparable restrictions on disclosure in other relevant jurisdictions, for purposes of prosecuting and/or defending the Class Actions, as the case may be, provided that nothing in the foregoing reduces or otherwise limits the parties' rights to production and discovery in accordance with the *Rules of Civil Procedure* (Ontario) and the *Class Proceedings Act, 1992* (Ontario).

## ADDITIONAL INFORMATION RELATING TO THE RESERVES

### *The Cash Reserves*

11. Information relating to the purpose of the Administration Charge, the Unaffected Claims Reserve and the Monitor's Post-Implementation Reserve was contained in the Thirteenth Report. The Plan now provides for the amounts of these Reserves as follows:
  - (a) *Administration Charge Reserve (\$500,000)*. The Plan now provides for the payment of the final invoices of the beneficiaries of the Administration Charge Reserve as a condition to the implementation of the Plan. The amount of \$500,000 has been allocated to the Administration Charge Reserve as a safeguard in the event that there are miscellaneous amounts which are inadvertently missed upon the final payments prior to Plan implementation.
  - (b) *Monitor's Post-Implementation Reserve (\$5,000,000)*. The Monitor's Post-Implementation Reserve is intended to capture costs in administering the SFC estate and the Claims Process post-implementation.
  - (c) *The Unaffected Claims Reserve (\$1,500,000)*. Pursuant to the Plan, the following categories of Claims are Unaffected Claims under the Plan: (i) Claims secured by the Administration Charge; (ii) Government Priority Claims; (iii) Employee

Priority Claim; (iv) Lien Claims; (iv) any other Claims of any employee, former employee, Director or Officer of SFC in respect of wages, vacation pay, bonuses, termination pay, severance pay or other remuneration payable to such Person by SFC, other than any termination pay or severance pay payable by SFC to a Person who ceased to be an employee, Director or Officer of SFC prior to the date of this Plan; (v) Trustee Claims; and (vi) any trade payables that were incurred by SFC (A) after the Filing Date but before the Plan Implementation Date; and (B) in compliance with the Initial Order or other Order issued in the CCAA Proceeding. The Monitor and the Company have reviewed the categories of Unaffected Claims (other than those that are covered by the Administration Charge Reserve) taking into consideration the Company's incurred expenses post-filing, Lien Claims which may be asserted by parties with personal property security registrations, the fact that the Trustees are expected to be paid prior to Plan Implementation (see section 9.1(ee) of the Plan) and the maximum estimated employee related Claims for employees who did not cease to be an employee prior to the date of the Plan. Based on the foregoing, the Monitor and the Company estimate that any such Claims would not exceed \$1.5 million in the aggregate.

*The Unresolved Claims Reserve*

12. The Unresolved Claims Reserve now accounts for three categories of Unresolved Claims:
  - (a) Class Action Indemnity Claims by the Third Party Defendants in respect of Indemnified Noteholder Class Action Claims up to \$150 million (being the Indemnified Noteholder Class Action Limit). In light of the fact that the Plan provides for a release of any Third Party Defendants for any Indemnified Noteholder Class Action Claims beyond the Indemnified Noteholder Class Action Limit, the total potential maximum liability of the Company for any resulting Indemnified Noteholder Class Action Claims is thereby also limited to the Indemnified Noteholder Class Action Limit.

- (b) Defence Costs Claims of up to \$12 million (the “**Defence Costs Claims Limit**”). The basis for the calculation of the Defence Costs Claims Limit is discussed in the following paragraphs.
- (c) Other Affected Creditor Claims that are Unresolved Claims up to \$500,000 which represents the amount of Affected Creditor Claims as set out in the proofs of claims filed that are Unresolved Claims and not otherwise accounted for in the Unresolved Claims Reserve or otherwise provided for in the Plan.

*Basis for Calculating Reserve for Defence Costs Claims*

13. In accordance with the process established under the Claims Procedure Order, a number of claims have been filed by persons who seek indemnification for Defence Costs Claims<sup>7</sup> (in this capacity, “**Cost Claim Defendants**”). In light of the recent changes to the Plan which release the right of EY or the Underwriters to any distribution under the Plan, the amount of the Unresolved Claims Reserve to address Defence Costs Claims has been reduced to \$12 million.
14. As set out above, the Defence Costs Claims Limit has been established as part of the Unresolved Claims Reserve for Defence Costs Claims. All remaining Defence Costs Claims will be treated as Unresolved Claims until such time as they are disposed of or may become Proven Claims for Plan purposes.
15. The Company has requested the Monitor’s views concerning the quantum of the reserve for remaining Defence Costs Claims.
16. In considering this issue, the Monitor has taken account of a number of factors, including but not limited to the following:
  - (a) the amounts claimed as having been actually incurred;

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<sup>7</sup> Pursuant to section 4.8 of the Plan, Claims for “Defence Costs” are all Claims against SFC for indemnification of defence costs incurred by any Person (other than a Named Director or Officer) in connection with defending against Shareholder Claims (as defined in the Equity Claims Order), Noteholder Class Action Claims or any other claims of any kind relating to SFC or the Subsidiaries.

- (b) the specific nature of the claims to which the Cost Claim Defendants are responding;
  - (c) the anticipated synergies arising where multiple Cost Claim Defendants in similar legal and factual circumstances are represented by the same counsel;
  - (d) the experience of counsel to the Monitor in relation to the costs of other class proceedings;
  - (e) costs previously claimed as having been incurred and costs awarded by courts in other class proceedings, both on certification motions and following trial;
  - (f) the overlap in subject area between the class proceedings and regulatory or other proceedings in which the Cost Claim Defendants are involved; and
  - (g) the difficulties inherent in estimating costs to be incurred in the future which are contingent upon the actions of other parties and the course of complex litigation that is currently at an early stage.
17. Having weighed these factors, it is the Monitor's view that the aggregate amount of \$12 million would constitute a reasonable reserve for costs claimed in connection with the class proceedings by the Cost Claim Defendants (excluding EY, the Underwriters and the Named Directors and Officers who have waived any right to distributions under the Plan).
18. In forming its views concerning the amount to be reserved in connection with the Defence Costs Claims, the Monitor has made the following basic assumptions:
- (a) certification will be contested by all defendants, but ultimately granted;
  - (b) the Ontario class proceeding will be the only class proceeding to go to trial; and
  - (c) except for defendants represented by the same counsel, there will be no general cost sharing arrangements between defendants.

19. The establishment of the Unresolved Claims Reserve is not an admission by the Company, the Monitor or any other party (including the ICNs) as to the validity of any such Claims and all rights to dispute such Claims are reserved.

## THE MEETING

### *Meeting Date*

20. On November 28, 2012, the Company issued a press release (Appendix D) announcing it had further amended its plan dated October 19, 2012 (the “October 19 Plan”) and that, to provide creditors with time to review this amended plan (the “November 28 Plan”), the Meeting would be postponed to 10am on Friday November 30, 2012. The Company also announced the change in location of the meeting to the offices of Gowling Lafleur Henderson LLP (“Gowlings”) at 1 First Canadian Place, 100 King Street West, Suite 1600, Toronto, Ontario. The Monitor provided notice of these changes to the service list and posted the revised plan and the new time for the Meeting on its website (Appendix E).
21. On November 30, 2012, the Company issued a further press release (Appendix D) announcing that the Meeting would be postponed to 10am on Monday, December 3, 2012. The Monitor provided notice of the postponement of the Meeting to the service list and posted notice of the new time for the Meeting on its website (Appendix E).
22. On December 3, 2012, the Company issued a further press release (Appendix D) that it had further amended the November 28 Plan with the Plan. The Monitor provided a copy of the Plan to the CCAA service list (Appendix E) and the press release stated that the Plan would be posted on the Monitor’s website but that in the meantime, parties could contact the Monitor for a copy of the Plan.

### *Summary of Meeting*

23. The Meeting was held at Gowlings office on December 3, 2012, starting shortly after 10am.

24. In accordance with the Meeting Order, Greg Watson, an officer of FTI Consulting Canada Inc., acted as chair (the “**Chair**”) of the Meeting. Stephen McKersie of Gowlings acted as secretary of the Meeting and Jodi Porepa of FTI Consulting Canada Inc. acted as scrutineer (the “**Scrutineer**”).
25. Quorum for the purposes of the Meeting was one Affected Creditor with a Voting Claim present at the Meeting (in person or by proxy). The Scrutineer confirmed that there was at least one (1) Affected Creditor with a Voting Claim present at the Meeting (in person or by proxy). Accordingly, the Chair declared that the Meeting was properly constituted.
26. The Chair then provided an overview of the process for providing notice of the Plan and dispensed with the reading of the Notice to Affected Creditors (as set out in the Meeting Order) asked whether there was any person present with a Voting Claim or Unresolved Claim who had not submitted a proxy and who wished to vote at the Meeting. No such person responded.
27. The Chair then provided a brief overview of the CCAA proceedings and summarized the amendments to the Plan since the October 19 Plan. Upon conclusion of the summary of the Plan, the Chair asked whether anyone who was entitled to speak had any questions regarding the Plan. Ken Dekker of Affleck Greene McMurtry LLP, counsel for BDO, asked a question regarding the timeframe for further detail surrounding the mechanics regarding the implementation of the Plan and the continuation of the Class Actions including matters relating to documentary discovery and the impact of the release. Derrick Tay of Gowlings, counsel for the Monitor, replied that while discussions may take place prior to the Sanction Hearing, it was unlikely that all such issues would be resolved prior to the Sanction Hearing.
28. Upon conclusion of the discussion of the Plan, the Chair reviewed the process for voting on the Plan as set out in the Voting Procedures (Appendix F). The Chair then confirmed that: (a) the result of the proxy count would be announced after proposal and consideration of the motion and that results of both Voting Claims and Unresolved Claims would be announced; and (b) the CCAA requires a majority in number and 2/3 in

value of the voting class (present at the Meeting in person or by proxy) for approval of the Plan.

29. The Chair then read out the proposed resolution (Appendix G), as follows:
- (a) *"The plan of compromise and reorganization (the "CCAA Plan") under the Companies' Creditors Arrangement Act (Canada) and the Canada Business Corporations Act concerning, affecting and involving Sino-Forest Corporation ("SFC"), substantially in the form dated December 3, 2012 (as such CCAA Plan may be amended, varied or supplemented by SFC from time to time in accordance with its terms) and the transactions contemplated therein be and it is hereby accepted, approved, agreed to and authorized;*
  - (b) *Notwithstanding the passing of this resolution by each Affected Creditor Class (as defined in the CCAA Plan) or the passing of similar resolutions or approval of the Ontario Superior Court of Justice (the "Court"), the board of directors of SFC, without further notice to, or approval of, the Affected Creditors (as defined in CCAA Plan), subject to the terms of the CCAA Plan, may decide not to proceed with the CCAA Plan or may revoke this resolution at any time prior to the CCAA Plan becoming effective, provided that any such decision after the issuance of a sanction order shall require the approval of the Monitor and the Court; and*
  - (c) *Any director or officer of SFC be and is hereby authorized, for and on behalf of SFC, to execute and deliver, or cause to be executed and delivered, any and all documents and instruments and to take or cause to be taken such other actions as he or she may deem necessary or desirable to implement this resolution and the matters authorized hereby, including the transactions required by the CCAA Plan, such determination to be conclusively evidenced by the execution and delivery of such documents or other instruments or taking of any such actions."*
30. Robert Chadwick of Goodmans LLP, holder of a number of proxies on behalf of Noteholders, then proposed the motion.
31. The Monitor then advised that it had tabulated the proxies indicating votes received for both Voting Claims and Unresolved Claims in connection with the Plan (as amended up to December 3, 2012). The following tables show:
- (a) the number of Voting Claims and their value for and against the Plan (table 1):

	Number of Votes	%	Value of Votes	%
Total Claims Voting For	250	98.81%	\$ 1,465,766,204	99.97%
Total Claims Voting Against	3	1.19%	\$ 414,087	0.03%
Total Claims Voting	253	100.00%	\$ 1,466,180,291	100.00%



- (b) the number of votes for and against the Plan in connection with Class Action Indemnity Claims in respect of Indemnified Noteholder Class Action Claims up to the Indemnified Noteholder Limit (table 2):

	Vote For	Vote Against	Total Votes
Class Action Indemnity Claims	4	1	5

- (c) the number of Defence Costs Claims votes for and against the Plan and their value (table 3):

	Number of Votes	%	Value of Votes	%
Total Claims Voting For	12	92.31%	\$ 8,375,016	96.10%
Total Claims Voting Against	1	7.69%	\$ 340,000	3.90%
Total Claims Voting	13	100.00%	\$ 8,715,016	100.00%

- (d) the overall impact on the approval of the Plan if the count were to include Total Unresolved Claims (including Defence Costs Claims) and if the entire \$150 million of the Indemnified Noteholder Class Action Limit had been voted a “no” vote (table 4):

	Number of Votes	%	Value of Votes	%
Total Claims Voting For	263	98.50%	\$ 1,474,149,082	90.72%
Total Claims Voting Against	4	1.50%	\$ 150,754,087	9.28%
Total Claims Voting	267	100.00%	\$ 1,624,903,169	100.00%

32. A copy of the Minutes of the Meeting including a copy of the scrutineer’s report is attached as Appendix H.
33. The motion was carried and Meeting was terminated at approximately 10:34am.

#### ADDITIONAL UPDATES

##### *OSC Proceedings regarding EY*

34. On December 3, 2012, the OSC issued a statement of allegations and notice of hearing against EY (Appendix I). The hearing was set for January 7, 2013.

##### *Appeal of the Equity Decision*

35. On November 28, 2012, the Underwriters provided notice of their intention to seek leave of the Supreme Court of Canada to appeal the Ontario Court of Appeal's decision dismissing the appeal of the Equity Claims Decision. The Underwriters have now advised of their decision to not further pursue leave of the Supreme Court of Canada.

#### **REMAINING OBJECTIONS TO THE PLAN**

36. The Company and the ICNs have made significant progress in resolving issues relating to the Plan such that, neither the Ontario Plaintiffs nor the Quebec Plaintiffs are opposed to the Plan; and both Ernst & Young and the Underwriters are supportive of the Plan. As of the date of this Report, the Monitor is aware of objections to the Plan from only from BDO and one former director and one former officer. The Company and the ICNs intend to continue to work to see if the objections of BDO can be resolved prior to the Sanction Hearing.
37. As of the date of this Supplemental Report, the former director and former officer referred to above have written letters indicating their intention to object to the Plan. For the reference of the Court, attached are the following documents:
- (a) Letter from Wardle Daley Bernstein re Claim of David Horsley dated November 29, 2012 and responding letter of Bennett Jones LLP dated November 30, 2012 (Appendix J);
  - (b) Proof of Claim (excluding Tab 1 and 2) of David Horsley for vacation pay, termination and severance pay dated November 1, 2012 (Appendix K); and
  - (c) Letter from Davis LLP re Kai Kit Poon dated November 28, 2012 and responding letter of Gowling Lafleur Henderson LLP dated November 29, 2012 (Appendix L).
38. Additionally, the Monitor is aware that an individual, Mr. Lam, who the Monitor understands was a purchaser of shares after the release of the MW Report (and therefore not part of the Class Actions) has requested changes to the Plan to, among other things, expressly preserve his claims against the Third Party Defendants. The Monitor has

- 20 -

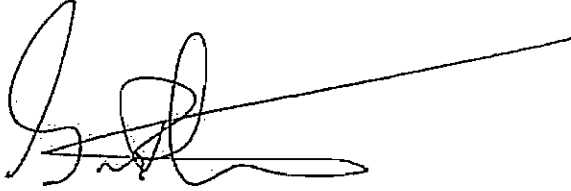
written to Mr. Lam and indicated that it was not prepared to recommend any of the changes requested.

### **RECOMMENDATION AND CONCLUSIONS**

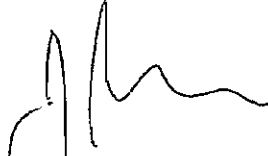
39. The Thirteenth Report contained the Monitor's analysis as to the reasonableness of the Plan. The Monitor remains of the view that liquidation or bankruptcy would not be more beneficial to the Company's Affected Creditors.
40. As set out above, a number of outstanding objections to the Plan have now been settled and an overwhelming majority in number and in value of Affected Creditors with Voting Claims present in person or by proxy at the Meeting voted in favour of the Plan.
41. Accordingly, for the reasons set out in the Thirteenth Report and this Supplemental Report, the Monitor believes that the Plan is fair and reasonable and respectfully recommends that this Honourable Court grant the Company's request for sanction of the Plan.

Dated this 4<sup>th</sup> day of December, 2012.

FTI Consulting Canada Inc.  
In its capacity as Monitor of  
Sino-Forest Corporation, and not in its personal capacity



Greg Watson  
Senior Managing Director



Jodi Porepa  
Managing Director

**TAB 9**

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

**Sino-Forest Corporation**

**FIFTEENTH REPORT OF THE MONITOR**

**January 28, 2013**

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

Court File No.: CV-11-431153-00CP

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**

B E T W E E N :

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN  
 CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING  
 ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN ONTARIO,  
 SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly  
 known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN,  
 KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND,  
 JAMES M.E. HYDE, EDMUND MAK, SIMON MURRY, PETER WANG, GARRY J.  
 WEST, PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT SUISSE  
 SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES  
 CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC  
 WORLD MARKETS INC., MERRILL LYNCH CANADA INC., CANACCORD  
 FINANCIAL LTD., MAISON PLACEMENTS CANADA INC., CREDIT SUISSE  
 SECURITIES (USA) LLC and MERRILL LYNCH, PIERCE, FENNER & SMITH  
 INCORPORATED (successor by merger to Banc of America Securities LLC)

Defendants

**FIFTEENTH REPORT TO THE COURT**  
**SUBMITTED BY FTI CONSULTING CANADA INC.,**  
**IN ITS CAPACITY AS MONITOR**

## INTRODUCTION

1. On March 30, 2012 (the “**Filing Date**”), Sino-Forest Corporation (the “**Company**” or “**SFC**”) filed for and obtained protection under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). Pursuant to the Order of this Honourable Court dated March 30, 2012 (the “**Initial Order**”), FTI Consulting Canada Inc. was appointed as the Monitor of the Company (the “**Monitor**”) in the CCAA proceedings. By Order of this Court dated April 20, 2012, the powers of the Monitor were expanded in order to, among other things, provide the Monitor with access to information concerning the Company’s subsidiaries.
2. On December 10, 2012, the Court granted an Order (the “**Sanction Order**”) approving the Company’s Plan of Compromise and Reorganization dated December 3, 2012 (the “**Plan**”).
3. The following appendices have been attached to this Fifteenth Report:
  - (a) Appendix A - the Minutes of Settlement (as defined below);
  - (b) Appendix B - the Plan;
  - (c) Appendix C - the Monitor’s Thirteenth Report dated November 22, 2012 (the “**Thirteenth Report**”) (without appendices);
  - (d) Appendix D - the Monitor’s Supplemental Report to the Thirteenth Report dated December 4, 2012 (the “**Supplemental Report**”) (without appendices);
  - (e) Appendix E - the Monitor’s Second Supplemental Report to the Thirteenth Report dated December 6, 2012 (the “**Second Supplemental Report**”) (without appendices);
  - (f) Appendix F - the Claims Procedure Order;
  - (g) Appendix G - the Mediation Order;
  - (h) Appendix H - the Meeting Order;



- (i) Appendix I - Notice of Appearance of Kim Orr;
  - (j) Appendix J - the Sanction Order;
  - (k) Appendix K - Endorsement of Justice Morawetz re Sanction Hearing;
  - (l) Appendix L - Notice of Motion re Leave to Appeal the Sanction Order;
  - (m) Appendix M - (i) letter from Bennett Jones to Kim Orr dated January 3, 2013; (ii) letter from Kim Orr to Bennett Jones dated January 3, 2013; (iii) letter from Lenczner Slaght to Kim Orr dated January 3, 2013;
  - (n) Appendix N - E&Y Notice Order (as defined below);
  - (o) Appendix O - Company's press release dated January 24, 2013; and
  - (p) Appendix P - (i) letter from Gowling Lafleur Henderson dated January 11, 2013 regarding the addition of Allen Chan and Kai Kit Poon as Named Third Party Defendants; (ii) letter from Gowling Lafleur Henderson dated January 21, 2013 regarding the addition of David Horsley as a Named Third Party Defendant.
4. The objections received to the Ernst & Young Settlement up to January 21, 2013 have been filed separately in the Monitor's fourteenth report dated January 22, 2013 (the "**Fourteenth Report**"). Any subsequent Notices of Objection or other correspondence expressing objections have or will be attached in a supplement or supplements to the Fourteenth Report.
  5. The proceedings commenced by the Company under the CCAA will be referred to herein as the "**CCAA Proceedings**".
  6. The purpose of this Fifteenth Report is to report on certain matters relating to the Ernst & Young Settlement.
  7. In preparing this Fifteenth Report, the Monitor has relied upon unaudited financial information of Sino-Forest, Sino-Forest's books and records, certain financial information prepared by Sino-Forest, the Reports of the Independent Committee of the

Company's Board of Directors dated August 10, 2011, November 13, 2011, and January 31, 2012, and discussions with Sino-Forest's management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. In addition, the Monitor notes that on January 10, 2012, the Company issued a press release cautioning that the Company's historic financial statements and related audit reports should not be relied upon. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this Fifteenth Report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this Fifteenth Report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.

8. Unless otherwise stated, all monetary amounts referred to herein are expressed in CDN Dollars.
9. The term "**Sino-Forest**" refers to the global enterprise as a whole but does not include references to Greenheart (as defined in the Plan). "Sino-Forest Subsidiaries" refers to all of the direct and indirect subsidiaries of the Company, but does not include references to Greenheart.
10. Capitalized terms used herein and not otherwise defined have the meaning given to them in the Plan, the Thirteenth Report, the Supplemental Report and/or the Second Supplemental Report.<sup>1</sup>

<sup>1</sup> See Appendices B, C, D and E for copies of the Plan, the Thirteenth Report, the Supplemental Report and the Second Supplemental Report.

## BACKGROUND

### *Overview of the CCAA Proceedings*

11. The description of the Company's business as well as the background to these proceedings has all been set out in previous reports of the Monitor as well as affidavits filed by the Company in connection with the CCAA Proceedings and is therefore not repeated herein.
12. A brief chronology of certain of the significant events in the CCAA Proceedings to date is as follows:
  - (a) On March 30, 2012, the Company sought and the Court granted the Initial Order the terms of which included a stay of proceedings (the "Stay") against the Company, its directors and officers and the Sino-Forest Subsidiaries. The Stay has been extended from time to time and is currently extended through to February 1, 2013.
  - (b) As part of its application for the Initial Order, the Company advised that it had entered into the RSA which provided for the terms on which certain Initial Consenting Noteholders would consent to a restructuring transaction.
  - (c) On the same day, the Court granted the Sale Process Order pursuant to which the Company was authorized to conduct a sale process, in part, as a market test of the transactions contemplated under the RSA.
  - (d) On April 20, 2012, the Court granted an Order expanding the Monitor's powers in these proceedings.
  - (e) On May 8, 2012, on a motion by the Company (the "Third Party Stay Motion"), the Court granted an Order confirming that the Stay extended to the Third Party Defendants (as defined below) in the Class Actions.

- (f) On May 14, 2012, the Court granted the Claims Procedure Order which provided for the calling of claims against the Company, its directors and officers and the Sino-Forest Subsidiaries and established a claims bar date.
- (g) On June 26, 2012 the Company brought a motion relating to a determination on “equity claims” and on July 27, 2012, the Court granted the motion and issued the Equity Claims Order. An appeal from the Equity Claims Order was dismissed by the Ontario Court of Appeal on November 23, 2012.
- (h) On July 25, 2012, the Monitor sought and the Court granted the Mediation Order, directing a mediation of the Class Action Claims against the Company and the Third Party Defendants. The Mediation took place over the course of September 4 and 5, 2012. While no settlements were reached during the Mediation, settlement discussions among parties to the Mediation continued following the Mediation.
- (i) On August 31, 2012, the Company sought and the Court granted the Meeting Order which provided for the filing of the Plan and the calling of a meeting of creditors.
- (j) On October 28, 2012, the Ontario Class Action Plaintiffs brought a motion seeking a lifting of the stay against Ernst & Young, BDO, the Underwriters, Allen Chan and Kai Kit Poon. The motion was not opposed by the Company or the Monitor. In an endorsement released on November 6, 2012, the Court dismissed the motion without prejudice to the Ontario Class Action Plaintiffs to renew their request on December 10, 2012 (which was the scheduled date for the Sanction Hearing).
- (k) On December 3, 2012, the Meeting took place at which time the Plan was approved by the Required Majority (also discussed in more detail below).
- (l) On December 7, 2012, the Company sought the Sanction Order, which was granted by the Court on December 10, 2012. A notice of motion for leave to appeal the Sanction Order has been served by counsel to a group of shareholders

(“**Kim Orr**”). To date, Kim Orr has not perfected its leave motion nor has leave been granted by the Ontario Court of Appeal.

(m) On December 21, 2012, the Court granted an Order approving the notice process for the approval of the Ernst & Young Settlement.

13. As of the date of this Fifteenth Report, the Company is continuing to work towards the implementation of the Plan, the details of which are discussed in more detail below.

### **THE CLAIMS PROCESS, MEDIATION AND PARTICIPATION OF THE CLASS ACTION PLAINTIFFS IN THE CCAA PROCEEDINGS**

#### *Claims, the Class Actions and the Mediation*

14. From the outset of the CCAA Proceedings, it was apparent that addressing the contingent claims against the Company (and related claims against the Sino-Forest Subsidiaries) would be important given the extent of the litigation against the Company and resulting indemnification claims from others named in the Class Actions. To further that process, on May 14, 2012, the Company obtained the Claims Procedure Order,<sup>2</sup> which provided for the calling of claims against the Company, its directors and officers and its subsidiaries. The call for Claims included a call for “equity claims”. Claims (other than Restructuring Claims) and D&O Claims (as such terms are defined in the Claims Procedure Order) were to be filed prior to June 20, 2012 (the “**Claims Bar Date**”). Any Claim not filed by the Claims Bar Date is now forever barred.

15. In developing the terms of the Claims Procedure Order, the Company and the Monitor were both cognizant of the relatively unique nature of the claims that were anticipated to be asserted in the claims process. As set out above, as a holding company, unlike many CCAA debtors, the Company does not have many, if any, trade creditors. Instead, aside from the claims in respect of the Notes, it was anticipated that most or all of the remaining claims filed would be in connection with the Class Actions either directly by

<sup>2</sup> See Appendix F for a copy of the Claims Procedure Order.

the plaintiffs in the Class Actions or by way of indemnity claims from the Third Party Defendants.

16. In that regard, the Company and the Monitor had extensive discussions with class action counsel for the Ontario Class Action Plaintiffs and the Quebec Class Action Plaintiffs (collectively, the “**Canadian Plaintiffs**”) (among others) as to certain terms of the Claims Procedure Order. Ultimately, numerous changes were made to the Claims Procedure Order that was proposed to the Court including paragraphs ordering that the Canadian Plaintiffs were entitled to file representative Proofs of Claim and D&O Proofs of Claim (as both terms are defined in the Claims Procedure Order) in respect of the substance of the Ontario Class Action and the Quebec Class Action, respectively (collectively, the “**Canadian Class Actions**”).<sup>3</sup>
17. On June 26, 2012, the Company brought a motion seeking a direction that Claims by the plaintiffs in the Class Actions in respect of the purchase of securities<sup>4</sup> and resulting indemnification claims by the Third Party Defendants constituted “equity claims” pursuant to section 2(1) of the CCAA. The motion was opposed by Ernst & Young, BDO and the Underwriters. The motion was not opposed by the Canadian Plaintiffs who conceded that their Class Action claims in respect of the purchase of securities were “equity claims”.<sup>5</sup>
18. On July 27, 2012, the Court issued its decision determining that such claims did constitute “equity claims” under section 2(1) of the CCAA (the “**Equity Claims Decision**”). The Equity Claims Decision was appealed by Ernst & Young, BDO and the Underwriters. The appeal was heard by the Ontario Court of Appeal on November 13, 2012. On November 23, 2012, the Ontario Court of Appeal issued its reasons and dismissed the appeal. The Equity Claims Decision was not appealed to the Supreme Court of Canada.

<sup>3</sup> See paragraphs 27 and 28 of the Claims Procedure Order.

<sup>4</sup> The motion did not deal with claims in respect of the purchase of debt securities.

<sup>5</sup> Kim Orr did not appear at or in any way oppose the motion on the Equity Claims Decision.

19. Early in the CCAA Proceedings, it became apparent to the Monitor that the nature, complexity and number of parties involved in the litigation claims surrounding the Company had the potential to cause extensive delay and additional costs in the CCAA Proceedings. As such, it was the view of the Monitor (with the agreement of the Company) that there was merit in a global resolution of not only the Class Action Claims against the Company, but also against the other defendants named in the Class Actions other than Pöyry Beijing (the “**Third Party Defendants**”).<sup>6</sup>
20. On July 25, 2012 the Court granted an order (the “**Mediation Order**”), directing a mediation (the “**Mediation**”) of the class action claims against the Company and the Third Party Defendants.<sup>7</sup> The parties directed to participate in the mediation were the Company, the Canadian Plaintiffs, the Third Party Defendants, the Monitor, the Initial Consenting Noteholders and relevant insurers. The Monitor is aware and believes that the parties took the Mediation seriously and relied on the ability of those in attendance to bind their respective constituents as was required by the Mediation Order. The Mediation was conducted on September 4 and 5, 2012. No settlements were reached during the Mediation.
21. Although no settlements were reached during the Mediation, the Monitor was aware that many of the Third Party Defendants remained focused on determining whether a resolution within the CCAA Proceedings was possible. Specifically, the Monitor notes the description of the ongoing settlement discussions between the Canadian Plaintiffs and Ernst & Young in the affidavit of Charles Wright sworn January 10, 2013 (the “**Wright Affidavit**”), which ultimately resulted in the Ernst & Young Settlement.

<sup>6</sup> The Third Party Defendants are: EY, BDO, the Underwriters, Allen Chan, Judson Martin, Kai Kit Poon, David Horsley, William Ardell, James Bowland, James Hyde, Edmund Mak, Simon Murray, Peter Wang and Garry West.

<sup>7</sup> See Appendix G for a copy of the Mediation Order.

## THE PLAN, MEETING OF CREDITORS AND SANCTION ORDER

### *The Plan and the Plan Filing and Meeting Order*

22. On August 14, 2012, the Company announced that it had filed a draft plan of compromise and reorganization (the “**August 14 Draft Plan**”) with the Court.<sup>8</sup> On August 15, 2012, the Company filed a draft information circular with the Court. In connection with the filing of the August 14 Draft Plan, the Company also brought a motion seeking approval of a plan filing and meeting order (the “**Meeting Order**”) which, among other things, provided for the calling of a meeting of creditors (the “**Meeting**”).<sup>9</sup> It was agreed that the Meeting Date would be subsequent to the completion of the Mediation.
23. The motion for the Meeting Order was returnable on August 28, 2012. Due to concerns raised by certain of the Third Party Defendants, the motion was postponed to determine whether the parties could agree to changes that would result in a mutually satisfactory proposed order, which was ultimately achieved. On August 31, 2012, the Court granted the Meeting Order.
24. On October 19, 2012, the Company filed a revised plan of compromise and reorganization and information statement. Further revised versions of the Plan were filed on November 28, 2012 and December 3, 2012. The December 3, 2012 version of the Plan (being the final version of the Plan that was put to creditors at the Meeting and the Court at the Sanction Hearing) included amendments relating to the Third Party Defendants including the new Article 11.1 which provided for a mechanism through which the release contemplated by the Ernst & Young Settlement could be achieved.<sup>10</sup>

### *The Meeting*

25. The details regarding the calling of the Meeting as well as the conduct of the Meeting are set out in detail in the Supplemental Report and therefore not repeated herein. Briefly, the Meeting Order provided for:

<sup>8</sup> A further draft of the Plan dated August 27, 2012 was filed prior to the return of the motion for the Meeting Order.

<sup>9</sup> See Appendix H for a copy of the Meeting Order.

<sup>10</sup> See Appendix B for a copy of the Plan.



- (a) notice and mailing of the Company's plan, supplements and amendments thereto;
  - (b) the solicitation of proxies;
  - (c) the calling of a meeting of creditors; and
  - (d) those Persons who were entitled to attend and vote on the plan at the meeting – specifically, holders of equity claims were not (in such capacity) entitled to attend the Meeting, nor were they entitled to vote on the Plan.
26. The Meeting was held at Gowlings' office on December 3, 2012, starting shortly after 10am. By the time the Meeting was conducted, the Company (with the assistance of others) had made considerable progress in obtaining support for its Plan. Notably, with those holding Voting Claims, there were only three (3) votes against the Plan (representing approximately .03% in value) and there was only one vote against the Plan in respect of Unresolved Claims (namely, BDO).
27. In accordance with the Meeting Order, persons who were entitled to vote submitted their proxies which were used to vote on the Plan in the form presented at the Meeting. As a result, the Plan received overwhelming approval by creditors with Voting Claims who voted in person or by proxy (99.96% in value and 98.81% in number) and even if the results of the votes on the Unresolved Claims counted towards the Required Majority, the Plan still would have received overwhelming approval (90.72% in value and 98.5% in number).<sup>11</sup> Further, as discussed below, subsequent to the Meeting and prior to the Sanction Hearing, BDO (the only party with Unresolved Claims that voted "no"), became a Named Third Party Defendant under the Plan and supported approval of the Plan at the Sanction Hearing. Lastly, as set out above, holders of equity claims (including the Canadian Plaintiffs) were not entitled to attend the Meeting or vote on the Plan.

#### *The Sanction Order*

28. The Sanction Hearing was held on December 7, 2012. At the Sanction Hearing, there were no claimants who filed Claims, D&O Claims or D&O Indemnity Claims (all as

<sup>11</sup> See paragraph 31 of the Supplemental Report (Appendix D) for a full summary of the voting results.

defined in the Claims Procedure Order) under the Claims Procedure Order and/or who voted at the Meeting who opposed the sanctioning of the Plan. Specifically, the following parties were supportive of the Plan:

- (a) the Company;
- (b) the Company's board of directors;
- (c) the Monitor;
- (d) the Initial Consenting Noteholders;
- (e) Ernst & Young;
- (f) the Underwriters; and
- (g) BDO.

29. There were also a number of parties, including counsel for the Canadian Plaintiffs and the U.S. Plaintiffs, who did not oppose the sanctioning of the Plan. The only parties who expressed any opposition to the sanctioning of the Plan were three shareholders of the Company, Invesco Canada Ltd., Northwest & Ethical Investments L.P. and Comité Syndical National De Retraite Batirente Inc. (collectively, the “**Objecting Shareholders**”), which were represented by Kim Orr, who served a notice of appearance on December 6, 2012, one (1) day prior to the Sanction Hearing in these CCAA Proceedings.<sup>12</sup> Notwithstanding the fact that Kim Orr acknowledged during the Sanction Hearing that it had been monitoring the CCAA Proceedings on behalf of its clients, none of the Objecting Shareholders had previously objected to the Claims Procedure Order, the Mediation Order, nor did any of them file Claims or D&O Claims under the Claims Procedure Order independent of the representative Claims and D&O Claims that were filed by the Canadian Plaintiffs as authorized by paragraphs 27 and 28 of the Claims

<sup>12</sup> See Appendix I for a copy of the notice of appearance of Kim Orr.

Procedure Order. The Court issued its endorsement on the Sanction Hearing and the Sanction Order was granted on December 10, 2012.<sup>13</sup>

30. A notice of motion for leave to appeal the Sanction Order has been served by Kim Orr.<sup>14</sup> However, in an exchange of correspondence between the Company and Kim Orr, Kim Orr confirmed that they did not intend to seek a stay of the implementation of the Plan pending appeal.<sup>15</sup>

*Plan Implementation*

31. Since the granting of the Sanction Order, the Company, with the assistance of the Monitor and the Initial Consenting Noteholders, has worked towards fulfilling all of the conditions precedent to the implementation of the Plan. On January 24, 2013, the Company announced that it anticipated that the Plan Implementation Date will occur on or about January 29, 2013 and, in any event, prior to the end of January 2013.<sup>16</sup>
32. Subsequent to the Sanction Order being granted,
- (a) Allen Chan, Kai Kit Poon and David Horsley have been added as “Named Third Party Defendants” to the Plan which means, among other things, that none of those three individuals will be entitled to receive any distributions under the Plan;<sup>17</sup>
  - (b) As a result of the addition of Mr. Chan, Mr. Poon and Mr. Horsley as Named Third Party Defendants to the Plan, the Unresolved Claims Reserve was reduced from Plan consideration sufficient to address \$162.5 million of Unresolved Claims to Plan consideration sufficient to address \$1.2 million of Unresolved Claims;

<sup>13</sup> See Appendices J and K for copies of the Sanction Order the Court’s endorsement.

<sup>14</sup> See Appendix L for a copy of the notice of motion seeking leave to appeal the Sanction Order.

<sup>15</sup> See Appendix M copies of correspondence from Bennett Jones to Kim Orr; a responding letter from Kim Orr to Bennett Jones; and a responding letter from Lenczner Slaght to Kim Orr all dated January 3, 2013.

<sup>16</sup> See Appendix O for a copy of the Company’s press release announcing that it anticipates that Plan implementation will occur on or about January 29, 2013.

<sup>17</sup> See Appendix P for letters dated January 11, 2013 and January 21, 2013.

- (c) On January 15, 2013, the Company obtained an Order of the Court with respect to certain document retention matters (the “**Document Retention Protocol Order**”); and
- (d) On January 21, 2013, the Company obtained an Order to approve certain administrative changes to the Plan including providing for the creation of an additional escrow to be maintained by the Monitor in connection with certain Hong Kong stamp duty matters.

### **THE ERNST & YOUNG SETTLEMENT**

#### *The Ernst & Young Settlement and Article 11 of the Plan*

- 33. As set out above, Ernst & Young is one of the Third Party Defendants named in the Canadian Class Actions (as well as the class action proceeding commenced in the U.S.). In turn, in connection with the claims process conducted pursuant to the Claims Procedure Order, Ernst & Young filed both Claims and D&O Claims against the Company, the Sino-Forest Subsidiaries and numerous individuals for indemnity, contractual damages and other matters. The Monitor notes that the Proof of Claim and D&O Proof of Claim (each as defined in the Claims Procedure Order) filed by Ernst & Young are attached as Exhibits C and D to the affidavit of Mike P. Dean sworn January 11, 2013.
- 34. Prior to the Meeting, the Canadian Plaintiffs reached a settlement with Ernst & Young pursuant to certain minutes of settlement dated November 29, 2012 (the “**Minutes of Settlement**”).<sup>18</sup> The Minutes of Settlement provided for the settlement of all claims against Ernst & Young and, in turn, resulted in amendments to the Plan and, in that context, Ernst & Young agreed, among other things, that it would not receive any consideration under the Plan, waived all rights to appeal and also resulted in Ernst & Young being supportive of and voting in favour of the Plan.

<sup>18</sup> See Appendix A for a copy of the Minutes of Settlement.

35. A detailed outline of the Ernst & Young Settlement is set out in the affidavit of Charles Wright sworn January 10, 2013 and therefore not repeated herein. In general terms, the Ernst & Young Settlement provides for the payment by Ernst & Young to a settlement trust of a \$117 million settlement amount (the “**Settlement Fund**”) upon the satisfaction of certain conditions including: (a) approval of the court of the Ernst & Young Settlement (the “**Ernst & Young Settlement Approval Order**”); and (b) recognition by the U.S. court of the Ernst & Young Settlement Approval Order pursuant to chapter 15 of title 11 of the United States Code.
36. In exchange for payment of the Settlement Fund, the Minutes of Settlement provide for the requirement that Ernst & Young receive a full release of all claims against it to be effected pursuant through the CCAA Plan mechanism. As such, amendments to the November 28 Plan were required in order to incorporate this structure. Details of the changes to the Plan relating to Ernst & Young are set out in the Supplemental Report. A brief description is as follows:
- (a) Any and all indemnification rights and entitlements of Ernst & Young and any indemnification agreement between Ernst & Young and the Company shall be deemed to be valid and enforceable in accordance with their terms for the purposes of determining whether the Claims of Ernst & Young for indemnification in respect of the Noteholder Class Action Claims are valid and enforceable within the meaning of section 4.4(b) the Plan.<sup>19</sup>
  - (b) Ernst & Young shall not be entitled to any distributions under the Plan.
  - (c) The Sanction Order shall contain a stay against Ernst & Young between the Plan Implementation Date and the earlier of the Ernst & Young Settlement Date (as defined in the Plan) or such other date as may be ordered by the Court on a motion to the Court.

<sup>19</sup> Section 4.4(b) of the Plan, among other things, establishes the Indemnified Noteholder Class Action Limit.

- (d) Section 11.1 of the Plan contains provisions that provide a framework pursuant to which a release of the Ernst & Young Claims<sup>20</sup> under the Plan would happen if several conditions were met. That release will only be granted if all conditions are met including further court approval. A summary of those terms is as follows:
- (i) Notwithstanding anything to the contrary in the Plan, subject to (A) the granting of the Sanction Order; (B) the issuance of the Settlement Trust Order (as may be modified in a manner satisfactory to the parties to the Ernst & Young Settlement and the Company (if occurring on or prior to the Plan Implementation Date), the Monitor and the Initial Consenting Noteholders, as applicable, to the extent, if any, that such modifications affect the Company, the Monitor or the Initial Consenting Noteholders, each acting reasonably); (C) the granting of an Order under Chapter 15 of the United States Bankruptcy Code recognizing and enforcing the Sanction Order and the Settlement Trust Order in the United States; (D) any other order necessary to give effect to the Ernst & Young Settlement (the orders referenced in (C) and (D) being collectively the “**Ernst & Young Orders**”); (E) the fulfillment of all conditions precedent in the Ernst & Young Settlement and the fulfillment by the Ontario Class Action Plaintiffs of all of their obligations thereunder; and (F) the Sanction Order, the Settlement Trust Order and all Ernst & Young Orders being final orders and not subject to further appeal or challenge, Ernst & Young shall pay the settlement amount as provided in the Ernst & Young Settlement to the trust established pursuant to the Settlement Trust Order (the “**Settlement Trust**”);
  - (ii) Upon receipt of a certificate from Ernst & Young confirming it has paid the settlement amount to the Settlement Trust in accordance with the Ernst & Young Settlement and the trustee of the Settlement Trust confirming

<sup>20</sup> “Ernst & Young Claims” has the definition given to it in the Plan and does not include any proceedings or remedies that may be taken against Ernst & Young by the Ontario Securities Commission or by staff of the Ontario Securities Commission and the jurisdiction of the Ontario Securities Commission is expressly preserved.

receipt of such settlement amount, the Monitor shall deliver to Ernst & Young the Monitor's Ernst & Young Settlement Certificate. The Monitor shall thereafter file the Monitor's Ernst & Young Settlement Certificate with the Court;

- (iii) Notwithstanding anything to the contrary in the Plan, upon receipt by the Settlement Trust of the settlement amount in accordance with the Ernst & Young Settlement: (A) all Ernst & Young Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled, barred and deemed satisfied and extinguished as against Ernst & Young; (B) section 7.3 of the Plan shall apply to Ernst & Young and the Ernst & Young Claims *mutatis mutandis* on the Ernst & Young Settlement Date; and (C) none of the plaintiffs in the Class Actions shall be permitted to claim from any of the other Third Party Defendants that portion of any damages that corresponds to the liability of Ernst & Young, proven at trial or otherwise, that is the subject of the Ernst & Young Settlement; and
- (iv) In the event that the Ernst & Young Settlement is not completed in accordance with its terms, the Ernst & Young Release will not become effective (and any claims against Ernst & Young will be assigned to the Litigation Trust).

37. The focus of Kim Orr's objections at the Sanction Hearing related to the inclusion of Article 11.1 relating to the Ernst & Young Settlement. At the Sanction Hearing, it was made clear by all parties that approval of the Ernst & Young Settlement (including the potential for a release under Article 7 of the Plan) was not being sought on that date and would be the subject of a further motion. However, the Company (and others) did take the view that the Plan, as a whole (not in part), was being considered for Court approval. Ultimately, the Court, in the Sanction Order, approved the Plan, in its entirety. In his endorsement, Justice Morawetz notes:

The Plan was presented to the meeting with Article 11 in place. This was the Plan that was subject to the vote and this is the Plan that is the subject

of this motion. The alternative proposed by the Funds was not considered at the meeting and, in my view, it is not appropriate to consider such an alternative on this motion.

38. The Monitor participated in the development of the Plan as a whole and is of the view that it is clearly reflected in the Court's endorsement that the Plan, as a whole, be approved.

*The E&Y Notice Order*

39. The parties took the view that this Court was the appropriate court for hearing the motion to approve the Ernst & Young Settlement. Upon direction from the Regional Senior Justice on December 13, 2012, it was determined that the Court would hear the motion for approval of the Ernst & Young Settlement. On December 21, 2012, the Court granted an order (the "**E&Y Notice Order**") approving the notice process regarding the approval of the Ernst & Young Settlement and scheduled the motion date for the Ernst & Young Settlement Motion to be February 4, 2013.<sup>21</sup>
40. The E&Y Notice Order set out the required methods for providing notice of the Ernst & Young Settlement as well as an objection process pursuant to which any person wishing to object to the approval of the Ernst & Young Settlement at the Ernst & Young Settlement Motion was required to file a notice of objection in the prescribed form on or prior to January 18, 2013. The Monitor was also required to attach all objections received to a report to court.
41. The Monitor has filed its Fourteenth Report that contained all Notices of Objections or other correspondence expressing objections received up to the date of the Fourteenth Report. The Monitor has or will provide any further Notices of Objection or other correspondence expressing objections in further supplements to the Fourteenth Report.

*The Benefits of Ernst & Young Settlement to the Company and the CCAA Proceedings*

<sup>21</sup> See Appendix N for a copy of the E&Y Notice Order.



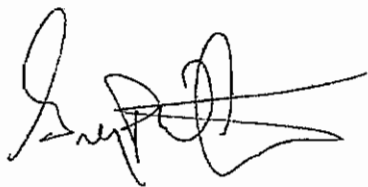
42. Although the Ernst & Young Settlement resolves class action litigation claims against Ernst & Young, the settlement was reached in the context of the Company's CCAA Proceedings and has provided a benefit to the Company, the Plan and the CCAA Proceedings for the following reasons. In particular:
- (a) It eliminated the chance that Ernst & Young would seek leave to appeal the Equity Claims Decision to the Supreme Court of Canada which might have been costly and time consuming;
  - (b) Given that the Equity Claims Decision did not address the entirety of Ernst & Young's indemnity claims, the settlement results in the elimination of further litigation relating to the acceptance, disallowance or revision of the Claim and D&O Claim filed by Ernst & Young, which litigation could have been extensive, lengthy and costly;
  - (c) Ernst & Young has agreed to forego any distributions under the Plan which; and
  - (d) It eliminated the possibility that Ernst & Young would vote against the Plan, object to the Sanction Hearing and appeal the Sanction Order which could have caused delay in implementing the Plan and result in significant additional cost to the estate.
43. Further, the Monitor has consistently recognized the potential benefit of settlement within the CCAA Proceedings of the litigation claims surrounding the Company, including those against the Third Party Defendants. This view was evident not only in the Monitor's Reports but also through the Monitor's support of the Third Party Stay Motion as well as the bringing of the motion for Mediation. The Monitor has, throughout, encouraged the settlement of these claims within the CCAA framework which, in the Monitor's view, provides for an efficient legal regime through which such settlements may be effected.
44. The Monitor has also consistently expressed its views regarding urgency in the CCAA Proceedings and is of the view that the Ernst & Young Settlement has assisted in eliminating a potential delay in the implementation of the Plan.

**MONITOR'S RECOMMENDATION**

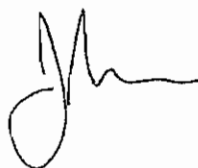
45. For the reasons set out above, the Monitor recommends approval of the Ernst & Young Settlement including the granting of the proposed release as set out in Articles 7 and 11 of the Plan.

Dated this 28<sup>th</sup> day of January, 2013.

FTI Consulting Canada Inc.  
In its capacity as Monitor of  
Sino-Forest Corporation, and not in its personal capacity



Greg Watson  
Senior Managing Director



Jodi Porepa  
Managing Director

**TAB 10**

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

**MONITOR'S CERTIFICATE  
(Plan Implementation)**

All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Plan of Compromise and Reorganization of Sino-Forest Corporation ("SFC") dated December 3, 2012 (the "Plan"), which is attached as Schedule "A" to the Order of the Honourable Mr. Justice Morawetz made in these proceedings on the 10<sup>th</sup> day of December, 2012 (the "Order"), as such Plan may be further amended, varied or supplemented from time to time in accordance with the terms thereof.

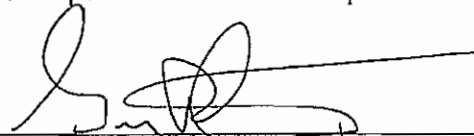
Pursuant to paragraph 12 of the Order, FTI Consulting Canada Inc. (the "Monitor") in its capacity as Court-appointed Monitor of SFC delivers to SFC and Goodmans LLP this certificate and hereby certifies that:

1. The Monitor has received written notice from SFC and Goodmans LLP (on behalf of the Initial Consenting Noteholders) that the conditions precedent set out in section 9.1 of the Plan have been satisfied or waived in accordance with the terms of the Plan; and

2. The Plan Implementation Date has occurred and the Plan and the Plan Sanction Order are effective in accordance with their terms.

DATED at the City of Toronto, in the Province of Ontario, this 30<sup>th</sup> day of January, 2013.

**FTI CONSULTING CANADA INC.**, in its capacity as Court-appointed Monitor of the Sino-Forest Corporation and not in its personal capacity

By:   
Name: Gregory P. Watson  
Title: Senior Managing Director

**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

**MONITOR'S CERTIFICATE**

**GOWLING LAFLEUR HENDERSON**  
First Canadian Place  
100 King Street West, Suite 1600  
Toronto, Ontario  
M5X 1G5

**Jennifer Stam (LSUC#: 46735J)**  
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E-mail: [jennifer.stam@gowlings.com](mailto:jennifer.stam@gowlings.com)

Lawyers for FTI Consulting Canada Inc., in  
capacity as Monitor of the within proceedin

**TAB 11**



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**

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**FACTUM OF THE UNDERWRITERS  
NAMED IN CLASS ACTIONS  
(motion for a Sanction Order,  
returnable December 7 and 10, 2012)**

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79 Wellington Street West  
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Lawyers for the Underwriters  
named in Class Actions

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

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

**FACTUM OF THE UNDERWRITERS  
NAMED IN CLASS ACTIONS  
(motion for a Sanction Order,  
returnable December 7 and 10, 2012)**

1. This brief factum is filed by the Underwriters<sup>1</sup> in connection with the motion of Sino-Forest Corporation ("SFC") for an order (the "Sanction Order"), among other things, sanctioning the Plan of Compromise and Reorganization pursuant to the *Companies' Creditors Arrangement Act* and the *Canada Business Corporations Act* concerning, affecting and involving SFC (the "Plan").<sup>2</sup>
2. The Underwriters are among the Third Party Defendants in the Class Actions, with enforceable rights of indemnification against SFC and its subsidiaries in respect of claims in the Class Actions made by certain Noteholders (i.e., the "Noteholder Class Action Claims").
3. The Underwriters consent to the granting of the Sanction Order in respect of the Plan. This position is based on, among other things, the following features of the Plan and, where applicable, corresponding provisions in the Sanction Order:

*The "Cap" on Noteholder Class Action Claims*

- (a) The Plan includes a "cap" on the liability that Underwriters and other Third Party Defendants have in the Class Actions in respect of the Noteholder Class Action Claims.

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<sup>1</sup> The Underwriters are Credit Suisse Securities (Canada) Inc., TD Securities Inc., Dundee Securities Corporation, RBC Dominion Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., Canaccord Financial Ltd. (now known as Canaccord Genuity Corp.), Maison Placements Canada Inc., Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, successor by merger to Banc of America Securities LLC.

<sup>2</sup> Unless otherwise defined, capitalized terms used herein have the meanings attributed to those terms in the Plan.

- (b) The collective aggregate amount of all rights and claims asserted or that may be asserted against the Third Party Defendants in respect of any Noteholder Class Action Claims for which any there is a valid and enforceable Class Action Indemnity Claim against SFC shall not exceed, in the aggregate, the Indemnified Noteholder Class Action Limit of \$150 million, and all Persons shall be permanently and forever barred, estopped, stayed and enjoined, on and after the Effective Time, from seeking to enforce any liability in respect of the Indemnified Noteholder Class Action Claims that exceeds the Indemnified Noteholder Class Action Limit.
- (c) The “cap” is also subject to downward adjustment. In the event that any Third Party Defendant is found to be liable for or agrees to a settlement in respect of a Noteholder Class Action Claim (other than a Noteholder Class Action Claim for fraud or criminal conduct) and amounts are paid by or on behalf of the applicable Third Party Defendant, then the amount of the Indemnified Noteholder Class Action Limit applicable to the remaining Third Party Defendants will be reduced.
- (d) To ensure the “cap” is effective, it is agreed that the Claims of the Underwriters for indemnification in respect of any Noteholder Class Action Claims (other than Noteholder Class Action Claims against the Underwriters for fraud or criminal conduct) shall, for purposes of the Plan, be deemed to be valid and enforceable Class Action Indemnity Claims against SFC, and that: (i) any and all indemnification rights and entitlements of Ernst & Young at common law and any and all indemnification agreements between Ernst & Young and SFC shall be deemed to be valid and enforceable in accordance with their terms for the purpose of determining whether the Claims of Ernst & Young for indemnification in respect of Noteholder Class Action Claims are valid and enforceable; and (ii) any and all indemnification rights and entitlements of BDO Limited at common law and any and all indemnification agreements between BDO Limited and SFC shall be deemed to be valid and enforceable in accordance with their terms for the purpose of determining whether the Claims of BDO Limited for indemnification in respect of Noteholder Class Action

Claims are valid and enforceable. In addition, all indemnification rights and entitlements of the Named Third Party Defendants at common law and any and all indemnification agreements between the Named Third Party Defendants and SFC shall be deemed to be valid and enforceable in accordance with their terms for the purpose of determining whether the Claims of the Named Third Party Defendants for indemnification in respect of Noteholder Class Action Claims are valid and enforceable.

*Release of Noteholder Class Action Claims Against the Underwriters in Excess of the "Cap"*

- (e) Noteholder Class Action Claims that exceed the "cap" are released as against the Underwriters.
- (f) Any portion or amount of liability of the Underwriters for the Noteholder Class Action Claims (other than any Noteholder Class Action Claims against the Underwriters for fraud or criminal conduct), on a collective, aggregate basis in reference to all Noteholder Class Action Claims together, that exceeds the Indemnified Noteholder Class Action Limit shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred on the Plan Implementation Date.

*Release from Litigation Trust Claims*

- (g) The Underwriters are released from Litigation Trust Claims, and therefore face no litigation opposite the Litigation Trust (and claims it will have from Noteholders or SFC), subject only to claims for fraud or criminal conduct.
- (h) Litigation Trust Claims exclude Causes of Action (other than claims for fraud or criminal conduct) against the Underwriters by SFC or the Trustees (on behalf of the Noteholders), and all such Causes of Action shall be deemed to be Excluded Litigation Trust Claims that are fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred on the Plan Implementation Date.

- (i) Excluded Litigation Trust Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred on the Plan Implementation Date.
- (j) The Underwriters, together with their respective present and former affiliates, partners, associates, employees, servants, agents, contractors, directors, officers, insurers and successors, administrators, heirs and assigns, excluding any Director or Officer and successors, administrators, heirs and assigns of any Director or Officer in their capacity as such, are Named Third Party Defendants.
- (k) Upon delivery of a Monitor's Named Third Party Settlement Certificate and to the extent provided for by the terms of the applicable Named Third Party Defendant Release, the applicable Causes of Action against the applicable Named Third Party Defendant shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled, barred and deemed satisfied and extinguished as against the applicable Named Third Party Defendant.

#### *Document Preservation*

- (l) SFC has document preservation obligations to protect the Underwriters in their defence of the Class Actions.
- (m) Prior to the Effective Time, SFC shall: (i) preserve or cause to be preserved copies of any documents (as such term is defined in the *Rules of Civil Procedure* (Ontario)) that are relevant to the issues raised in the Class Actions; and (ii) make arrangements acceptable to SFC, the Monitor, the Initial Consenting Noteholders, counsel to Ontario Class Action Plaintiffs, counsel to Ernst & Young, counsel to the Underwriters and counsel to the Named Third Party Defendants to provide the parties to the Class Actions with access thereto, subject to customary commercial confidentiality, privilege or other applicable restrictions, including lawyer-client privilege, work product privilege and other privileges or immunities, and to restrictions on disclosure arising from s. 16 of the *Securities Act* (Ontario) and comparable restrictions on disclosure in other relevant

jurisdictions, for purposes of prosecuting and/or defending the Class Actions, as the case may be, provided that nothing in the foregoing reduces or otherwise limits the parties' rights to production and discovery in accordance with the *Rules of Civil Procedure* (Ontario) and the *Class Proceedings Act, 1992* (Ontario).

- (n) The Underwriters will seek discovery rights as against Ernst & Young if the Ernst & Young Settlement of the Class Actions is subsequently approved by the court. The discovery rights the Underwriters will seek will be at least as expansive as those ordered in respect of an earlier settlement of the Class Actions.

#### *Chapter 15 Recognition*

- (o) The Plan contemplates an application for Chapter 15 recognition of the Plan and Sanction Order.
- (p) As promptly as practicable, but in no event later than the third Business Day following the Plan Implementation Date, a foreign representative of SFC (as agreed by SFC, the Monitor and the Initial Consenting Noteholders) shall commence a proceeding in a court of competent jurisdiction in the United States seeking recognition of the Plan and the Sanction Order and confirming that the Plan and the Sanction Order are binding and effective in the United States, and the Foreign Representative shall use its best efforts to obtain such recognition order.

#### *The Ernst & Young Settlement and the Underwriters' Class Action Defence*

- (q) The Plan preserves the Underwriters' right to apportion liability in respect of Ernst & Young's fault as proven in trial or otherwise in the Class Actions.
- (r) To the extent that the Third Party Defendants are found to have any liability, the Underwriters are entitled to seek to have liability apportioned to Ernst & Young to reduce the damages the Underwriters may be required to pay, subject to the limitation on the right of the plaintiffs in the Class Actions to collect any damages from Ernst &

Young in excess of the amount paid by way of the Ernst & Young Settlement. The Underwriters will also require that this be a term of any approval of the Ernst & Young Settlement by the court.

4. On the basis of the foregoing, the Underwriters consent to the granting of the Sanction Order. The Underwriters' position may change if the Plan is amended in any manner prejudicial to their interests.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

David Bish per ATT

David Bish

AS

Adam M. Slavens

Lawyers for the Underwriters  
named in Class Actions

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
(Commercial List)

Proceeding commenced at Toronto

**FACTUM OF THE UNDERWRITERS  
NAMED IN CLASS ACTIONS**  
(motion for a Sanction Order,  
returnable December 7 and 10, 2012)

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Lawyers for the Underwriters  
named in Class Actions



**TAB 12**

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 resiliation, 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 resiliation, 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://cfoanada.fticonsulting.com/sfo> (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, Houlihan 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 "J. A. 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 in black ink, possibly "RM", are written below the date.

## 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. Suri-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

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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 :  
REG NUM : 20040927 1631 1793 0430 REG TYP: P PPSA REG PERIOD: 10  
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 : 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  
10 X X  
11 YEAR MAKE MODEL V.I.N.  
12

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  
 01 CAUTION : 001 OF 1 MV SCHED: 20090720 1614 1793 6085 ..  
 21 REFERENCE FILE NUMBER : 609324408  
 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/TRANSFEE:  
 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

10  
 11  
 12  
 13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR  
 14  
 15  
 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  
01 CAUTION : 001 OF 1 MV SCHED: 20090720 1616 1793 6087  
21 REFERENCE FILE NUMBER : 609324408  
22 AMEND PAGE: NO PAGE: CHANGE: B RENEWAL REN YEARS: 1 CORR PER:  
23 REFERENCE DEBTOR/ IND NAME:  
24 TRANSFEROR: BUS NAME: SINO-FOREST CORPORATION

25 OTHER CHANGE:  
26 REASON:  
27 /DESCR:  
28 :  
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 :

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 :  
01 CAUTION FILING : PAGE : 001 OF 1 MV SCHEDULE ATTACHED :  
REG NUM : 20081203 1055 1793 9576 REG TYP: P PPSA REG PERIOD: 5

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

10	CONS.	GOODS INVTRY.	EQUIP	ACCTS	OTHER	INCL	AMOUNT	DATE OF MATURITY	OR NO FIXED MAT DATE
		X			X				X
11	YEAR MAKE				MODEL		V.I.N.		

12  
GENERAL COLLATERAL DESCRIPTION  
13  
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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 :  
01 CAUTION FILING : PAGE : 001 OF 1 MV SCHEDULE ATTACHED :  
REG NUM : 20090720 1615 1793 6086 REG TYP: P PPSA REG PERIOD: 6

02 IND DOB : IND NAME:  
03 BUS NAME: SINO-FOREST CORPORATION

04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208 OCN :  
CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3

05 IND DOB : IND NAME:  
06 BUS NAME:

07 ADDRESS : OCN :  
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

10 YEAR MAKE X X MODEL V.I.N.

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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 :  
 01 CAUTION FILING : PAGE : 001 OF 1 MV SCHEDULE ATTACHED :  
 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  
 CONS. MV DATE OF OR NO FIXED  
 GOODS INVTRY. EQUIP ACCTS OTHER INCL AMOUNT MATURITY MAT DATE  
 10 X X  
 YEAR MAKE MODEL V.I.N.

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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 (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

00 FILE NUMBER : 665186985 EXPIRY DATE : 15OCT 2020 STATUS :  
 01 CAUTION FILING : PAGE : 001 OF 1 MV SCHEDULE ATTACHED :  
 REG NUM : 20101015 1215 1793 1245 REG TYP: P PPSA REG PERIOD: 10  
 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  
 10 X X  
 YEAR MAKE MODEL V.I.N.

11  
 12

GENERAL COLLATERAL DESCRIPTION

13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR.

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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 :  
01 CAUTION FILING : PAGE : 01 OF 001 MV SCHEDULE ATTACHED :  
REG NUM : 20101117 1007 1462 0113 REG TYP: P PPSA REG PERIOD: 6

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

CONS. MV DATE OF OR NO FIXED  
GOODS INVTRY. EQUIP ACCTS OTHER INCL AMOUNT MATURITY MAT DATE

10 YEAR MAKE X MODEL V.I.N. X

11  
12  
GENERAL COLLATERAL DESCRIPTION

13  
14  
15  
16 AGENT: PPSA CANADA INC. - (3992)

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

Schedule "A"

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**

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Jonathan Bell (LSUC #55457P)  
Tel: 416-863-1200  
Fax: 416-863-1716

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 OF COMPROMISE OR ARRANGEMENT OF SINO-FOREST  
CORPORATION

Court of Appeal File No. M42068  
Commercial List Court File No. CV-12-9667-00CL

***COURT OF APPEAL FOR ONTARIO***

**MOTION RECORD OF THE  
UNDERWRITERS**

(responding to the motion for leave to appeal  
from the Sanction Order)

**VOLUME IV OF IV**

**TORYS LLP**

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Toronto, Ontario M5K 1N2

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Lawyers for the Underwriters