

**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

RESPONDING MOTION RECORD OF SINO-FOREST CORPORATION

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

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ARRANGEMENT OF SINO-FOREST CORPORATION

Applicant

APPLICATION UNDER THE *COMPANIES CREDITORS'*
ARRANGEMENT ACT, R.S.C. 1985, c.C-36, AS AMENDED

**AFFIDAVIT OF W. JUDSON MARTIN
(Sworn January 11, 2013)**

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

1. I am the Vice-Chairman and Chief Executive Officer of Sino-Forest Corporation ("Sino-Forest" or the "Applicant"). I therefore have personal knowledge of the matters set out below, except where otherwise stated. Where I do not possess personal knowledge, I have stated the source of my information and I believe such information to be true.
2. This affidavit is made in support of a motion brought by the Ad Hoc Committee of Purchasers of the Applicant's Securities, including the representative plaintiffs in the Ontario Class Action (collectively, the "Ontario Plaintiffs"), for approval of a settlement (the "Ernst & Young Settlement"), as further defined in the Plan of Compromise and Reorganization of Sino-Forest dated December 3, 2012 (the "Plan"), with Ernst & Young LLP and the release of claims

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against Ernst & Young LLP (the "Ernst & Young Release", the "Ernst & Young Claims" and "Ernst & Young", all as those terms are defined in the Plan).

3. Terms not defined in this affidavit are as defined in my affidavit sworn March 30, 2012 in support of the application for the initial order made in this proceeding, my affidavit sworn August 14, 2012 in support of the filing of a draft plan of compromise and arrangement, and/or my affidavit sworn November 29, 2012 in support of a motion for sanction of the Plan. I adopt and repeat for the purposes of this motion the statements I made in my earlier affidavits. Copies of these three affidavits are attached hereto (without exhibits) as Exhibits "A," "B," and "C" respectively.

4. I have sworn numerous affidavits in this CCAA Proceeding, in my capacity as Vice Chairman and Chief Executive Officer of the Applicant including those referred to above. In addition to my responsibility for the operational and financial affairs of the Applicant, I have been intimately involved in this restructuring, instructing Applicant's counsel (Bennett Jones LLP) and have worked with FTI Consulting Inc. in its capacity as court-appointed Monitor as well as with the Ad Hoc Committee of Sino-Forest Noteholders (the "Noteholders"), and their respective counsel.

5. In addition, I was involved in the formulation and finalization of the Plan ultimately sanctioned by this Court on December 10, 2012 (the "Sanction Order").

6. As I have explained previously, Sino-Forest itself has no operating assets, and its business in standing timber is conducted through its direct and indirect subsidiaries (collectively the "Sino-Forest Subsidiaries"). All of the standing timber assets of the Sino-Forest companies (of which there are many) are held through the Sino-Forest Subsidiaries, as a result of which

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(and notwithstanding that Sino-Forest is the sole CCAA Applicant), the Sino-Forest Subsidiaries and the business they conduct have been central to this restructuring.

7. As I described in my affidavit sworn November 29, 2012, the Plan provides (for the reasons expressed) that substantially all of Sino-Forest's assets, including the shares in the Sino-Forest Subsidiaries, will be transferred (according to the terms of the Plan) to Newco for the benefit of Affected Creditors.

8. This necessarily required that the claims filed pursuant to the Claims Procedure Order made in this CCAA Proceeding be identified and addressed. That is one reason why Sino-Forest requested, and this Court granted, the term of the Claims Procedure Order requiring claimants to identify potential claims against the Sino-Forest Subsidiaries, notwithstanding that Sino-Forest itself was the sole Applicant.

9. I am generally familiar with the most significant claims filed against the Applicant and the directors and officers of Sino-Forest, and in particular the claims of Ernst & Young, the syndicate of underwriters involved in the various debt and equity offerings of Sino-Forest (the "Underwriters") and BDO Limited ("BDO"). Those claims, advanced against Sino-Forest and the Sino-Forest Subsidiaries, individually and in the aggregate, total in the billions of dollars. Those claims had to be addressed as part of this restructuring.

10. As I stated at paragraph 124 of my affidavit sworn November 29, 2012, there could be no effective restructuring of Sino-Forest's business and separation from the Canadian parent (which Sino-Forest has said from the outset was the objective at the commencement of these proceedings) if the claims asserted against the Sino-Forest Subsidiaries arising out of, or

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connected to, claims against Sino-Forest remained outstanding. The Plan provides for the release of claims against the Sino-Forest Subsidiaries.

11. In addition, and as counsel for Sino-Forest has previously submitted to this Court and as has been observed by the court-appointed Monitor, timing and delay were critical factors in this restructuring. I believe that delays and the passage of time negatively impact on the value of Sino-Forest assets and the recovery by stakeholders, and I certainly understand this to be the view of the Noteholders, as has been expressed to me and to Sino-Forest by the Noteholders and their counsel on numerous occasions.

12. Accordingly, it was and remains critical to the success of this restructuring, to the maximization of value and to the preservation of assets that:

- (a) the claims against Sino-Forest and the Sino-Forest Subsidiaries be determined or resolved such that the assets held by the Sino-Forest Subsidiaries were not subject to these contingent claims; and
- (b) that this be achieved as quickly as possible.

13. It was for these reasons, among others, that Sino-Forest, supported by the Noteholders, has continued its efforts to advance this restructuring as soon as possible. Sino-Forest welcomed the initiative by the supervising CCAA Judge, Justice Morawetz, to urge and encourage the principal stakeholders to engage in a constructive dialogue with a view to attempting to resolve disputes on a consensual basis, including the claims against Sino-Forest and the Sino-Forest Subsidiaries.

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14. For these reasons, Sino-Forest welcomed the Mediation Order made in these proceedings and the ensuing mediation, described in my earlier affidavits. As stated above, the Court-ordered mediation involving the parties to the Ontario Class Action, the Noteholders and the Monitor was consistent with the direction and encouragement from the supervising CCAA Judge that the principal stakeholders should focus their efforts on the resolution of claims. As I understand it, this was a continuing theme in these proceedings.

15. While the global mediation conducted by Justice Newbould did not resolve all litigation claims at that time, it did represent the genesis of a substantive dialogue among the key stakeholders and was, I believe, the catalyst for discussions that continued after the conclusion of the formal mediation. Both the global mediation and the subsequent settlement discussions were consistent with the objectives of the Applicant in this restructuring.

16. I understand that Ernst & Young continued discussions with the Ontario Plaintiffs, ultimately resulting in the Minutes of Settlement which define the terms of the Ernst & Young Settlement.

17. Sino-Forest was and remains of the view that the Ernst & Young Settlement is a positive development in this restructuring for the reasons expressed below. As a result, the Applicant was amenable to amending the draft Plan to provide for the mechanics and framework for the Ernst & Young Settlement and the Ernst & Young Release in order that it could be voted on at the meeting of creditors and sanctioned by this Court.

18. In my affidavit sworn November 29, 2012, I discussed the Equity Claims Decision (as defined in that affidavit). Notwithstanding the Equity Claims Decision, I am advised by my counsel, Bennett Jones LLP, and believe that, absent a resolution on terms acceptable to Ernst &

Young, it could and likely would have continued to assert all appeal and other rights in respect of the Equity Claims Decision and in respect of the Sanction Order.

19. The Ernst & Young Settlement provides significant benefit to these CCAA Proceedings:

- (a) Ernst & Young agreed to support the Plan, including the Plan provisions that deal with the Ernst & Young Settlement;
- (b) Ernst & Young's support simplified and accelerated the Plan process:
 - (i) Ernst & Young agreed that its claims against Sino-Forest and the Sino-Forest Subsidiaries are released, which claims were significant as stated above;
 - (ii) The proofs of claim filed by Ernst & Young in these proceedings set out extensive claims that could be asserted directly against the Sino-Forest Subsidiaries. Components of those claims were not expressly addressed in the Equity Claims Decision made by this Court;
 - (iii) Ernst & Young agreed not to seek leave to appeal to the Supreme Court of Canada in respect of the dismissal by the Court of Appeal for Ontario of Ernst & Young's appeal of the Equity Claims Decision;
 - (iv) By agreeing to release all of its claims, Ernst & Young has eliminated:
 - a. The expense and management time otherwise to be incurred in litigating its claims;
 - b. Dilution of the recovery by other creditors if Ernst & Young's

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claims were ultimately resolved in its favour and not subordinated;
and

- c. Potentially extending the timelines to complete the restructuring of Sino-Forest;
- (c) Ernst & Young has agreed not to receive any distributions of any kind under the Plan in respect of Noteholder Class Action Claims, as have the other Third Party Defendants. Without that agreement, the Unresolved Claims Reserve would have materially increased, with the potential for a corresponding dilution of consideration paid to the Affected Creditors; and
- (d) Although the allocation of the settlement funds has yet to be determined, any portion allocated to the equity holders of Sino-Forest will significantly increase the recovery to a class of stakeholders that would not otherwise receive any amount under the Plan.

20. Sino-Forest, the only Applicant in the CCAA Proceeding, is a holding company and its only material assets are the shares of the Sino-Forest Subsidiaries. The release of claims by Ernst & Young assisted in allowing the Sino-Forest Subsidiaries to contribute, unencumbered by claims totalling billions of dollars, their assets to the overall restructuring.

21. For these reasons among others, I believe that the Ernst & Young Settlement contributed in a significant and positive way to the timeliness of the Sanction Order, and ultimately to the implementation of the Plan.

22. I understand that the terms of the Ernst & Young Settlement include the provision of a release in favour of Ernst & Young in respect of all claims related to Sino-Forest. The Plan (as

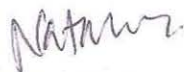
-8-

sanctioned) already includes third party releases in respect of other non-Applicant entities and individuals who have made material contributions to the success of the restructuring, including present and former directors and officers, and the Sino-Forest Subsidiaries.

23. The Plan provides for the mechanics and framework for other third party settlements, should those occur in the future. The inclusion of these provisions in the Plan facilitated the support of the Plan by the Underwriters and withdrawal of objections to the Plan by BDO. From the course of the negotiations over the relevant period I believe that the Ernst & Young Settlement was a catalyst to those other parties withdrawing their objections to the Plan. Ultimately, except for the group of securities holders now opposing the Ernst & Young Settlement, the Plan was approved without opposition.

24. In conclusion, for the reasons described above, the Applicant believes that the Ernst & Young Settlement represented a significant contribution to the Plan and to a successful restructuring, and the Applicant supports the motion for approval of the Ernst & Young Settlement.

SWORN BEFORE ME at the City of Hong Kong, Special Administrative Region, People's Republic of China this day of January, 2013

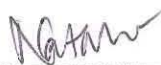


Chan Ching Yee
Solicitor
Reed Smith
Richards Butler
20/F Alexandra House
Hong Kong SAR



W. JUDSON MARTIN

THIS IS EXHIBIT "A" TO
THE AFFIDAVIT OF W. JUDSON MARTIN
SWORN JANUARY 11, 2013



A Commissioner etc.

Chan Ching Yee
Solicitor
Reed Smith
Richards Butler
20/F Alexandra House
Hong Kong SAR

Court File No.

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ARRANGEMENT OF SINO-FOREST CORPORATION

**AFFIDAVIT OF W. JUDSON MARTIN
(Sworn March 30, 2012)**

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

1. I am the Vice-Chairman and Chief Executive Officer of Sino-Forest Corporation ("SFC"). I therefore have personal knowledge of the matters set out below, except where otherwise stated. Where I do not possess personal knowledge, I have stated the source of my information and I believe such information to be true.

2. This affidavit is sworn in support of an application by SFC for an initial order (the "Initial Order") pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA"), a sale process order (the "Sale Process Order") and other requested relief. In preparing this affidavit, I have consulted with other members of SFC's senior management team and, where necessary, members of the senior management teams of certain of SFC's subsidiaries.

3. All references to dollar amounts contained in this affidavit are to United States Dollars unless otherwise stated.

I. OVERVIEW

4. SFC is a Canadian corporation and is the direct or indirect parent of approximately 140 subsidiaries, the majority of which are incorporated in the People's Republic of China (the "PRC"). The terms "Sino-Forest Companies" and "Sino-Forest" refer to the global enterprise as a whole (but, for greater certainty, do not include the Greenheart Group, defined below).

5. Sino-Forest is a major integrated forest plantation operator and forest products company. Its principal businesses include the ownership and management of plantation forests, the sale of standing timber and wood logs, and the complementary manufacturing of downstream engineered-wood products. The majority of Sino-Forest's plantations are located in the southern and eastern regions of the PRC, primarily in inland regions suitable for large-scale replanting.

6. Sino-Forest's business operations are mainly in the PRC with corporate offices in Hong Kong and Ontario, Canada.

7. On June 2, 2011, Muddy Waters, LLC ("Muddy Waters"), which held a short position on SFC's shares, published a report (the "MW Report") alleging that Sino-Forest, among other things, was a "near total fraud" and a "Ponzi scheme." SFC's board of directors (the "Board") appointed an independent committee (the "IC") to investigate the Muddy Waters allegations.

8. While the IC has been able to address certain of the allegations made by Muddy Waters, the MW Report has had a ripple effect in causing substantial damage to SFC, its business, and future prospects for viability. As part of the fallout from the MW Report, (i) SFC now finds

itself embroiled in multiple class action proceedings across Canada and in the U.S., (ii) SFC is the subject of Ontario Securities Commission ("OSC"), Hong Kong Securities and Futures Commission ("HK.SFC"), and Royal Canadian Mounted Police ("RCMP") investigations, and (iii) SFC's Audit Committee recommended, and the Board agreed, that SFC should defer the release of SFC's third quarter 2011 financial statements (the "Q3 Results") until certain issues could be resolved to the satisfaction of the Board and SFC's external auditor

9. Significantly, SFC's inability to file its Q3 Results resulted in a default under its note indentures, which could have resulted in the acceleration and enforcement of approximately \$1.8 billion in notes issued by SFC and guaranteed by many of its subsidiaries,

10. Following extensive discussions with an ad hoc committee of noteholders (the "Ad Hoc Noteholders"), holders of a majority in principal amount of SFC's senior notes agreed to waive the default arising from SFC's failure to release the Q3 Results on a timely basis, on certain terms and conditions that were set forth in waiver agreements between certain of the noteholders and SFC, which were made publicly available on January 12, 2012 and are attached as Exhibit "A".

11. While the waiver agreements prevented the indenture trustees under the relevant note indentures from accelerating and enforcing the note indebtedness as a result of SFC's failure to file its Q3 Results, those waiver agreements will expire on the earlier of April 30, 2012 and any earlier termination of the waiver agreements in accordance with their terms. In addition, SFC's pending failure to file its audited financial statements for its fiscal year ended December 31, 2011 (the "2011 Results") by March 30, 2012 will again put the indenture trustees in a position

to accelerate and enforce the bond indebtedness, creating additional uncertainty around Sino-Forest's business.

12. SFC has made considerable efforts to address issues identified by SFC's Audit Committee and the IC and by its external auditor, Ernst & Young LLP, as requiring resolution in order for SFC to be in a position to obtain an audit opinion in relation to its 2011 financial statements.

13. However, notwithstanding SFC's best efforts, many of these issues cannot be resolved to the satisfaction of SFC's auditor or cannot be resolved within a timeframe that would protect and preserve the value of the business, and that would allow SFC to comply with its obligations under its note indentures. Therefore, absent a resolution with the noteholders, the indenture trustees would be in a position to enforce their legal rights as early as April 30, 2012.

14. Following extensive arm's length negotiations between SFC and the Ad Hoc Noteholders, the parties agreed on the framework for a consensual resolution of SFC's defaults and the restructuring of its business, and entered into a support agreement (the "Support Agreement") on March 30, 2012, which was executed by holders of SFC's notes holding approximately 40% of the notes. The Support Agreement contemplates, and in fact provides an incentive for, additional noteholders becoming party to the Support Agreement by way of joinder agreements. Accordingly, I fully expect that noteholders holding more than 50% of each series of notes will ultimately sign up to the Support Agreement.

15. The Support Agreement provides that SFC will pursue a plan of arrangement or compromise (the "Plan") on the terms set out in the Support Agreement in order to implement the agreed-upon restructuring transaction as part of this CCAA proceeding which would, among other things, (i) see SFC's business operations conveyed to, and revitalized under, a new entity to

be owned primarily by the noteholders ("SF Newco"), (ii) provide stakeholders of SFC with claims ranking behind the noteholders (the "Junior Constituents") with certain participation rights in SF Newco, and (iii) create (and provide funding for) a framework for the prosecution of certain litigation claims for the benefit of certain of SFC's stakeholders. The agreement also provides that each noteholder that is a signatory thereto (the "Consenting Noteholders") will vote its notes in favour of the Plan at any meeting of creditors.

16. The Support Agreement further provides that SFC will undertake a sale process (the "Sale Process") in accordance with the sale process procedures (the "Sale Process Procedures") which have been developed in consultation with the proposed monitor, and have been accepted by the parties to the Support Agreement.

17. The Sale Process is intended to provide a "market test" by which third parties may propose to acquire Sino-Forest's business operations through a CCAA Plan (in a manner that would under certain scenarios potentially allow Junior Constituents to share in the proceeds of a sale even though the noteholders may not be paid in full) as an alternative to the SF Newco restructuring transaction between SFC and its noteholders, described above.

18. A redacted copy of the Support Agreement (redacted to preserve confidentiality of the parties only) is attached as Exhibit "B" and will be posted on SEDAR and the proposed monitor's website at <http://cfcanafticonsulting.com/sfc>.

19. As described in greater detail below, SFC's business operations are primarily in the PRC and are held by SFC through intermediate holding companies incorporated (for the most part) in either the British Virgin Islands ("BVI") or Hong Kong. Most of these intermediate holding companies are guarantors of SFC's note indebtedness.

20. As further described below, as a result of the uncertainty created by the MW Report, Sino-Forest's business has been severely curtailed, and Sino-Forest's ability to grow its business has been severely reduced. Therefore, SFC now needs to be restructured in order to continue the development of the business and unlock the value of its asset base for the benefit of its stakeholders. Further, although the PRC government has been generally cooperative and encouraging of Sino-Forest to date, it has expressed increasing concern as to the future of Sino-Forest in the PRC. As discussed below, the ongoing support and relationship with the PRC government (on all levels) is crucial to Sino-Forest's operations.

21. Among other things, the Sino-Forest Companies are (i) having a difficult time maintaining existing and obtaining new credit in the PRC to help fund the PRC-based business operation and in Hong Kong for the imported log trading business, (ii) making very few purchases of new timber (and therefore not expanding their asset base), (iii) finding it difficult to collect their accounts receivables, and (iv) receiving increasing demands on their accounts payable. I believe that, if Sino-Forest's business is to be saved in a manner beneficial to SFC's stakeholders, it is imperative that SFC take steps to demonstrate that Sino-Forest's business is being separated from the uncertainty created by the MW Report.

22. Accordingly, and for the reasons set out herein, the commencement of a restructuring and the Sale Process is urgently required and should be pursued to preserve SFC's business as a going concern and thus the inherent value of the enterprise.

23. This application has been authorized by the Board.

II. PERSONAL BACKGROUND

24. I began my career with PricewaterhouseCoopers in 1979. In 1982 I joined Trizec Corporation Ltd. ("Trizec"), a Toronto Stock Exchange ("TSX") listed commercial real estate company then controlled by the Brascan Group. During my 13 years with the group of companies controlled by the Brascan Group, I held several senior positions, including Vice President, Finance and Treasurer of Trizec, Executive Vice President and Chief Financial Officer of Brookfield Development Corporation, and President and CEO of Trilon Securities Corporation.

25. After leaving the Brascan Group, I joined MDC Corporation, where my positions included Senior Executive Vice President, Chief Financial Officer and Chief Operating Officer, and a member of the company's board of directors.

26. In 1999, I was appointed Senior Executive Vice President and Chief Financial Officer of Alliance Atlantis Communications Inc. ("Alliance Atlantis"), then Canada's leading entertainment and broadcasting company that was then listed on the TSX and on the NASDAQ. I ceased to be an executive and employee of Alliance Atlantis in 2005 due to health reasons and thereafter acted as a consultant to Alliance Atlantis until 2007.

27. I have been a director of SFC since 2006. I joined the Board in 2006 as an independent, external director. I was appointed Lead Director in 2007, a position I held until June 2010, when I became an employee of SFC responsible for its acquisition of Greenheart Group Limited (Bermuda) ("Greenheart") and its subsidiaries (collectively, the "Greenheart Group"). At that time I became Executive Vice-Chairman of SFC and, following SFC's acquisition of a majority interest in Greenheart in August 2010, I became the CEO and an Executive Director of

Greenheart and in 2011 was appointed Chairman of Greenheart. On August 26, 2011, I was appointed as CEO of SFC. I have lived and worked out of Hong Kong since becoming an employee of SFC in 2010.

III. SINO-FOREST CORPORATION

A. Overview

28. SFC was formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsage Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. The articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to SFC's class A subordinate-voting shares and SFC's class B multiple-voting shares.

29. On June 25, 2002, SFC filed articles of continuance to continue under the *Canada Business Corporations Act* (the "CBCA"). On June 22, 2004, SFC filed articles of amendment whereby its class A subordinate-voting shares were reclassified as common shares and its class B multiple-voting shares were eliminated. A copy of the articles of continuance referred to above is attached as Exhibit "C".

30. Subject to paragraph 31 below, copies of all SFC financial statements prepared during the year preceding the application for the Initial Order are attached as Exhibit "D". In considering these financial statements, the Court should be aware that SFC cautioned in a January 10, 2012 press release, a copy of which is attached as Exhibit "E", that its historic financial statements (upon which portions of this affidavit are based) and related audit reports should not be relied upon. The circumstances giving rise to the press release are discussed below.

31. Attached as Exhibit "F" is a copy of the management-prepared unaudited financial statements for the third quarter of 2011. These statements have not been approved by SFC's Audit Committee or the Board and are subject to the limitations described in the January 10, 2012 press release. Moreover, they have not been subject to the same level of internal and external review and analysis as SFC's prior annual audited and quarterly financial statements. These financial unaudited statements have not previously been publicly disclosed.

32. Sino-Forest is a publicly listed major integrated forest plantation operator and forest products company, with assets predominantly in the PRC. Its principal businesses include the sale of standing timber and wood logs, the ownership and management of forest plantation trees, and the complementary manufacturing of downstream engineered-wood products. As at December 31, 2010, Sino-Forest reported approximately 788,700 hectares of forest plantations under management, located primarily in the southern and eastern regions of the PRC.

33. In addition, SFC holds an indirect majority interest in Greenheart, a Hong Kong listed investment holding company, which, together with its subsidiaries, as at March 31, 2011, owned certain rights and managed approximately 312,000 hectares of hardwood forest concessions in the Republic of Suriname ("Suriname") and 11,000 hectares of a radiata pine plantation on 13,000 hectares of freehold land in New Zealand.

34. While Greenheart is an indirect subsidiary of SFC, it has its own distinct operations and financing arrangements and is not party to or a guarantor of the notes issued by SFC. Greenheart Group and SFC operate out of separate office buildings in Hong Kong.

35. Greenheart Group was not implicated in the allegations made against Sino-Forest by Muddy Waters on June 2, 2011, discussed below. As such, the Greenheart Group and matters

relating thereto are not intended to be affected by or included in this proceeding. Greenheart Group has nevertheless been impacted by the allegations made against Sino-Forest. Among other things, Greenheart Group has previously relied on funding from SFC and could be negatively impacted if SFC's business ceases to operate as a going concern. This in turn could negatively impact the value of SFC's investment in Greenheart.

36. Since 1995, SFC has been a publicly listed company on the TSX with its shares traded under the symbol "TRE". SFC's registered office is in Mississauga, Ontario and its principal executive office is in Hong Kong. Two of SFC's senior financial officers reside in Ontario, as do three of its external directors.

37. SFC has issued four series of notes which have a combined principal amount outstanding of approximately \$1.8 billion. Two of the series of notes are supported by guarantees from 64 of SFC's subsidiaries (none of which are incorporated in the PRC), and the other two series of notes are supported by guarantees from 60 of those same subsidiaries and share pledges from 10 of those same subsidiaries.

38. Certain other Sino-Forest Companies have their own distinct banking facilities which are not intended to be affected by or included in this proceeding. In particular, none of the subsidiaries incorporated in the PRC are party to or guarantors of SFC's notes and are not intended to be affected by or included in this proceeding.

B. Corporate Structure

39. SFC is the sole shareholder of Sino-Panel Holdings Limited (incorporated in the BVI), Sino-Global Holdings Inc. (incorporated in the BVI), Sino-Panel Corporation (incorporated in Canada), Sino-Wood Partners Limited (incorporated in Hong Kong), Sino-Capital Global Inc.

(incorporated in the BVI), and Sino-Forest International (Barbados) Corporation (incorporated in Barbados). SFC also holds all of the preference shares of Sino-Forest Resources Inc. (incorporated in the BVI). Some of these subsidiaries have further direct and indirect subsidiaries. A copy of the Sino-Forest corporate organization chart is attached as Exhibit "G" (which includes certain major subsidiaries of Greenheart).

40. A total of 137 entities make up the Sino-Forest Companies: 67 PRC incorporated entities (with 12 branch companies), 58 BVI incorporated entities, 7 Hong Kong incorporated entities, 2 Canadian entities and 3 entities incorporated in other jurisdictions. A list of all subsidiaries with addresses is attached as Exhibit "H" (which does not include subsidiaries of Greenheart, but does contain Sino-Forest branch companies).

C. Capital Structure

1. Equity

41. The authorized share capital of SFC consists of an unlimited number of common shares and an unlimited number of preference shares issuable in series. Each holder of common shares is entitled to one vote at meetings of shareholders other than meetings of the holders of another class of shares.

42. Each holder of common shares is also entitled to receive dividends if, as and when declared by the Board. Holders of common shares are also entitled to participate in any distribution of net assets upon liquidation, dissolution or winding-up on an equal basis per share. There are no pre-emptive, redemption, retraction, purchase or conversion rights attaching to the common shares.

43. As at June 30, 2011, a total of 246,095,926 common shares were issued and outstanding. No preference shares have been issued.

2. Debt

44. SFC has issued four series of notes which remain outstanding. The four series of notes mature at various times between 2013 and 2017. The note indenture for each series of notes provides that it is governed by New York law. Each note indenture contains a "no suits by holders" clause. Other than the debt outstanding under the notes, SFC does not have any significant levels of normal course payables.

(a) 2017 Senior Notes

45. On October 21, 2010, SFC issued guaranteed senior notes in the principal amount of \$600 million. These notes mature on October 21, 2017, and interest is payable semi-annually, on April 21 and October 21, at a rate of 6.25% per annum. These notes are listed on the Singapore Stock Exchange and are supported by guarantees from 60 subsidiaries of SFC and share pledges from 10 of those same subsidiaries. A copy of the relevant indenture is attached as Exhibit "I".

(b) 2016 Convertible Notes

46. On December 17, 2009, SFC issued convertible guaranteed notes in the principal amount of \$460 million. These notes mature on December 15, 2016, and interest is payable semi-annually, on June 15 and December 15, at a rate of 4.25% per annum. These notes are supported by guarantees from 64 subsidiaries of SFC. A copy of the relevant indenture is attached as Exhibit "J".

(c) 2014 Senior Notes

47. On July 27, 2009, SFC issued guaranteed senior notes in the principal amount of \$399,187,000. These notes mature on July 28, 2014, and interest is payable semi-annually, on January 26 and July 26, at a rate of 10.25% per annum. These notes are listed on the Singapore Stock Exchange and are supported by guarantees from 60 subsidiaries of SFC and share pledges from 10 of those same subsidiaries. A copy of the relevant indenture is attached as Exhibit "K".

(d) 2013 Convertible Notes

48. On July 23, 2008, SFC issued convertible guaranteed notes in the principal amount of \$345 million. These notes mature on August 1, 2013, and interest is payable semi-annually, on February 1 and August 1, at a rate of 5% per annum. These notes are supported by guarantees from 64 subsidiaries of SFC. A copy of the relevant indenture is attached as Exhibit "L".

49. In addition to the four series of notes issued by SFC, many of SFC's subsidiaries (including the Greenheart Group and many of those incorporated in the PRC) have their own distinct banking facilities, including lending facilities, which are not intended to be affected by this proceeding.

D. The Business Model**1. Plantation / Timber Rights in the PRC**

50. There are four types of rights associated with plantations in the PRC, namely (i) plantation land ownership, (ii) plantation land use rights, (iii) timber ownership, and (iv) timber use rights. All of these are separate rights and can be separately owned by different parties.

51. Generally, private enterprises cannot own plantation land in the PRC but may hold plantation land use rights for a specified duration (up to 70 years but typically 30 to 50 years), timber ownership and timber use rights. However, foreign enterprises cannot acquire land use rights and can instead only acquire timber ownership or timber use rights.

52. The various rights associated with plantations in the PRC and the limitations on which entities can hold which rights were the driving forces behind Sino-Forest's complex business models discussed below.

53. For its timber business in the PRC, Sino-Forest utilizes two models, one involving BVI entities ("BVIs"), and the other involving subsidiaries incorporated in the PRC as wholly foreign owned enterprises ("WFOEs").

2. The BVI Model

54. Until 2004, due to restrictions on foreign companies carrying on business in the PRC, and foreign ownership restrictions on land ownership and use rights, the BVI structure was the model primarily used by Sino-Forest for its forestry business in the PRC. Sino-Forest has established 58 BVI companies, 55 of which are guarantors of at least certain of SFC's notes. Not all of these BVIs are involved in the BVI model or standing timber business. Of the 58, there are 20 involved in the BVI standing timber business while the remaining BVIs are either holding companies or used in Sino-Forest's log trading business.

55. The Sino-Forest BVI entities involved in the standing timber business acquire standing timber from suppliers. The suppliers are usually aggregators who acquire the standing timber and, typically, land use rights from other suppliers or from original timber owners, such as villagers or collectives, or from smaller aggregators. As non-PRC companies, the BVIs could

not and did not acquire land use rights in the PRC, and instead only acquired the rights to timber in the PRC pursuant to the relevant standing timber purchase contracts.

56. Due to restrictions under PRC laws, foreign companies are not permitted to conduct business in the PRC without business licenses granted by competent governmental authorities. Therefore, the Sino-Forest BVI entities do not sell standing timber directly to customers. Instead, for historical and commercial reasons, they conduct the sale of standing timber through "authorized intermediaries" ("AIs", which are also called "entrusted sales agents" in the BVI model) pursuant to "entrusted sales agreements". The AIs serve as Sino-Forest's customers under the BVI model of its standing timber business.

57. Pursuant to the entrusted sales agreements entered into with the AIs, the AIs are obliged to deduct and remit all of the applicable taxes on behalf of Sino-Forest. Sino-Forest is not, however, in a position to know whether or not the AIs have in fact remitted applicable taxes on behalf of Sino-Forest.

58. As at June 30, 2011, Sino-Forest therefore accumulated and recognized a provision, based on a probability-weighted average of the amounts that the PRC tax authorities might seek to recover under various scenarios, of \$204,722,000 in its reported financial results to account for this potential tax liability. The method used to calculate this provision is explained at note 18 of SFC's 2011 second quarter financial statements, which were previously attached. A similar provision was included in SFC's 2010 Audited Financial Statements and was audited by SFC's external auditors.

59. BVIs are not allowed to have bank accounts in the PRC and money flowing in and out of the PRC is strictly controlled through foreign exchange controls. As a result, the Sino-Forest

BVI entities do not directly pay the suppliers or receive payments from the AIs. Instead, they are instructed to make set-off payments under which, pursuant to the instructions of Sino-Forest, AIs directly or indirectly make payments directly or indirectly to Sino-Forest's suppliers for amounts owed by Sino-Forest BVI entities to those suppliers. As a result, no cash actually flows directly through the BVIs. SFC then receives confirmations from the suppliers confirming that payments have been made.

60. The BVI structure is the central driver of asset value, revenue and income for Sino-Forest. As at December 31, 2010, it accounted for \$2.476 billion of book value (466,826 hectares of timber assets, representing approximately 59.2% of Sino-Forest's timber holdings by area and 89.2% of its timber holdings by book value), \$1.326 billion in revenue (representing approximately 70% of Sino-Forest's revenue), and approximately \$622 million of gross profit (representing approximately 92.6% of Sino-Forest's gross profits) for the year then ended.

61. The cashless nature of the BVI model means that Sino-Forest cannot obtain cash from its operations or monetize its assets without engaging in the complicated on-shoring process which is discussed further below. Furthermore, the set-off payment system necessitated by the BVI model impaired the IC's efforts to verify the flow of funds during its investigation.

3. The WFOE Model

62. Commencing in 2004, the PRC's Ministry of Commerce permitted foreign investors to invest in PRC-incorporated trading companies and to participate in most areas of the commodity distribution industry, including the purchase of standing timber and land use rights throughout the PRC. Prior to this time, WFOEs were prohibited from engaging in the commodity distribution industry.

63. Since 2004, almost all of Sino-Forest's new capital invested in timber assets has been employed through the WFOE model (as opposed to the BVI model).

64. Unlike BVIs, WFOEs can acquire land use rights or land leases as well as standing timber rights, and can have bank accounts in the PRC. Because of the WFOEs' direct presence in the PRC, they can also obtain financing from PRC banks to finance their operations. WFOEs can log the timber and sell both logs and standing timber to end customers, which means they do not need (and do not use) AIs. The WFOEs directly pay the suppliers for the standing timber and directly receive payment from end customers instead of utilizing the set-off arrangement used by Sino-Forest's BVI entities in the BVI model.

65. As at December 31, 2010, Sino-Forest's WFOEs held approximately 244,000 hectares of purchased plantations (representing approximately 30.9% of Sino-Forest's timber holdings by area) and 77,700 hectares of planted plantations (representing approximately 9.9% of Sino-Forest's timber holdings by area). Purchased plantations and planted plantations are discussed in further detail below. The WFOE standing timber assets accounted for approximately 10.8% of Sino-Forest's timber holdings by book value, and represented approximately \$298.6 million of book value, \$74 million in revenue, and \$10 million of income for the 2010 year before the allocation of corporate overhead.

66. None of Sino-Forest's WFOEs are guarantors of SFC's notes, nor have their shares been pledged by their BVI parents.

4. On-shoring Plan

67. Given the inherent problems with the BVI structure and the relative advantages of the WFOE structure, Sino-Forest has explored various methods of migrating or "on-shoring" its BVI

timber assets into WFOE structures. The successful transition of assets from a BVI structure to a WFOE structure has many merits including, significantly, providing a foreign parent an ability to have direct access to the cash generated from the sale of BVI timber assets.

68. The on-shoring process is expected to be a multi-year process due to (i) the volume of assets that need to be moved into the WFOE model, (ii) the large number of different locations in which Sino-Forest has timber assets in the PRC, (iii) the likely multiple rounds of negotiations required with the various stakeholders in each location, and (iv) SFC's limited resources.

E. Operations

69. Sino-Forest's operations are comprised of three core business segments. Wood fibre operations and log trading are the primary revenue contributors, while manufacturing and other operations enhance the value of the fibre operations by producing downstream products.

1. Wood Fibre Operations

70. Sino-Forest's wood fibre operations consists of acquiring, cultivating and selling standing timber or logs from purchased and planted plantations in nine provinces across the PRC.

71. Sino-Forest's upstream wood fibre operations generate the majority of its revenue, accounting for 96.4% of total revenue in the year ended December 31, 2010. Most of the standing timber and logs sold by Sino-Forest come from Sino-Forest's tree plantations, located primarily in the southern and eastern regions of the PRC.

72. Sino-Forest operates plantations for the wood fibre operations using two principal business models: purchased and planted, each of which is explained in greater detail below. The purchased plantation model operates through two legal structures: the BVI/AI legal structure

and, to a lesser but growing extent, the WFOE legal structure. The planted plantations model is operated exclusively through the WFOE legal structure, although the WFOEs themselves are typically held indirectly through a BVI holding structure. Many foreign investors, including well known multi-national companies, hold their investments in the PRC in special purpose vehicles established overseas in jurisdictions with a familiar and internationally accepted system of corporate governance. For example, over 75% of blue chip companies listed on the Hong Kong Stock Exchange (Hang Seng Index constituent stocks excluding the Finance Sub-Index) utilize BVI holding structures, including for their investments in the PRC.

(a) Purchased Plantation Model

73. The purchased plantation model under the BVI/AI legal structure involves the purchase of standing timber and sale of standing timber pursuant to standardized timber purchase agreements and "entrusted sale agreements". The standing timber purchased is generally on land owned by collectives or villages, not PRC state-owned land. When conducted through the BVI/AI legal structure, of which 20 BVIs hold all of the BVI timber assets, the timber purchases are arranged through suppliers.

74. The BVI structure does not involve the BVIs concurrently purchasing land use rights or leases with the purchase of standing timber, as the BVIs cannot legally acquire land use rights. However, the BVIs' supply contracts typically contain a right of first refusal for the BVIs to acquire, or nominate an affiliate to acquire, the plantation land use rights after the timber has been harvested. Despite such common contractual provisions, such right has rarely, if ever, been exercised.

75. The BVIs do not sell standing timber directly to customers. They sell under contract to the AI (customer) who usually resells the standing timber to its own customers. The BVIs' timber sales accounts receivables are settled by the AI making payments to suppliers (directly or indirectly to other parties on their behalf) on behalf of Sino-Forest. The AI does not pay the same supplier for the same trees it is selling to its customers. It pays a supplier for trees newly purchased by Sino-Forest from that supplier. These payments made by way of set-off enable the BVIs to acquire further standing timber from suppliers, which is matured and later sold. All BVI purchases are funded through the set-off mechanism using accounts receivable owed to Sino-Forest. This is a recognized legal structure in the PRC.

76. WFOEs are also engaged in the purchase and sale of standing timber. When conducted through a WFOE, purchases of standing timber are sometimes accompanied by concurrently obtaining plantation land use rights or leases (which are purchased plantations). WFOE standing timber transactions do not involve payments by way of set-off. They are conducted on a direct fund transfer basis.

77. In both the BVI and WFOE structure, the purchase price of the trees takes into account a variety of factors such as the trees' species, yield, age, size, quality and location. Other considerations include soil and weather conditions for replanting, log prices, and regional market location and demand. Sino-Forest does not typically need to conduct extensive plantation management work with respect to the trees growing on the purchased plantations, but does take measures to ensure that the trees are protected from pests, disease and theft.

78. SFC's approach is to purchase plantations in remote parts of the PRC that the PRC government has identified in its five year plans as being areas for future development. As a result, physical access to the plantations is often very challenging.

79. As at December 31, 2010, the purchased plantations under Sino-Forest management in the PRC consisted of approximately 711,000 hectares. These plantations consisted of a diverse mix of tree species, predominantly pine, Chinese fir and eucalyptus. Purchasing trees allows Sino-Forest to quickly expand its plantation portfolio geographically, as well as its inventory of harvestable fibre and leasable land.

(b) Planted Plantation Model

80. The planted plantation model is conducted by WFOEs, and involves obtaining plantation land use rights, sometimes with standing timber and sometimes as bare land suitable for planting. Sales from these planted plantations do not utilize the AI model but rather generally involve direct fund transfers to and from the WFOEs' suppliers and customers. As of December 31, 2010, SFC's planted plantations in the PRC operated through WFOEs comprised approximately 77,700 hectares.

81. Sino-Forest leases suitable land on a long-term basis, typically 30 to 50 years, and applies scientifically advanced seedling technology and silviculture techniques to improve tree growth. The mature trees are sold as standing timber or as harvested logs, and then Sino-Forest replants the land with seedlings.

82. Sino-Forest's operating model allows for the sale of fibre either as standing timber or harvested logs, depending on its customers' preferences and market demand.

83. Sino-Forest's planted plantations consist primarily of eucalyptus trees, a fast-growing high yielding species. According to the seventh five-year National Forest Inventory released by the State Forestry Administration (2004 to 2008), it is estimated that the PRC has 195 million hectares of forest resources, with approximately 120 million hectares of natural forest and 62 million hectares of plantation forest. The density of its total forest area was only 70 cubic metres per hectare in the PRC.

84. The PRC government encourages the development of the plantation industry in the PRC. In June 2003, the PRC State Council promulgated "The Notice on the Decision to Speed Up the Development of Plantation Industry". Subsequently, in August 2007, "The Key Elements of the Policies in Forestry Industry" was jointly promulgated by seven ministries including the State Forestry Administration, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, State Administration of Taxation, China Banking Regulatory Commission and China Securities Regulatory Commission to develop the non-state owned plantation industry, and to encourage the participation of foreign investors in the plantation industry, either solely or jointly with others.

85. The planted plantation model is generally viewed more favourably by the PRC government because it demonstrates a long-term commitment to the forestry business. That long-term commitment is very important from the perspective of the PRC government in light of the fact that demand for wood fibre in the PRC is approximately double that of available supply.

2. Log Trading Operations

86. Sino-Forest's operations in the trading of wood logs includes the sourcing of wood logs and wood-based products from the PRC and globally, and selling them in the domestic PRC market.

87. These wood-based products consist primarily of large diameter logs, sawn timber, veneers and other wood-based products sourced from the PRC, Thailand, Suriname, Papua New Guinea, Brazil, Vietnam, Russia and New Zealand. In these transactions, Sino-Forest purchases wood-based products that correspond to the requirements of wood dealers, and sells directly to these dealers. Sino-Forest's customers in these transactions are primarily wood dealers in the PRC.

3. Manufacturing and Other Operations

88. Sino-Forest currently has manufacturing operations in six provinces in the PRC that produce various wood-based products. In addition, Sino-Forest has greenery and nursery operations based in Jiangsu Province, which were established to source, supply and manage landscaping products for property developers and other organizations.

89. In order to maximize and increase the value of Sino-Forest's forestry products, Sino-Forest has been investing in research and development ("R&D"). On January 12, 2010, Sino-Forest announced its acquisition of HOMIX LIMITED ("HOMIX") in order to enhance its R&D portfolio. HOMIX has an R&D laboratory and two engineered-wood production operations based in Guangdong and Jiangsu provinces, covering eastern and southern PRC wood product markets. HOMIX develops a number of new technologies suitable for domestic plantation logs including poplar and eucalyptus species. HOMIX specializes in curing, drying and dyeing methods for engineered-wood and has the know-how to produce recomposed wood products and laminated veneer lumber. Recomposed wood technology is considered to be environmentally friendly and versatile, as it uses fibre from forest plantations, recycled wood and/or wood residue.

90. The goal of Sino-Forest's R&D efforts has been to improve tree plantation yields and the quality of the trees grown on Sino-Forest's plantations. While performing R&D activities, Sino-Forest from time to time collaborates with, and receives assistance from, research and academic institutions in the PRC. Sino-Forest's R&D efforts are viewed very positively in the PRC as they also demonstrate a long-term commitment to the forestry business in the PRC and can help address the significant shortage of wood fibre in the PRC.

F. Sales

91. Substantially all of Sino-Forest's sales are generated in the PRC. In the year ended December 31, 2010, sales to customers in the PRC were \$1.8723 billion and sales to customers located in other countries were \$51.3 million. In the year ended December 31, 2010, sales to customers in the PRC of standing timber, logs and other wood-based products accounted for substantially all of Sino-Forest's revenue.

G. Suppliers

92. Logs and wood-based products supplied through Sino-Forest's trading activities are sourced primarily from suppliers outside the PRC. These products are also sourced for Sino-Forest trading activities from overseas, primarily from Thailand, Suriname, Papua New Guinea, Brazil, Vietnam, Russia and New Zealand. The credit terms granted by suppliers of these products generally range from one to three months on open account and by letters of credit. Standing timber is sourced primarily from local suppliers in the PRC.

93. As discussed above, the PRC based suppliers are usually aggregators who acquire standing timber and/or land use rights from other suppliers or from original timber owners such as villagers or collectives who have certified title to the land.

H. Employees

94. SFC currently has 3 employees. Collectively, the Sino-Forest Companies employ a total of approximately 3553 employees, with approximately 3460 located in the PRC and approximately 90 located in Hong Kong. The Greenheart Group employs an additional approximately 273 employees.

I. Assets & Liabilities

95. The unconsolidated book values of SFC's assets and liabilities as at June 30, 2011 are listed below.¹ However, given that, as described below, SFC is in default under the notes and the indenture trustees would be in a position to accelerate and enforce on the notes but for the waiver agreements (subject to sending the appropriate notices and the cure period expiring), I have categorized the full amount of the notes (including the non-current portion and the derivative financial instrument, as opposed to just the current portion) as a current liability below.

<u>Current Assets</u>		<u>Current Liabilities</u>	
Cash and cash equivalents ²	\$5,676,040	Notes (current portion)	\$87,670,000
Prepayments ³	\$1,173,553	Notes ⁴ (non-current)	\$1,541,744,429
Other Receivables ⁵	\$188,575	Notes Derivative Financial Instrument	\$31,858,210
Due from Intercompany ⁶	<u>\$109,813,620</u>	Trade Payable	\$2,202
		Others Payable	\$231,723
		Accrued Liabilities	\$39,687,268
		Due to Intercompany	<u>\$1,818,313</u>
Total Current Assets	\$116,851,788	Total Current Liabilities	\$1,703,012,145

¹ The chart only reflects the assets and liabilities of SFC, and therefore does not accord with the consolidated quarterly financial results for the second quarter ended June 30, 2011.

² Mainly represents cash on hand, cash at bank and short-term deposits with a maturity of three months or less.

³ Mainly represents prepaid legal and professional fees and insurance.

⁴ The Notes (current portion), Notes (non-current) and Notes Derivative Financial Instrument do not equate on this balance sheet to approximately \$1.8 billion (the face value of the notes) due to the accounting treatment of financing costs and the carrying value of the convertible notes.

⁵ Mainly represents HST receivables, staff advances and deposits.

⁶ Non-interest bearing with no fixed date of repayment.

<u>Non-Current Assets</u>		<u>Non-Current Liabilities</u>	
Property, Plant & Equipment ⁷	\$1,166	Intercompany Loans	<u>\$235,000,000</u>
Investment in Subsidiaries ⁸	\$1,589,153,984		
Intercompany Loans ⁹	<u>\$1,582,781,672</u>		
Total Non-Current Assets	\$3,171,936,822	Total Non-Current Liabilities	\$235,000,000
Total Assets	\$3,288,518,610	Total Liabilities	\$1,938,012,145

96. With respect to the assets, while they reflect an accurate implementation of the relevant accounting policies, I do not believe that the book values of the assets reflect the realizable value of those assets for a number of reasons, including the complexities associated with the business, the significant amount of intercompany loans owing to SFC, and the costs and potential PRC tax liabilities that may be payable if the assets were realized on. SFC is not able to simply monetize its assets in the short term in order to satisfy its obligations under the notes as a result of, among other things, the hard to quantify potential PRC tax liability previously discussed at paragraph 58 above and the stringent currency exchange controls in the PRC.

97. As discussed above, Sino-Forest is not in a position to know whether or not the AIs have in fact remitted applicable taxes on behalf of Sino-Forest. Although Sino-Forest recognized a provision as at June 30, 2011 of \$204,722,000 in its reported financial results to account for this potential tax liability, I am advised by SFC's counsel in the PRC, Ching Wo Ng at King & Wood Mallesons, that the amount of the tax liabilities under PRC law arising from the operation of the BVIs could be significantly higher if responsible tax authorities take different views than that of management in respect of a number of tax issues, including, without limitation, whether by their

⁷ Mainly represents office equipment.

⁸ Historical cost for interests in subsidiaries.

⁹ Interest bearing with defined terms of repayment date.

operation the BVIs have formed an establishment in the PRC, whether value added tax is payable, the likelihood and severity of a tax penalty, the applicable default interests on late payments, the numbers of years to "look back", whether certain tax preferential treatments apply to foreign companies such as BVI entities, and other relevant matters. The views on these issues may also differ from locality to locality.

98. In addition, as a result of the currency exchange controls in the PRC, all cash to be repatriated from the PRC is subject to approval from the State Administration of Foreign Exchange (the "SAFE"). I am advised by SFC's counsel in the PRC, Ching Wo Ng at King & Wood Mallesons, that for normal and regular foreign exchange transactions in the PRC which require the approval of SAFE, the applications for such approvals can normally be processed within the time limits prescribed by law. However, the transactions undertaken by the BVIs in respect of their forestry assets in the PRC are very dissimilar to those contemplated by the relevant rules and regulations of the PRC. Therefore, there is no assurance that any application to SAFE for repatriation of funds by the BVIs can be processed within the time limits prescribed by law, or within a reasonable time thereafter.

99. As a result of Sino-Forest, among other things, operating in a critical natural resource sector with insufficient supply in the PRC, investing in research and development initiatives in the PRC, and employing a significant number of people in the PRC, it has generally enjoyed positive working relationships with all levels of government in the PRC. However, I believe that if Sino-Forest were to cease operating under a business strategy that is consistent with and supportive of PRC government policy, including its policy on sustainable forestry, for example, investing in research and development or employing a significant number of people in the PRC, Sino-Forest would enjoy much less favourable treatment from PRC government officials, and

would likely have greater difficulties resolving the issues discussed above relating to tax liabilities and repatriation of cash. This is particularly true in respect of the BVI structure where, among other things, the ability to access cash is further impaired and Sino-Forest is not in a position to know whether or not the AIs have remitted applicable taxes on behalf of Sino-Forest.

J. Importance of Relationships to Doing Business in the PRC

100. From my time with SFC I have come to understand the importance of relationships to doing business in the PRC. This is particularly true in relation to those doing business in the forestry sector.

101. The PRC has extensive resource needs, including in the forestry sector. Historically, forestry resources in the PRC have been collectively owned at a local level. Forestry resources have largely been managed without the resources necessary to increase yields and allow for harvesting at a commercial level from a western forestry perspective.

102. Part of Sino-Forest's success has been attributable to its ability to acquire forestry resources from local sources of supply, at a good price, and to resell them at a good profit. In relation to Sino-Forest's planted plantation model, Sino-Forest also has benefited from the application of advanced silviculture techniques to those resources. Based on my interactions with PRC government officials, I understand that the PRC government recognizes that for the industry to mature, become efficient, and improve yields to reduce the fiber deficit, forest asset management has to be consolidated.

103. A good relationship with the various levels of PRC government is important to doing business successfully in the PRC. Historically, Sino-Forest's relationships with these governments have been important to Sino-Forest's success in the PRC. Loss of their support

could, correspondingly, have significant negative consequences for Sino-Forest, for its ability to continue to do business in the PRC, and its ability to continue to control its PRC-based assets for the benefit of its stakeholders.

104. Sino-Forest's most important relationships have been and continue to be through Allen Chan ("Chan"). From my observations and experience, Chan has established significant relationships in the PRC, and my understanding is that this is a direct result of his long-standing personal contribution to the development of the forestry sector both through Sino-Forest and in a personal capacity as an informal advisor to various relevant industry bodies.

105. Following the MW Report, Chan was requested to meet with officials in the PRC State Forestry Administration ("SFA") and other senior officials on multiple occasions in Beijing. I have been introduced to some officials and attended some of these meetings.

106. My observation from my personal involvement in these discussions and meetings is that Chan continues to be consulted and respected within the PRC government as an expert in the forestry industry. I therefore believe his continued participation will be extremely helpful in allowing SFC to unlock value in the PRC for the benefit of its stakeholders.

107. Notwithstanding the allegations in the MW Report (which have received widespread coverage in the PRC and in Hong Kong), Chan has continued to be honoured within the PRC. In November 2011, at the 2nd China Forestry Expo, Chan was presented an "Outstanding Achievement" award from the China National Forestry Industry Federation (the "CNFIF"). In recognition of his contribution to the forestry industry in the PRC, Chan was the first keynote speaker following the Minister of the SFA at the China Forestry Expo.

108. Chan was also appointed Vice President of the CNFIF in 2010. The CNFIF is an affiliate of the SFA and is chaired by the Minister of the SFA or the Director of the SFA. The SFA is the PRC government ministry responsible for its forests and forest management.

109. In 2007, Chan was appointed an Honourable Director of Renmin University (also known as the People's University of China), one of the most prestigious universities in the PRC with a distinct focus on humanities and social sciences, and highly regarded by top leaders in the PRC. In addition, Chan is a member of the Jiangxi Committee of the Chinese People's Political Consultative Conference.

110. In February 2012, Chan was presented with the "2011 China Forestry Persons of the Year" award by the CNFIF.

111. Many of the PRC's commercially attractive forestry resources are in areas of sensitivity within the PRC, including areas that are sensitive from a military perspective. Private air travel is prohibited or strictly controlled in many of the areas in which Sino-Forest does business.

112. The strategic significance attaching to Sino-Forest's forestry assets in the PRC increases the importance to SFC of maintaining positive relationships with authorities in the PRC. If Sino-Forest is to monetize its PRC based assets for the benefit of stakeholders, I strongly believe that the outcome of this process must be acceptable to relevant authorities in the PRC.

113. In the course of its 18 years of operations, Sino-Forest has been viewed by the Minister of the SFA positively and as a model for privately owned enterprises carrying on business in the PRC and promoting PRC policies. For that reason, Sino-Forest has enjoyed a positive relationship with the PRC. Even since June of last year, the Minister of the SFA has remained

cooperative and encouraging of a solution for Sino-Forest. However, recently, the government has expressed increasing concern and interest as to what the solution is for Sino-Forest. As a result, not only do I believe that any solution needs to be acceptable to the authorities in the PRC, such solution needs to be presented in the very near future.

IV. THE MUDDY WATERS ALLEGATIONS; CHRONOLOGY AND RESPONSES

114. On June 2, 2011, Muddy Waters, which admitted to holding a short position on SFC's shares, published the MW Report alleging, among other things, that Sino-Forest is a "near total fraud" and a "Ponzi scheme."

115. While the allegations contained in the MW Report are diverse and far-reaching, the IC set out to address the issues raised in three core areas: (i) the verification of timber assets reported by Sino-Forest, (ii) the value of the timber assets held by Sino-Forest, and (iii) revenue recognition.

116. Among other things, the MW Report alleged that Sino-Forest does not hold the full amount of timber assets that it reports, that the timber assets actually held by Sino-Forest have been overstated, and that Sino-Forest overstated its revenue. In addition, the MW Report alleged that Sino-Forest has engaged in unreported related-party transactions. A copy of the MW Report is attached as Exhibit "M". Two subsequent reports by Muddy Waters relating to Sino-Forest are attached as Exhibit "N". These reports are attached to provide context to the Court and definitely not because I agree with their contents.

A. The IC, OSC, RCMP and HKSFC Investigations

117. On June 2, 2011, the same day that the MW Report was released, the Board appointed the IC, a Board committee consisting exclusively of independent directors, which in turn retained

independent legal and financial advisors in Canada, Hong Kong and the PRC, to investigate the allegations set out in the MW Report.

118. On June 8, 2011, the OSC publicly announced that it was investigating matters related to SFC. That investigation has been active and is ongoing.

119. Later in June 2011, the HK.SFC commenced an investigation into Greenheart Group. As a company listed on the Hong Kong Stock Exchange and headquartered in Hong Kong, the HK.SFC is Greenheart's primary securities regulator. I believe that the HK.SFC's investigation was largely reactive to the allegations against Sino-Forest, SFC's control position in relation to Greenheart Group, and to the fact that the principal offices of Sino-Forest and Greenheart Group are located in Hong Kong. As indicated above, SFC had acquired a majority interest in Greenheart Group less than a year earlier, and had separate management and premises.

120. In addition to its investigation of Greenheart Group, the HK.SFC has been assisting the OSC with its investigation. I am advised by Gary Solway of Bennett Jones LLP, counsel to SFC, that the HK.SFC has a mutual-assistance treaty with the OSC. The OSC has conducted witness interviews in Hong Kong with the assistance of and out of the premises of the HK.SFC.

121. Sino-Forest believes that it has attempted to cooperate with the OSC, HK.SFC and RCMP investigations. Sino-Forest has made extensive production of documents, in particular to the OSC, including documents sourced from jurisdictions outside of the OSC's power to compel production.

122. Sino-Forest also has facilitated interviews by the OSC with Sino-Forest personnel. In circumstances where OSC staff sought to examine Sino-Forest personnel resident in the PRC

(where neither the OSC nor the HKSFC had the ability to compel their attendance at interviews), Sino-Forest arranged to bring individuals to Hong Kong to be examined.

123. Sino-Forest has responded to extensive inquiries, the most far-reaching coming from the OSC, and has provided periodic oral briefings to OSC staff. The IC reports were provided to OSC staff on an unredacted basis, as discussed below.

124. The scope of the IC's review was significant, reflecting the wide range of allegations contained in the MW Report. The IC and its advisors worked to compile and analyze the vast amount of data required for their comprehensive review of Sino-Forest's operations and business, the relationships between Sino-Forest and other entities, and Sino-Forest's ownership of assets.

125. At the beginning of the IC's investigation, the IC informed the Board that the review would likely take at least two to three months to complete. On August 10, 2011, the IC delivered its first interim report to the Board (the "First Interim Report"). A redacted copy of the First Interim Report is attached as Exhibit "O".

126. SFC has publicly disclosed on SEDAR and on its website redacted versions of the First Interim Report and the two subsequent reports of the IC. The three reports have been redacted to protect information that the Board believes is commercially sensitive, the disclosure of which could be harmful to Sino-Forest's business and operations, especially in the PRC. These redactions have not been made to conceal information from regulatory scrutiny. Each of the three reports has been produced without redactions to OSC staff pursuant to a compelled process designed to allow OSC staff to receive information relevant to its investigation, while at the same time protecting SFC's sensitive information.

127. The First Interim Report was the result of the IC and its advisors assembling and organizing significant data from Sino-Forest's records, and reviewing Sino-Forest's cash holdings, revenue and relationships. In the First Interim Report, while the IC did not determine that there was any validity to the allegations in the MW Report, its findings were limited as the investigation was still ongoing.

128. Also in its First Interim Report, the IC's accounting advisors confirmed Sino-Forest's cash balances in specific accounts as at June 13, 2011, for accounts located inside and outside of the PRC. A total of 293 accounts controlled by Sino-Forest in Hong Kong were confirmed, representing 100% of the expected cash position in Hong Kong. However, Sino-Forest had 267 accounts in the PRC, so the logistics and requirements of in-person/in-branch verification in the PRC led the IC advisors to confirm 28 accounts, representing approximately 81% of the expected cash position in the PRC. The IC was satisfied based on this verification that Sino-Forest's expected cash position in the PRC existed as at the date of confirmation.

129. The First Interim Report was delivered to the Board shortly before the Board was asked to authorize the release of SFC's 2011 quarterly financial results for the second quarter ended June 30, 2011 (the "Q2 Results"). The Q2 Results were released on August 15, 2011.

130. Almost immediately after the Q2 Results were released, the IC's advisors identified and brought to the attention of the IC just under 60 documents, some of which raised potential conduct issues and others of which raised questions as to whether Sino-Forest's relationships with some of its AIs and suppliers were conducted at arm's length.

131. The IC concluded that interviews concerning the documents should be conducted with relevant Sino-Forest personnel. The interviews were conducted from August 24 to 26, 2011 in Hong Kong.

132. As part of its efforts to cooperate with OSC staff, on August 24, 2011, before the documents were shown to relevant Sino-Forest personnel and those personnel were provided with an opportunity to comment, the IC's advisors provided copies of the documents to OSC staff. The IC's advisors and SFC's external counsel also provided oral briefings about the interviews to OSC staff from August 24 to 26, 2011, as the interviews were being conducted.

133. Seen in their proper context, and with the benefit of fuller explanations, I believe that the documents identified by the IC's advisors and provided to OSC staff at that time fall well short of the misconduct alleged in the MW Report.

134. However, as a result of the documents and interviews, Sino-Forest placed three employees on administrative leave, and a fourth senior employee was requested to act solely on my instructions. It was my decision in each case to take this action.

135. SFC's Board met on the morning of Friday August 26, 2011, Toronto time (which was Friday evening Hong Kong time) to hear reports about the interviews and about communications between SFC and OSC staff. The Board was told that Chan had agreed to resign as Chairman, CEO and as a director of SFC pending the completion of the review by the IC of the allegations in the MW Report. He was appointed Founding Chairman Emeritus and I was appointed as CEO.

136. On August 26, 2011, the OSC issued a cease trade order with respect to the securities of SFC and with respect to certain senior management personnel. A copy of the cease trade order dated August 26, 2011 (as corrected by the OSC later that day) is attached as Exhibit "P". The Board first learned of the cease trade order during the Board meeting that day, after Chan tendered his resignation.

137. With the consent of SFC, the cease trade order was extended by subsequent orders of the OSC, copies of which are attached as Exhibit "Q". The cease trade order continues in force to this date.

138. Based on my review of the IC's second interim report to the Board (the "Second Interim Report", which is discussed below) and discussions I have had with William Ardell, Board Chair and Chair of the IC, I understand that in late August 2011, counsel for the IC received an inquiry from the RCMP requesting cooperation from the IC in connection with an investigation into the allegations in the MW Report. Representatives of the IC met with and provided information to the RCMP from time to time. The RCMP also has made information requests from time to time. It has been SFC's intention to cooperate with the RCMP in connection with its investigation.

139. On November 13, 2011, the IC delivered its Second Interim Report to the Board, a redacted copy of which is attached as Exhibit "R".

140. Subject to the limitations described therein, the Second Interim Report confirmed registered title or contractual or other rights to Sino-Forest's stated timber assets, reconciled the book value of the BVI timber assets and Sino-Forest WFOE standing timber assets as set out in the 2010 financial statements to the purchase prices for such assets as set out in the BVI and

WFOE standing timber purchase contracts reviewed by the IC advisors, reconciled reported total revenue to sales contracts, and addressed certain allegations regarding related-party transactions.

141. Subject to the scope limitations described in the Second Interim Report, the IC confirmed 99.3% of Sino-Forest's timber area to its satisfaction and that Sino-Forest had registered title to 100% of its disclosed planted timber holdings by area, and contractual or other rights to approximately 81.3% of its disclosed purchased timber holdings by area. The IC reported that it or its advisors had reviewed originals or copies of purchase contracts for the acquisition by Sino-Forest of virtually all of its disclosed timber holdings as at December 31, 2010.

142. The IC indicated in its Second Interim Report that it viewed its work to be substantially complete and that it expected to deliver its final report prior to the end of 2011.

B. Failure to Release Q3 Results and Default Under the Notes

143. Subsequent to August 26, 2011, the IC's advisors identified additional documents that raised issues meriting comment and explanation from SFC's management. Also, SFC's external counsel, in responding to requests from the OSC, also identified documents of a similar nature. Further documents meriting comment and explanation were identified by SFC's external auditors and in interviews conducted by OSC staff.

144. As SFC reached the November 15, 2011 deadline to release its 2011 third quarter financial statements (the "Q3 Results"), the Audit Committee recommended and the Board agreed that SFC should defer the release of the Q3 Results until certain issues could be resolved to the satisfaction of the Board and SFC's auditor. The issues included (i) determining the nature and scope of the relationships between Sino-Forest and certain of its AIs and suppliers, as discussed in the Second Interim Report, and (ii) the satisfactory explanation and resolution of issues raised

by certain documents identified by the IC's advisors, SFC's counsel, SFC's external auditors, and/or by OSC staff.

145. On November 15, 2011, the date upon which SFC's Q3 Results were due, SFC issued a press release announcing that the IC had delivered its Second Interim Report to the Board. A copy of the November 15, 2011 press release is attached as Exhibit "S". The executive summary to the Second Interim Report is attached as a schedule to the press release.

146. The November 15, 2011 press release also stated that the Board had concluded that, as a result of ongoing work arising from the allegations raised in the MW Report, it was not in a position to authorize the release of the Q3 Results at that time. The release stated that SFC would try to release the Q3 Results within 30 days.

147. SFC's failure to file the Q3 Results and provide a copy of the Q3 Results to the trustee and to its noteholders under its senior and convertible note indentures on or before November 15, 2011 constituted a default under those note indentures. Pursuant to the indentures, an event of default would have occurred if SFC failed to cure that breach within 30 days in the case of the senior notes, and 60 days in the case of the convertible notes, after having received written notice of such default from the relevant indenture trustee or the holders of 25% or more in aggregate principal amount of a given series of notes.

148. While SFC worked diligently to try to resolve the outstanding issues, it became clear that SFC was not going to be able to release the Q3 Results within that timeframe. On December 12, 2011, SFC issued a press release announcing that it would not be able to release the Q3 Results within the 30-day period originally indicated.

149. Moreover, in the press release, SFC announced that, in the circumstances, there was no assurance that it would be able to release the Q3 Results, or, if able, as to when such release would occur. In the December 12, 2011 press release, SFC also announced that the Board had determined not to make the \$9.775 million interest payment on SFC's 2016 convertible notes that was due on December 15, 2011. A copy of the December 12, 2011 press release is attached as Exhibit "T".

150. As disclosed in the December 12, 2011 press release, the circumstances that caused SFC to be unable to release the Q3 Results also could impact SFC's historic financial statements and SFC's ability to obtain an audit for its 2011 fiscal year.

151. SFC's failure to make the \$9.775 million interest payment on the 2016 convertible notes when due on December 15, 2011 constituted a default under that indenture. Under the terms of that indenture, SFC had 30 days to cure its default and make the required interest payment in order to prevent an event of default from occurring, which could have resulted in the acceleration and enforcement of the approximately \$1.8 billion in notes which have been issued by SFC and guaranteed by many of its subsidiaries outside of the PRC.

152. On December 18, 2011, SFC announced that it had received written notices of default dated December 16, 2011, in respect of its senior notes due 2014 and its senior notes due 2017. The notices, which were sent by the trustees under the senior note indentures, referenced SFC's previously-disclosed failure to release the Q3 Results on a timely basis. SFC reiterated in the December 18, 2011 press release that it did not expect to be able to file the Q3 Results and cure the default within the 30 day cure period. A copy of the December 18, 2011 press release is attached as Exhibit "U".

153. In response to the receipt of the notices of default, among other considerations, on December 16, 2011, the Board established a Special Restructuring Committee of the Board (the "Restructuring Committee") comprised exclusively of directors independent of management of SFC, for the purpose of supervising, analyzing and managing strategic options available to SFC. The members of the Restructuring Committee are William Ardell, Chair of the Board, who is also Chair of the Restructuring Committee and Garry West. James Hyde, Chair of the Audit Committee and an independent director, while not a member of the Restructuring Committee, has attended meetings of the Restructuring Committee and participated fully in its deliberations.

154. Following discussions with its external auditors, on January 10, 2012, SFC issued a press release cautioning that its historic financial statements and related audit reports should not be relied upon. The January 10, 2012 press release is previously attached.

C. The Waiver Agreements

155. On January 12, 2012, SFC announced that following extensive discussions with the Ad Hoc Noteholders, holders of a majority in principal amount of SFC's senior notes due 2014 and its senior notes due 2017 agreed to waive the default arising from SFC's failure to release the Q3 Results on a timely basis. A copy of the January 12, 2012 press release, together with the waiver agreements, is attached as Exhibit "V".

156. Pursuant to the waiver agreements, SFC agreed to, among other things, make the \$9.775 million interest payment on its 2016 convertible notes that was due on December 15, 2011, curing that default. That payment was made in accordance with the waiver agreements.

157. While the waiver agreements prevented the indenture trustees under the relevant note indentures from accelerating and enforcing the note indebtedness as a result of SFC's failure to

file its Q3 Results, those waiver agreements expire on the earlier of April 30, 2012 and any earlier termination of the waiver agreements in accordance with their terms. In addition, should SFC fail to file its 2011 Results by March 30, 2012 (and upon the necessary notices being sent and cure periods expiring), the indenture trustees would again be in a position to accelerate and enforce.

D. The IC's Final Report and Verification of SFC's Assets

158. On January 31, 2012, SFC publicly released a redacted version of the final report of the IC (the "Final Report"). A copy of the redacted Final Report is attached as Exhibit "W".

159. Following the delivery of the Final Report, and in accordance with the waiver agreements, the Board adopted a resolution instructing the IC to cease its investigative, review and oversight activities. Any issues within the authority of the IC that remained outstanding were referred to SFC's Audit Committee or Restructuring Committee.

160. In its January 31, 2012 press release, attached as Exhibit "X", announcing the release of the Final Report, SFC also disclosed the results of a "proof of concept" exercise undertaken to determine if the standing timber referenced in particular purchase contracts could be located and quantified by an independent forestry expert engaged to undertake the exercise. The exercise was undertaken to address the issue raised in the Second Interim Report regarding the absence of maps in the possession of SFC's BVI subsidiaries to show the precise location of the timber subject to plantation purchase contracts.

161. As disclosed in the January 31, 2012 press release, the proof of concept exercise was confined to two compartments. The selection criteria limited the sample to purchased timber assets located in Yunnan province. The candidate assets were acquired prior to the allegations in

the MW Report. They were listed as being held by BVIs and not by WFOEs. At the IC's request, the consultants selected a shortlist of ten possible compartments covering multiple forestry bureaus and meeting the criteria above, avoiding any prospect that the sampling involved personnel from Sino-Forest. Multiple county forestry bureaus were represented in the shortlist, and the IC made the final selection of compartments to ensure more than one county forestry bureau was represented.

162. As described in the Final Report and the accompanying press release, maps for the two compartments were obtained from the relevant forestry bureaus in the PRC by the contracted survey companies and made available to the consultants. Using the techniques described in the Final Report, compartment boundaries were superimposed on recent high resolution satellite imagery which allowed for the measurement of each compartment's forest cover. The consultants compared the net stocked area of forest cover that they assessed for each compartment with that stated in the Sino-Forest purchase contracts and forest survey reports. The consultants found that the net stocked area of forest cover in each compartment was up to six percent greater than that stated in the relevant purchase contracts and forest survey reports, with the current assessed area for each compartment exceeding the purchase contract area.

163. While the consultant report and press release cautioned against extrapolation of these findings over Sino-Forest's broader forestry assets, I took considerable comfort from these findings. In relation to two randomly-selected contracts held through the BVI structure, the property descriptions and expected forest cover in the contracts matched the boundaries and forest cover on the ground.

164. Subsequent to January 31, 2012, Sino-Forest has taken steps to see the proof of concept process applied over a statistically relevant sampling of Sino-Forest's forest assets. That work is ongoing.

E. Gating Issues to an Audit

165. SFC has worked diligently to address issues identified by SFC's Audit Committee, the IC and by its external auditor, Ernst & Young LLP, as requiring resolution in order for SFC to be in a position to obtain an audit opinion in relation to the 2011 Results. Many of the same issues also impact SFC's ability to release the Q3 Results.

166. As SFC has publicly disclosed in its press releases, the gating issues to the release of the Q3 Results and to obtaining an audit of the 2011 Results include (i) determining the nature and scope of the relationships between Sino-Forest and certain of its AIs and suppliers, and (ii) the satisfactory explanation and resolution of issues raised by certain documents identified by the IC's advisors, SFC's counsel, SFC's auditors, and/or by OSC staff.

167. The "relationship issues" described above are discussed extensively in the Second Interim Report and in the Final Report of the IC. Relationship issues were prominent in the approximately 60 documents provided to OSC staff on August 24, 2011, and relationships continue to be an issue that SFC has been unable to resolve.

168. As part of the IC's investigative process a significant amount of electronic data was extracted and reviewed by the IC and its advisors. The same data also has been reviewed by counsel for SFC and SFC's advisors. Over one million electronic records have been reviewed.

169. The search of electronic records and other inquiries have not produced evidence to support the allegations made in the MW Report that Sino-Forest is a near total fraud or Ponzi scheme. The searches and inquiries have produced some evidence of possible lesser improper conduct that SFC has been making efforts to investigate, address and quantify.

170. There is no single theme among the documents and issues that SFC has been taking steps to address. In some cases, the documents speak to efforts to deal with foreign currency exchange restrictions applicable to the PRC. The documents suggest that in some cases SFC personnel may have received personal benefits at Sino-Forest's expense and may have appropriated some of Sino-Forest's assets. They also show that, in a few cases, whistleblower complaints in some subsidiaries alleging misconduct by certain personnel in those subsidiaries appear not to have been adequately investigated and addressed.

171. The record-keeping of SFC's subsidiaries in the PRC appeared to be adequate prior to the recent heightened scrutiny being focused on companies with significant operations in the PRC. The nature of SFC's books and records, combined with the inability to compel disclosure and participation by third party PRC companies, primarily SFC's customers (AIs) and suppliers, and the unwillingness of these companies to become involved in an investigation, makes it difficult to definitively assess some of the explanations offered by Sino-Forest personnel.

172. In light of this heightened scrutiny, SFC's subsidiaries in the PRC do not have the scope of books and records that might be used to definitively address some issues raised by potentially problematic email communications. The nature of SFC's BVI structure, and the absence of contractual rights to examine the books and records of customers and suppliers, deprives SFC of

access to information that may be necessary to allow SFC to determine whether some of the documents and issues identified are material from a financial reporting perspective.

173. Notwithstanding SFC's best efforts, many of these issues may not be capable of resolution, and certainly not within a timeframe that would allow SFC to comply with its obligations under its note indentures and securities laws. Consequently, absent a resolution with the noteholders, the indenture trustees would be in a position to enforce their legal rights as early as April 30, 2012.

174. However extensive and challenging the work done to respond to the MW Report has been, the simple fact is that the uncertainty it has created has caused Sino-Forest's business to deteriorate. Repairing the damage to the business simply cannot wait any longer. Without decisive action in the immediate term, I fear that the ability to save the business for the benefit of SFC and its stakeholders will be irreparably lost.

175. As described in greater detail herein, even though the allegations set out in the MW Report and the OSC cease trade orders are unproven, the allegations have had a catastrophic negative impact on Sino-Forest's business activities and have created substantial uncertainty regarding the future of Sino-Forest's business in the minds of the Sino-Forest Companies' stakeholders in the PRC, including its lenders, customers, suppliers, employees, and governmental officials. The allegations made against SFC have resulted in a substantial erosion of Sino-Forest's business. The business in the PRC continues to deteriorate with every passing day and it has become clear to SFC that the Sino-Forest business needs to be separated from the cloud that continues to hang over SFC if there is any future for that business (and thus value for SFC's stakeholders) to be preserved.

V. IMPACT OF MUDDY WATERS ALLEGATIONS ON SINO-FOREST

A. Class Action Lawsuits

176. SFC and certain of its officers, directors and employees, along with SFC's current and former auditors, technical consultants and various underwriters involved in prior equity and debt offerings, have been named as defendants in eight class action lawsuits.

177. Five of these class action lawsuits, commenced by three separate groups of counsel, were filed in the Ontario Superior Court of Justice on June 8, 2011, June 20, 2011, July 20, 2011, September 26, 2011 and November 14, 2011. A carriage motion in relation to these actions was heard on December 20 and 21, 2011, and by Order dated January 6, 2012, Justice Perell appointed Koskie Minsky LLP and Siskinds LLP as class counsel. As a result, Koskie Minsky LLP and Siskinds LLP discontinued their earliest action, and their other two actions have been consolidated and will move forward as one proceeding. The other two Ontario actions, commenced by other counsel, have been stayed. Pursuant to Justice Perell's January 6, 2012 Order, Koskie Minsky LLP and Siskinds LLP have filed a fresh as amended Statement of Claim in the consolidated proceeding. A copy of this Statement of Claim is attached as Exhibit "Y".

178. The action purports to be brought on behalf of noteholders. The plaintiffs and plaintiff law firms have not complied with the prerequisites to bringing suit in the relevant note indentures, which each contain a "no suits by holders" clause.

179. Parallel class actions have been filed in Quebec and Saskatchewan. Copies of the originating documents in those actions are attached as Exhibit "Z".

180. Additionally, on January 27, 2012, a class action was commenced against SFC and other defendants in the Supreme Court of the State of New York, U.S.A. The complaint alleges that

the action is brought on behalf of persons who purchased SFC shares on the over-the-counter market and on behalf of non-Canadian purchasers of SFC debt securities. The quantum of damages sought is not specified in the complaint. A copy of the complaint in this action is attached as Exhibit "AA".

181. Additional law firms in both the United States and Canada have announced that they are investigating SFC and certain directors and officers thereof with respect to potential additional class action lawsuits.

B. Effects of MW Report and Related Events

182. The allegations set forth in the MW Report, despite being denied by SFC, have had catastrophic negative effects on the reputation and business of Sino-Forest. As a result, Sino-Forest's ability to conduct its operations in the normal course of business has been materially affected. For example: creditors are increasing legal demands with respect to accounts payable; at the same time, collections of accounts receivables is increasingly difficult due to a widespread belief that Sino-Forest will not survive; sales in the WFOE model have also slowed substantially in response to views on accounts receivable payments; cash flow issues have resulted in a cessation of any expansion or modernization; the inability to fund purchases of raw materials has caused a slowdown in production or, in many cases, a shutdown; certain timber assets have been frozen as Sino-Forest has been unable to keep current with payments; deposits put down on standing timber purchases by WFOEs, of approximately \$27 million, may be unrealizable due to an inability to generate cash to pay off outstanding payables under those contracts; offshore banking facilities have been repaid and frozen or cancelled, leading to substantial damage in Sino-Forest's trading business; relationships with local governments and plantation land owners have become strained; Sino-Forest is unable to complete various projects, contracts and

acquisitions; and the PRC government is expressing increased concern over SFC and is becoming less inclined to be supportive of Sino-Forest, making the ability to obtain legal documents for Sino-Forest's operations increasingly difficult.

1. Diversion of Operational Resources & Effects on Operations

183. The investigations being conducted by the OSC, the HKSFC and the RCMP, the examination by the IC (and now the Audit Committee and Restructuring Committee), and the class action lawsuits have required, and will continue to require, significant resources to be expended by the directors, officers and employees of Sino-Forest. As a result, the diversion of such resources has affected Sino-Forest's ability to conduct its operations in the normal course of business. Sino-Forest's timber and trading businesses have effectively been frozen and have ground to a halt.

184. Since the MW Report was released, in order to conserve cash, Sino-Forest has only completed cash purchases which were previously committed to and has not made any new commitments (i.e. in the WFOE structure), despite having been presented with some attractive buying opportunities. Sino-Forest has therefore not grown its asset base as it would have but for the MW Report.

185. Also, the Sino-Forest Companies have had an extremely difficult time collecting outstanding receivables as a result of the perceived uncertainty surrounding them in the PRC. The total amount of outstanding receivables in the WFOE structure was approximately \$130.5 million as at February 29, 2012, with more than 83.5% of those receivables being over 90 days. Sino-Forest's counsel in the PRC, KaiTong Law Firm, has sent legal demand letters to 12 BVI trading companies for accounts receivable totaling approximately \$126 million and five WFOE

companies totaling approximately RMB 224.5 million. Additional legal demand letters for smaller accounts are also in process, and other accounts receivable are being negotiated.

186. At the same time that the Sino-Forest Companies are having a difficult time collecting outstanding receivables, they are receiving increased demands on their payables. Certain of Sino-Forest's creditors in the PRC have taken aggressive collection tactics in the PRC, including filing court claims in an effort to be paid amounts owed to them by Sino-Forest. If the uncertainty related to SFC is allowed to continue to affect Sino-Forest's business operations, Sino-Forest expects increasing legal actions from other creditors.

187. Sino-Forest has not been able to secure or renew certain existing onshore banking facilities and has been unable to obtain offshore letters of credit to facilitate Sino-Forest's trading business. All offshore banking facilities have been repaid and frozen, or cancelled. Since June 2, 2011, all Hong Kong banks have asked for voluntary repayment of outstanding loans. Banking facilities with a total credit amount of \$67.9 million were terminated by four banks between June 10, 2011 and August 29, 2011. Facilities of \$152.3 million were frozen upon full repayment. In the PRC, facilities totaling RMB 159.6 million were asking for voluntary repayments. For the PRC banks providing facilities, Sino-Forest was requested to increase its cash deposits so as to demonstrate financial strength. This has led to substantial damage in Sino-Forest's operations, and affects Sino-Forest's ability to complete obligations under existing contracts, resulting in losses potentially in excess of \$100 million.

188. Various projects and contracts, such as nursery projects in certain provinces with a contract value of approximately RMB 1 billion, have been stopped or are unable to be fulfilled.

189. Due to the allegations in the MW Report, the PRC government is expressing increased concern over SFC and is becoming less inclined to be supportive of Sino-Forest, making the ability to obtain legal documents more difficult. For example, the PRC government has withheld cutting licenses resulting in lower harvesting volumes. Relationships with local government and local plantation suppliers have also become strained, resulting in many difficulties and obstacles in Sino-Forest's operations including an inability to complete certain acquisitions of plantations. For example, in the Anqing, Anhui area in the PRC, the local government no longer showed support to Sino-Forest and the plantation land owner refused to honour the plantation purchase contracts.

2. Fees and Expenses

190. SFC has and will continue to incur a substantial amount of fees and expenses in connection with the examination by the IC (and now the Audit Committee and Restructuring Committee), the investigations by the OSC and the RCMP, and the class action lawsuits. Further, pursuant to indemnification agreements between SFC and its directors and certain officers as well as with auditors, underwriters and other parties, SFC may be obligated to indemnify such individuals for additional legal and other expenses pursuant to such proceedings. The aggregate of such fees and expenses is substantial and has had an extremely negative effect on Sino-Forest's operating results.

3. Value of Common Shares and Credit Rating

191. Prior to the release of the MW Report on June 2, 2011, SFC's common shares had a 20-day volume weighted average price of CDN \$19.58 for a total market capitalization of approximately CDN \$4.8 billion. In the weeks that followed the release of the MW Report, the value of SFC's common shares plunged to a low of CDN \$1.29 for a total market capitalization of

approximately CDN \$300 million. As at August 25, 2011, the day prior to the OSC cease trading SFC's common shares, its shares were trading at CDN \$4.81 for a total market capitalization of approximately CDN \$1.2 billion.

192. The allegations set forth in the MW Report have resulted in a material decline in the market value of SFC's common shares and notes. On June 30, 2011, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on SFC to 'B+' from 'BB', lowered the issue ratings on SFC's outstanding senior notes and convertible notes to 'B+', and lowered the Greater China scale credit ratings on SFC and its notes to 'cnBB' from 'cnBBB-'. On August 29, 2011, Standard & Poor downgraded to 'CCC-', then withdrew its ratings. Fitch Ratings withdrew its Foreign Currency Issuer Default Rating and senior debt rating of 'BB-' on July 14, 2011, after placing SFC on Negative Watch on June 20, 2011. On July 19, 2011, Moody's Investors Service downgraded the corporate family and senior unsecured debt ratings of SFC to 'B1' from 'Ba2'. On August 29, 2011, Moody's downgraded to 'Caa1' from 'B1', and on December 14, 2011, Moody's downgraded to 'Ca1' and withdrew its rating.

193. Sino-Forest's primary sources of funding have been short-term and long-term borrowings, equity offerings and cash generated by operating activities. However, as a result of the reputational damage that the MW Report inflicted on SFC, I believe that SFC has no ability to access the capital markets at the present time, including to refinance its notes.

VI. CLAIM AGAINST MUDDY WATERS

194. On March 29, 2012, SFC commenced a claim in the Ontario Superior Court of Justice against Muddy Waters, its principal, and persons who traded with prior knowledge of the MW Report. A copy of SFC's claim against Muddy Waters *et al* is attached as Exhibit "**BB**".

195. In this action, SFC seeks total damages in the sum of CDN \$4 billion in relation to harm caused to SFC as a result of the allegations made by Muddy Waters. If SFC is successfully restructured as contemplated, it is anticipated that the action will be funded by the litigation trust provided for in the Support Agreement described below, and the benefits of the action will be shared as contemplated by the Support Agreement.

VII. PROPOSED RESTRUCTURING TRANSACTIONS

196. Following extensive arm's length negotiations between SFC and the Ad Hoc Noteholders, the parties entered into the Support Agreement. The Support Agreement contains, among other things, the summary terms and conditions of a going concern restructuring of SFC (the "Restructuring Transaction"). A copy of the Support Agreement is previously attached.

197. The Support Agreement provides that SFC will file the Plan in order to implement the Restructuring Transaction as part of this CCAA proceeding, and that the Consenting Noteholders will vote their notes in favour of the Plan at any meeting of creditors, each subject to certain conditions.

198. From a commercial perspective, the Restructuring Transaction contemplated by the Support Agreement is intended to accomplish the following objectives:

- (a) the separation of Sino-Forest's business operations from the problems facing SFC outside of the PRC by transferring the intermediate holding companies which own "the business" and SFC's intercompany claims against its subsidiaries (which include the entire substantive operations of the Sino-Forest Companies) to the noteholders in compromise of their claims against SFC (if the Sale Process does not generate a superior transaction, as described below);

- (b) the Sale Process being undertaken to determine if any person or group of persons will purchase Sino-Forest's business operations pursuant to the Plan for an amount of consideration acceptable to SFC and the noteholders, with the potential for excess above such amount being directed to Junior Constituents. The Sale Process is intended to ensure that SFC is pursuing all avenues to maximize value for its stakeholders;
- (c) a structure (including funding) that will enable litigation claims to be pursued for the benefit of SFC's stakeholders in accordance with the Support Agreement against a number of potential defendants (including Muddy Waters, its principal, and any persons who benefited from the allegations made by Muddy Waters in a coordinated way); and
- (d) if the Sale Process does not result in a sale, the Junior Constituents recovering some "upside" in the form of a profit participation if Sino-Forest's business operations acquired by the noteholders are monetized within seven years from the date of the implementation of the Plan at a profit, as further described in the Support Agreement.

199. The decision to enter into the Support Agreement was given careful consideration by SFC and the Board and was not taken lightly. However, the inability to obtain an audit creates a default under the note indentures which simply cannot be cured within a reasonable timeframe, if at all.

200. More significantly, it has become clear that the problems facing SFC outside of the PRC are causing Sino-Forest's business operations in the PRC to deteriorate and that, unless decisive

steps are taken to restructure Sino-Forest, the PRC business operations will continue to deteriorate to the point that they will cease to be capable of being turned around, which will further diminish the value that can be realized for SFC and its stakeholders. While there remains substantial work ahead in the PRC to turn the business around and convince stakeholders in the PRC (including customers, suppliers, employees and PRC governmental officials of all levels) that the Sino-Forest business built up over the past 18 years is here to stay, I firmly believe that the transactions which SFC proposes to initiate pursuant to the CCAA will show a path out of the uncertainty which it has faced since last June.

201. The Support Agreement provides that SFC will make an application under the CCAA in order to implement the Plan. The Consenting Noteholders executed the Support Agreement on the basis that a restructuring of SFC as proposed would be undertaken pursuant to the CCAA.

202. But for the negotiation and execution of the Support Agreement, SFC would be unable to prevent the acceleration and enforcement of the rights of the noteholders as soon as April 30, 2012, in which case SFC would be unable to continue as a going concern, and is thus insolvent. Accordingly, and for the reasons set out herein, a restructuring is urgently required and should be pursued to preserve its enterprise value.

203. SFC has reached an agreement on a consensual restructuring transaction with the Ad Hoc Noteholders. SFC is seeking a stay of proceedings under the CCAA in order to allow it time to proceed to develop the Plan which, if approved by the creditors and this Honourable Court, would, among other things, allow for a going concern emergence of Sino-Forest's business.

VIII. THE SALE PROCESS

204. Under the Sale Process, SFC, through its financial advisor, Houlihan Lokey ("Houlihan"), and with the oversight of the monitor, will seek qualified purchasers (including existing shareholders and noteholders) of SFC's assets on a global basis and attempt to engage them in the Sale Process. The Sale Process Procedures, which were agreed to by the parties to the Support Agreement in consultation with the proposed monitor, provide that SFC will have up to 90 days to solicit letters of intent, and if qualified letters of intent are received, a further 90 days to solicit qualified bids. A copy of the Sale Process Procedures is attached as Schedule D to the Support Agreement.

205. I believe it is critically important that the Sale Process Order be granted at this time for a variety of reasons. First and most importantly, it is very important that SFC conclude a restructuring by the end of the third fiscal quarter. The business of the Sino-Forest Companies is seasonal, and the vast majority of transactions (both purchases and sales) typically occur in the third and fourth quarters. All stakeholders will therefore be prejudiced if SFC cannot complete a restructuring by the end of the third quarter, or soon thereafter, as the business will continue to be frozen through the critical fourth quarter.

206. With that target end date in mind, the process must begin immediately. I understand that in other insolvency filings in Canada, sale processes have been done on much shorter timetables than what SFC is proposing; however, I believe the proposed timetable is necessary and appropriate in light of the specific circumstances. In fact, given the critical timing of this process, I am aware that Houlihan has already been in contact with parties who may be interested parties in this Sale Process.

207. The assets being sold, especially given the allegations in the MW Report, are extremely complex and are being offered for sale without current audited financial statements. Potential buyers therefore need to be afforded sufficient time to do due diligence.

208. In addition, there are limited potential buyers for these assets. I believe that potential buyers will need to have, in addition to the significant capital to complete a transaction of this size, an in-depth and intimate knowledge of the PRC market. I do not expect that the ultimate buyer for these assets, if any, will be a typical buyer of distressed assets in an insolvency proceeding.

209. Accordingly, given that a transaction must be implemented as soon as possible, and given the complexity of the assets and the fact that there is a limited universe of potential buyers, I believe it is necessary that the Sale Process Order be granted at this time, and that the Sale Process provides the best potential for recovery for SFC's stakeholders.

210. I have no reason to believe that any creditors have a *bona fide* reason to object to the Sale Process.

IX. SFC MEETS CCAA STATUTORY REQUIREMENTS

211. I am advised by Gary Solway of Bennett Jones LLP, counsel to SFC, that the CCAA applies in respect of a "debtor company" if the claims against the debtor company or affiliated debtor companies total more than CDN \$5 million. I am further advised by Gary Solway that a "debtor company" is a company incorporated under an Act of Parliament or the legislature of a province which has, among other things, become bankrupt or insolvent.

A. SFC is a "Company" Under the CCAA

212. SFC is a "company" to which the CCAA applies as it is a company continued under the CBCA. A copy of SFC's articles of continuance was previously attached.

B. SFC has Claims Against it in Excess of \$5 Million

213. As discussed above, SFC has debts against it far in excess of the CDN \$5 million statutory requirement.

C. SFC is Insolvent

214. I am advised by Gary Solway of Bennett Jones LLP, counsel to SFC, that under section 2 of the *Bankruptcy and Insolvency Act* (and a similar definition exists under sections 192(2) and 208 of the CBCA), an insolvent person is one whose liabilities to creditors exceeds CDN \$1,000 and (i) is for any reason unable to meet his obligations as they generally become due, (ii) has ceased paying his current obligations in the ordinary course of business as they generally become due, or (iii) the aggregate of whose property is not, at a fair valuation, sufficient, or, if disposed of at a fairly conducted sale under legal process, would not be sufficient to enable payment of all his obligations, due and accruing due.

215. As discussed herein, the holders of SFC's senior notes entered into waiver agreements wherein they agreed not to have the indenture trustees demand immediate payment of the principal amount of the senior notes. Such waiver agreements expire on the earlier of April 30, 2012 and any earlier termination of the waiver agreements in accordance with their terms. Moreover, in addition to the default dealt with pursuant to the waiver agreements in respect of the Q3 Results, SFC will be in further default on April 30, 2012 as a result of the fact that it will

fail to file its audited 2011 Results. As discussed in greater detail herein, SFC will be unable to cure such default in the immediate to near term (if ever).

216. But for the execution of the Support Agreement and the standstill provided for therein, the indenture trustees under the notes could be entitled to accelerate and enforce the rights of the noteholders as soon as April 30, 2012. Without the liquidity provided by the waiver agreements, SFC would be unable to meet its obligations as they come due or continue as a going concern and is thus insolvent.

X. RELIEF SOUGHT

A. Stay of Proceedings

217. SFC needs a stay of proceedings to pursue and implement the Restructuring Transaction in an attempt to complete a going concern restructuring of its businesses. In the interim, the class actions lawsuits, as well as any other potential actions, need to be stayed so that the Restructuring Committee can focus on formulating the Plan.

B. Appointment of Monitor

218. FTI Consulting Canada Inc. ("FTI") has consented to act as the monitor of SFC (the "Monitor") in the CCAA proceedings, and I believe that FTI is qualified and competent to so act.

219. FTI will be filing a pre-filing report with the Court as prospective monitor in conjunction with SFC's request for relief under the CCAA.

C. Payments During CCAA Proceeding

220. During the course of this CCAA proceeding, SFC intends to make payments for goods and services supplied post-filing as set out in the cash flow projections described below and as permitted by the draft Initial Order.

D. Administration Charge

221. It is contemplated that the Monitor, counsel to the Monitor, counsel to SFC, counsel to the Board, Houlihan, FTI Consulting (Hong Kong) Limited, counsel to the Ad Hoc Noteholders and the financial advisor to the Ad Hoc Noteholders would be granted a first priority Court-ordered charge on the assets, property and undertakings of SFC, other than SFC's assets which are subject to *Personal Property Security Act* registrations (the "SFC Property") in priority to all other charges (the "Administration Charge") up to the maximum amount of CDN \$15 million in respect of their respective fees and disbursements, incurred at standard rates and charges. SFC believes the Administration Charge is fair and reasonable in the circumstances.

222. The nature of the Sino-Forest Companies' business requires the expertise, knowledge and continuing participation of the proposed beneficiaries of the Administration Charge in order to complete a successful restructuring. I believe this Administration Charge is necessary to ensure their continued participation.

223. I do not believe that there is any unwarranted duplication of roles between the proposed beneficiaries of the Administration Charge.

E. Directors' Charge

224. A successful restructuring of SFC will only be possible with the continued participation of the Board. These personnel are essential to the viability of the continuing business of Sino-Forest. SFC's Board members have specialized expertise and relationships with Sino-Forest's suppliers, employees and other stakeholders, as well as knowledge gained throughout the IC process that cannot be replicated or replaced.

225. The directors of SFC have indicated that due to the potential for significant personal liability, they cannot continue their service in this restructuring unless the Initial Order grants a charge on the SFC Property in priority to all other charges except the Administration Charge, as security for SFC's indemnification obligations for the potential obligations and liabilities they may incur after the commencement of these proceedings. It is proposed that the directors of SFC be granted a directors' charge in the amount of CDN \$3.2 million (the "Directors' Charge") over the SFC Property. SFC believes the Directors' Charge is fair and reasonable in the circumstances.

226. SFC, for itself and its subsidiaries, currently has primary insurance coverage of \$10 million and five separate excess insurance policies collectively providing CDN \$45 million (the "2012 Insurance Policies"), for a total of CDN \$55 million of coverage in place to attempt to protect SFC and its directors and officers. The 2012 Insurance Policies were put in place and became effective after prior policies of insurance were not renewed following their expiry on December 31, 2011, by the insurers who had issued the policies (the "2011 Insurance Policies"). Although coverage is being provided to SFC and certain of its directors and officers under the 2011 Insurance Policies for claims that were advanced or threatened prior to the expiry of the 2011 Insurance Policies on December 31, 2011, those policies provide no coverage or protection to SFC or its officers and directors for new claims that are made after December 31, 2011 which are based on new events or allegations unrelated to the subject matter of the claims that have already been advanced or threatened.

227. As was the case with the 2011 Insurance Policies, the 2012 Insurance Policies provide for three types of coverage: (i) director and officer liability, (ii) corporate liability for indemnifiable loss, and (iii) corporate liability arising from securities claims. The 2012 Insurance Policies expire on December 31, 2012 and exclude coverage for directors' liabilities for wages. There are

also other exclusions and limitations of coverage which may leave SFC's directors and officers without coverage under the 2012 Insurance Policies. Depending on the circumstances of any particular claim, the insurers which have issued the 2012 Insurance Policies may deny coverage on the basis that the 2012 Insurance Policies exclude such other claims, that coverage limits have been exhausted by claims made against the 2012 Insurance Policies, or that the matters reported fall within the coverage provided by the 2011 Insurance Policies (which are already responding to a number of significant claims that have the potential to exhaust or exceed the applicable limits). Finally, there is no guarantee that SFC will be able to renew the 2012 Insurance Policies when they expire at the end of the year.

228. Contractual indemnities have been provided by SFC to its directors. SFC does not have sufficient funds to satisfy those indemnities should the directors of SFC incur obligations and liabilities in that regard after the commencement of these proceedings.

229. The Directors' Charge is necessary so that SFC may benefit from its directors' experience, knowledge and ability to guide SFC's restructuring efforts. It is critical to the restructuring efforts that SFC's directors remain with SFC in order to assist SFC in achieving the Restructuring Transaction to benefit SFC's stakeholders.

230. As such, it is proposed that the priorities of the Administration Charge and the Directors' Charge be as follows:

- (a) First – Administration Charge; and
- (b) Second – Directors' Charge.

231. Based on the books and records of SFC, and to the best of my knowledge, there are no secured creditors who are likely to be affected by the Administration Charge or the Directors' Charge.

F. Postponement of Annual Shareholders' Meeting

232. As previously mentioned, SFC is a public company under the CBCA. I am advised by Gary Solway of Bennett Jones LLP, counsel to SFC, that, as such, SFC is required, pursuant to paragraph 133(1)(b) of the CBCA, to call an annual meeting of its shareholders by no later than June 30, 2012, being six months after the end of its preceding financial year which ended on December 31, 2011. Accordingly, SFC is required to call its annual general meeting no later than June 30, 2012. SFC's annual general meeting has typically been held in the month of May.

233. However, the management of SFC and other Sino-Forest Companies are presently devoting their efforts to stabilizing the business with a view to implementing the Restructuring Transaction in accordance with the terms of the Support Agreement.

234. Preparing the proxy materials required for an annual meeting of shareholders (which must be prepared well in advance of any meeting so that they can be mailed to shareholders in advance of the meeting) and holding the annual meeting of shareholders would divert the attention of senior management of the Sino-Forest Companies away from implementing the Restructuring Transaction, would require significant financial resources, and could impede SFC's ability to achieve a restructuring under the CCAA.

235. In addition, pursuant to section 155 of the CBCA, SFC is required to place before the annual meeting financial statements of SFC for a period ended not more than six months prior to

the date of the annual meeting, SFC has been unable to complete its financial statements for the reasons already discussed.

236. I am advised by Gary Solway of Bennett Jones LLP, counsel to SFC, that, under subsection 106(6) of the CBCA, if directors are not elected at an annual meeting, the incumbent directors will continue to hold office until their successors are elected.

237. Certain financial and other information is and will continue to be available to the public through SFC's court filing which will be easily accessible on the proposed Monitor's website (<http://cfcanada.fticonsulting.com/sfc>). Consequently, the failure to hold an annual general meeting within the time prescribed by the CBCA will not deprive shareholders of access to the financial information of SFC that is publicly available from SFC.

238. Under the circumstances, I believe it is impractical for SFC to call and hold an annual meeting of shareholders during this CCAA proceeding.

G. Foreign Proceedings

239. SFC is seeking in the Initial Order to have the Monitor authorized, as the foreign representative of SFC, to apply for 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* (the "Chapter 15 Proceedings"). The initial effect of the Chapter 15 Proceedings would be to give effect to the Initial Order in the United States.

H. Financial Advisor Agreement

240. It became clear to SFC at the beginning of September 2011, that it would greatly benefit from the expertise of a financial advisor. Accordingly, SFC invited four reputable global financial advisory firms to make presentations for the role on or about September 14, 2011. Houlihan was selected as SFC's first choice as a result of, among others, its significant experience in debt restructurings, its strong presence and reputation in both the North American and Asian markets, and its strong standing with the global noteholders community, especially those event driven funds which customarily play a leadership role in these situations.

241. On or about September 26, 2011, Bennett Jones LLP, as counsel to SFC, entered into an agreement with Houlihan relating to Houlihan's provision of financial advisory and investment banking services to SFC. That agreement was amended and replaced by an agreement dated as of December 22, 2011 (the "Financial Advisor Agreement"). A copy of the Financial Advisor Agreement is attached as Exhibit "CC".

242. The Financial Advisor Agreement provides, among other things, that if SFC commences any proceedings under the CCAA or similar legislation or statute, SFC will promptly seek to have the Court approve (i) the Financial Advisor Agreement, and (ii) Houlihan's retention by SFC under the terms of the Financial Advisor Agreement, including the payment to be made to Houlihan thereunder. As such, the draft Initial Order provides for such approvals.

243. It is my belief that Houlihan's significant restructuring experience and expertise in the area of debt restructuring has greatly benefited SFC. The proposed Restructuring Transaction would not have been achievable without the advice and assistance of Houlihan. Houlihan was also instrumental in assisting SFC in obtaining the waiver agreements described herein.

244. Houlihan has spent approximately seven months working closely with senior management of SFC and its other advisors. Houlihan has greatly assisted SFC in its restructuring efforts to date and has gained a thorough and intimate understanding of the Sino-Forest business. If SFC was deprived of the benefit of Houlihan's continued advice and assistance and was required to retain a new financial advisor, it would likely take a significant period of time for such a financial advisor to acquire a similar working knowledge of the business and would make it extremely difficult, if not impossible, to implement the Restructuring Transaction in the currently contemplated time frame. Thus, I believe that the continued involvement of Houlihan is essential to the completion of the Restructuring Transaction.

245. It is also my belief that the quantum and nature of the remuneration provided for in the Financial Advisor Agreement is fair and reasonable. Specifically, the restructuring fees payable to Houlihan are only payable if a restructuring transaction is completed and the quantum of those fees is dependent on various factors intended to measure the success of the restructuring.

XI. 13 WEEK CASH FLOW FORECAST

246. As set out in the cash flow forecast attached as Exhibit "DD", SFC's principal uses of cash during the next 13 weeks will consist of the payment of ongoing day-to-day operational expenses, the costs associated with the ongoing investigation into the MW Report, the costs associated with responding to demands from the OSC, HKSFC and RCMP for information, and professional fees and disbursements in connection with these CCAA proceedings.

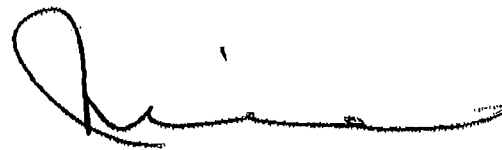
247. As at March 29, 2012, SFC had approximately \$67.8 million available cash on hand. SFC's cash flow forecast projects that, subject to obtaining the relief outlined herein, it will have sufficient cash to fund its projected operating costs for the next 13 weeks.

XII. CONCLUSION

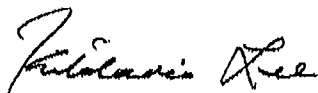
248. I am confident that granting the Initial Order and Sale Process Order sought by SFC is in the best interests of SFC and its stakeholders. SFC requires the stay of proceedings to pursue and implement the Restructuring Transaction in an attempt to complete a going concern restructuring of its businesses. The Ad Hoc Noteholders support this application and SFC's pursuit of the Plan in this CCAA proceeding.

249. Without the stay of proceedings and the opportunity to effect the Restructuring Transaction (including the Sale Process), Sino-Forest faces a possible cessation of going concern operations, the liquidation of its assets, and the loss of employment for a significant number of employees worldwide. The granting of the requested stay of proceedings will assist an orderly restructuring of SFC.

SWORN BEFORE ME at the City of Hong
Kong, Special Administrative Region,
People's Republic of China, this 30th day of
March, 2012



W. Judson Martin



LEE HONG KIU KILDARIA

Solicitor, Hong Kong SAR

**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.

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

Proceedings commenced in Toronto

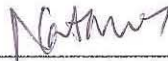
**AFFIDAVIT OF W. JUDSON MARTIN
(Sworn March 30, 2012)**

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Lawyers for the Applicant

THIS IS EXHIBIT "B" TO
THE AFFIDAVIT OF W. JUDSON MARTIN
SWORN JANUARY 11, 2013



A Commissioner etc.

Chan Ching Yee
Solicitor
Reed Smith
Richards Butler
20/F Alexandra House
Hong Kong SAR

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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

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

**AFFIDAVIT OF W. JUDSON MARTIN
(Sworn August 14, 2012)**

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

1. I am the Vice-Chairman and Chief Executive Officer of Sino-Forest Corporation ("SFC"). I therefore have personal knowledge of the matters set out below, except where otherwise stated. Where I do not possess personal knowledge, I have stated the source of my information and I believe such information to be true.

2. This affidavit is made in support of a motion brought by SFC seeking an Order, substantially in the form included in SFC's Motion Record (the "Plan Filing and Meeting Order"), among other things: (i) accepting the filing of a draft plan of compromise and reorganization (the "Plan", attached hereto as Exhibit "A"); (ii) authorizing SFC to establish one class of affected creditors (the "Affected Creditors") for the purposes of considering and voting on the Plan; (iii) authorizing and directing SFC to call, hold and conduct a meeting (the "Meeting") of the Affected Creditors to consider and vote on the Plan (iv) approving the

procedures to be followed with respect to calling and conducting the Meeting; (v) establishing the process to set the date for the hearing of SFC's motion seeking an Order sanctioning the Plan (the "Sanction Hearing"); and (vi) amending the Claims Procedure Order (defined below) to call for monetary claims of the Ontario Securities Commission (the "OSC").

3. SFC believes that the Plan represents the best available outcome in the circumstances and that those with an economic interest in SFC, when considered as a whole, will derive a greater benefit from the implementation of the Plan and the continuation of the business of SFC as a going concern than would result from a bankruptcy or liquidation of SFC. The Plan is the product of extensive negotiation between SFC and the Ad Hoc Noteholders (defined below). The Ad Hoc Noteholders are, by far, the largest creditor constituency of SFC. The negotiations leading up to the Plan were overseen by the Monitor and I understand that the Monitor supports the filing of the Plan and the related relief sought on the within motion.

I. BACKGROUND

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

5. At the time the CCAA proceedings were commenced, SFC announced that it had entered into a restructuring support agreement (the "Support Agreement") on March 30, 2012, with certain noteholders (the "Ad Hoc Noteholders") in connection with a proposed comprehensive restructuring of SFC's ownership interest in its business operations. A copy of the Support Agreement (without signature pages) is attached hereto as Exhibit "C".

6. The parties to the Support Agreement have been negotiating a first amendment to the Support Agreement which is intended to conform the Support Agreement to the Plan.

7. As described in my affidavit in support of the Initial Order (attached without Exhibits as Exhibit "D", the "Initial Order Affidavit"), the Support Agreement called for SFC to pursue a plan of compromise on the terms set out in the Support Agreement in order to implement the agreed-upon restructuring transaction (the "Restructuring Transaction") and to simultaneously undertake a sales process as an alternative to the Restructuring Transaction. As such, on March 30, 2012, this Honourable Court granted an order approving the sale process procedures (the "Sale Process Order") and authorizing and directing SFC, the Monitor, and SFC's financial advisor, Houlihan Lokey, to do all things reasonably necessary to perform each of their obligations thereunder. A copy of the Sale Process Order is attached hereto as Exhibit "E".

8. On April 13, 2012, this Honourable Court made an order extending the stay of proceedings contained in the Initial Order to June 1, 2012 and on May 31, 2012, this Honourable Court further extended the stay period to September 28, 2012.

9. On May 14, 2012, this Court issued an order implementing a process for the calling of and resolution of claims against SFC as well as its directors and officers including indemnity claims of the directors and officers against SFC (the "Claims Procedure Order"). A copy of the Claims Procedure Order is attached hereto as Exhibit "F".

Claims Process

10. In accordance with the Claims Procedure Order, SFC and the Monitor have conducted a claims process to determine the aggregate of claims against SFC, its subsidiaries (only with respect to claims related to SFC) and its officers and directors.

11. Under the Claims Procedure Order, the Claims Bar Date was June 20, 2012. SFC and the Monitor are currently in the process of reviewing, reconciling and determining the quantum and the nature of all claims against SFC. The Monitor provided a summary on this issue in the Sixth Report of the Monitor.

Termination of the Sale Process

12. As discussed in my previous affidavits and in the Monitor's previous reports, phase one of the Sale Process established a deadline of June 28, 2012 for the receipt of qualified letters of intent. After this bid deadline, SFC, Houlihan Lokey and the Monitor determined that none of the letters of intent constituted a Qualified Letter of Intent as defined in the Sale Process Order. As such, on July 10, 2012, SFC issued a press release announcing the termination of the Sale Process along with SFC's intention to proceed with the Restructuring Transaction as contemplated by the Support Agreement. A copy of the July 10 press release is attached hereto as Exhibit "G".

II. PLAN OF COMPROMISE AND REORGANIZATION

13. A summary of the key provisions of the Plan are set out in the paragraphs below.

14. All capitalized terms used in this section and not otherwise defined, are as defined in the Plan.

A. Background & Information

15. The Plan is the result of extensive arm's length negotiations between counsel to SFC, counsel to the Board, and the Ad Hoc Noteholders' advisors. The Monitor and its counsel have also been involved throughout the course of negotiations.

16. While the Plan outlines how each relevant constituent group will be treated, there are certain matters (described below) that are not yet fully described therein. It is contemplated, and the proposed Plan Filing and Meeting Order provides, that there will be a supplement to the Plan which will provide those additional details and which will be filed no later than seven days prior to the Meeting to vote on the Plan. As is described more fully below (and referred to in my earlier affidavits and earlier reports of the Monitor), the Plan Filing and Meeting Order is necessary at this time (as opposed to waiting for all of the details to be finalized) in order to implement the Plan within a timeline that will preserve SFC's business as a going concern and thus the inherent value of the enterprise.

B. Overview of the Plan

17. The Plan is premised on SFC's belief that those with an economic interest in SFC will, when considered as a whole, derive greater benefit from the continued operation of the SFC business as a going concern than would result from a bankruptcy or liquidation of SFC.

18. The Plan contemplates that a new company ("Newco") will be incorporated and SFC will transfer substantially all of its assets to Newco. The result will be that Newco will own, directly

or indirectly, all of SFC's Subsidiaries and SFC's interest in the Greenheart Group. Pursuant to the Plan (and as is further explained below), the shares of Newco will be held by the Affected Creditors, a significant percentage of which are expected to be the current noteholders.

C. Consideration Available for Distribution

19. Under the terms of the Plan, the following are the primary "buckets" of consideration to be distributed:

- (a) All of the stock of Newco: Newco will become the owner of all of the stock of the six direct subsidiaries of SFC, which will result in Newco owning all of SFC's assets as well as any intercompany debts owed by the Subsidiaries to SFC;
- (b) Newco Notes (the complete details of which, as discussed below, have not yet been agreed upon); and
- (c) Interests in a litigation trust (the "Litigation Trust") which will hold all claims and actions that have been or may be asserted by or on behalf of (i) SFC against any and all third parties, and (ii) the Note Indenture Trustees, the noteholders or any of their representatives against any and all persons in connection with the notes (other than claims asserted in the class actions that are released pursuant to the Plan).

20. The precise terms of the constating documents of Newco, the Newco Notes and the Litigation Trust Agreement will be included in a Plan supplement that is to be filed no later than seven days prior to the Meeting to vote on the Plan.

D. Classification and Treatment of Certain Claims

21. On July 27, 2012, this Honourable Court granted SFC's motion for an order (the "Equity Claims Order") declaring that any claims arising in respect of the ownership or sale of SFC's shares, and any indemnification claims made in respect of such claims (with the possible exception of indemnity claims for defence costs associated with defending shareholder claims) are "equity claims" under the CCAA and are thus subordinate to the claims of the other creditors of SFC. Attached as Exhibit "H" is a copy of the Equity Claims Order, along with the corresponding endorsement.

22. In accordance with the Equity Claims Order, the Plan:

- (a) does not provide any recovery for current shareholders and shareholder class action claimants. However, the shareholder class action claimants' ability to continue their claims against third party defendants (any defendant other than SFC, its subsidiaries and certain of SFC's directors and officers) is preserved; and
- (b) provides that indemnity claims against SFC in respect of shareholder class action claims (including indemnity claims against SFC by its auditors, underwriters and directors and officers ("Third Party Defendants")) are "equity claims" and are subordinate to the claims of other creditors. As noted above, the Equity Claims Order left open the possibility that indemnification claims for defence costs could potentially be non-subordinated equity claims. Accordingly, the Plan provides that such costs will be "Unresolved Claims" under the Plan.

23. The vast majority of the Third Party Defendants' claims (other than those for defence costs and indemnity claims relating to the plaintiffs' noteholder claims, discussed below) have been classified as equity claims and are dealt with in the context of the Plan. The Plan Filing and Meeting Order provides that no Notices of Revision or Disallowance (as defined in the Claims Procedure Order) will be sent in respect of these Equity Claims and they will instead be fully addressed under the Plan Filing and Meeting Order.

24. Current noteholders and other "Affected Creditors" with "Proven Claims" will receive a *pro rata* share of 92.5% of the Newco Shares, 100% of the Newco Notes and 75% of the Litigation Trust Interests. The remaining 7.5% of the Newco Shares will be granted to Consenting Noteholders (as defined in the Initial Order) who are entitled to the Early Consent Consideration (as defined in the Initial Order).

25. The Plan provides that the claims of former noteholders against SFC, its subsidiaries and certain directors and officers will be released, and that the former noteholders will receive 25% of the Litigation Trust Interests.

26. The claims of former noteholders against the Third Party Defendants who have indemnification claims against SFC will be capped at a maximum claim amount that can be asserted in respect of such claims. The corresponding indemnity claims of the Third Party Defendants against SFC will be similarly capped at that same number. The cap for the former noteholders' claim against the Third party Defendants will be determined as between the Company, the Monitor, the Initial Consenting Noteholders and the class action plaintiffs (or, if necessary, the Court). The contingent claims of the Third Party Defendants for indemnity from SFC in respect of any such noteholder claims shall be treated as "Unresolved Claims" for

purposes of the Plan until they are finally resolved. For voting purposes, these defendants will have a vote equal to the maximum capped amount of the claims against them.

27. The Plan specifically provides that nothing in the Plan affects or is intended to affect any claims that anyone has in respect of any insurance policies (including any rights under any directors' and officers' policy).

28. Certain other claims are "Unaffected Claims". Holders of Unaffected Claims are to be paid in the ordinary course, will not be entitled to vote on the Plan and will not receive any distributions under the Plan. The Unaffected Claims are:

- claims secured by the Administration Charge (i.e. advisor fees) or the Directors' Charge;
- certain government priority claims relating to taxes, if any;
- employee priority claims, if any;
- claims of any employees, former employees, and directors or officers of SFC in respect of wages, vacation pay, bonus, termination pay, severance pay or other remuneration payable to such person by SFC;
- claims of the Note Indenture Trustees for reasonable outstanding fees and expenses; and
- trade payables incurred by SFC after March 30, 2012.

E. Releases

29. The Plan includes releases for a number of parties (the "Released Parties"), including certain current and former directors and officers of SFC (collectively, the "Named Directors"). The identification of the Named Directors was negotiated as part of the negotiation of the Plan.

30. There are, however, three main categories of claims against the Named Directors that will not be released pursuant to the Plan:

1. claims that cannot be released pursuant to subsection 5.1(2) of the CCAA. The Plan limits recovery in respect of such claims to any available coverage under the directors' and officers' insurance policy;
2. claims for fraud and criminal conduct; and
3. non-monetary remedies of the OSC or any other regulatory body.

31. Any individual current or former officer or director that is not a Named Director will not be released under the Plan.

32. In addition to the release of certain other individuals and other persons (such as advisors involved in the restructuring – which I am advised by Kevin Zych of Bennett Jones LLP is common in CCAA plans), the Plan provides for releases of all claims relating to SFC that may be made against the Subsidiaries. As noted in my Initial Order Affidavit, while the Applicant is a holding company, the "business" of Sino-Forest is conducted through its Subsidiaries (which are not CCAA applicants). There can be no effective restructuring of Sino-Forest's business and separation from its Canadian parent (which SFC has said from the outset was the objective of the commencement of these proceedings) if the claims asserted against the Subsidiaries arising or connected to claims against SFC remain outstanding. Just as the claims of SFC's noteholders against the Subsidiaries are to be released under the Plan upon implementation, so are the other claims against the Subsidiaries which relate to claims asserted against SFC.

F. Reserves

33. The Plan contemplates the establishment of five reserves: the Administration Charge Reserve, the Directors' Charge Reserve, the Unaffected Claims Reserve, the Unresolved Claims Reserve and the Monitor's Post-Implementation Reserve. The quantum of these reserves will need to be agreed to prior to the implementation of the Plan. If there is any cash remaining in any of these reserves after the applicable claims allocated to each of the reserves have been resolved, initially all remaining cash will be transferred to the Monitor's Post-Implementation Reserve. The Monitor may, in its discretion, release excess cash from the Monitor's Post-Implementation Reserve to Newco. Once the Monitor determines that the cash remaining in the Monitor's Post-Implementation Reserve is no longer necessary for administering SFC, the Monitor shall transfer the remaining funds to Newco.

G. Conditions Precedent

34. Section 9.1 of the Plan provides a list of conditions precedent. Two in particular are worth further noting: (i) there is a requirement that the Plan be implemented by November 30, 2012 (or such later date as consented to by SFC and the Ad Hoc Noteholders); and (ii) the Plan is conditional upon the Ad Hoc Noteholders being satisfied with their diligence review prior to the Sanction Hearing.

III. CREDITORS' MEETING

35. SFC is seeking authorization to call and hold the Meeting to vote in respect of the Plan. It is critical that SFC call the Meeting as soon as possible.

36. The Plan Filing and Meeting Order does not set a specific date for the Meeting. This is a result of the fact that the Monitor has 20 days from the date of the Plan Filing and Meeting Order for delivery of the meeting materials. The Meeting will then be held within 30 days of the mailing of the meeting materials. It is currently anticipated that the Meeting will be held in late September or early October.

37. By way of a general overview only, and as more particularly described in the proposed Plan Filing and Meeting Order, the Order provides for the:

- (a) delivery of meeting materials, including the notice of meeting and the information circular to Affected Creditors on a date selected by the Monitor within 20 days of the date of the Plan Filing and Meeting Order, as well as publication of the same on the Monitor's website within 3 business days of the date of the Plan Filing and Meeting Order;
- (b) classification of SFC's Affected Creditors in a single class of creditors for the purposes of voting and considering the Plan;
- (c) voting procedures and conduct of the Meeting;
- (d) delivery of the Monitor's report to the Court outlining the results of the vote; and
- (e) seeking of approval of the Plan and other relief as required.

38. The information circular is still being finalized and will be filed in supplemental motion materials.

39. The Plan Filing and Meeting Order also calls for any claims that the OSC may have against SFC and its directors and officers that will or could give rise to a monetary liability. The Claims Procedure Order that was previously granted by this Honourable Court did not require the OSC to file any such claims. These claims must now be identified given that the OSC was exempted under the Claims Procedure Order.

Plan Process Interaction with Court Ordered Mediation

40. By Order dated July 25, 2012, this Honourable Court ordered that the Ontario and Quebec class action plaintiffs, SFC, the Third Party Defendants, the Monitor, the Ad Hoc Noteholders and any insurers providing coverage for SFC or the Third Party Defendants attend a mediation to resolve the plaintiffs' claims against both SFC and the other defendants and any and all related claims (the "Mediation"). A copy of the Mediation Order dated July 25, 2012 is attached as Exhibit "I".

41. While SFC is certainly hopeful that a comprehensive resolution can be reached in the Mediation, the Plan is not conditional on such a successful resolution being reached. However, for the reasons described above and below, a parallel track whereby SFC pursues this restructuring transaction while the Mediation takes place is appropriate.

IV. PLAN FILING AND MEETING ORDER IS NECESSARY AND APPROPRIATE

42. I believe that the Plan is fair and reasonable in the circumstances and that the contemplated timeline is both necessary and appropriate. As explained in my Initial Order Affidavit, SFC's position has always been that a transfer of ownership of the "business" on an expedited basis was necessary to avoid a piecemeal liquidation. Both SFC and the Monitor have reiterated this

position repeatedly to both stakeholders and this Honourable Court and this Honourable Court recognized this reality, including in its endorsement in respect of the Equity Claims Order.

43. The need for a timely resolution of these proceedings has only been heightened by the adverse developments which have taken place over the past weeks regarding the status of SFC's accounts receivable and the deregistration of certain of the authorized intermediaries all of which is described in the Sixth Report of the Monitor. I believe that the Plan Filing and Meeting Order is necessary if there is to be any prospect for a timely resolution of these proceedings.

SWORN BEFORE ME at the City of Hong
Kong, Special Administrative Region,
People's Republic of China, this 14th day of
August, 2012

Tai Kam Cheung
Deacons
Solicitor, Hong Kong, SAR



W. Judson Martin

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

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

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

Proceedings commenced in Toronto

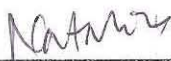
**AFFIDAVIT OF W. JUDSON MARTIN
(Sworn August 14, 2012)**

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Lawyers for the Applicant

THIS IS EXHIBIT "C" TO
THE AFFIDAVIT OF W. JUDSON MARTIN
SWORN JANUARY 11, 2013



A Commissioner etc.

Chan Ching Yee
Solicitor
Reed Smith
Richards Butler
20/F Alexandra House
Hong Kong SAR

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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

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

**AFFIDAVIT OF W. JUDSON MARTIN
(Sworn November 29, 2012)**

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

1. I am the Vice-Chairman and Chief Executive Officer of Sino-Forest Corporation ("SFC"). I therefore have personal knowledge of the matters set out below, except where otherwise stated. Where I do not possess personal knowledge, I have stated the source of my information and I believe such information to be true. Where I indicate that I have been advised by counsel, that advice has been provided by Bennett Jones LLP, counsel for SFC in this proceeding.
2. Capitalized terms not defined in this affidavit are as defined in my affidavit sworn March 30, 2012 (the "Initial Order Affidavit") and the Thirteenth Report of the Monitor dated November 22, 2012 (the "Monitor's Thirteenth Report"). A copy of my Initial Order Affidavit (without exhibits) is attached as Exhibit "A".

3. All currency references in this affidavit refer to U.S. Dollars unless otherwise indicated.
4. This affidavit is sworn in support of a motion by SFC for an order (the "Sanction Order") under section 6(1) of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 (the "CCAA") sanctioning an amended plan of compromise and reorganization (the "Plan") between SFC and its creditors. I understand that a draft of the form of Sanction Order being sought was included in the Plan Supplement filed by SFC on November 21, 2012, and any further changes to the form of Sanction Order will be filed prior to the hearing.
5. This affidavit identifies a number of affidavits I have previously sworn along with Monitor's reports and other materials that SFC is relying on in support of the Sanction Order motion. Such materials will be filed in a separate brief prior to the hearing.
6. I am advised by counsel that if the Plan is approved, SFC and Newco (defined below) intend to rely on the Sanction Order for the purposes of relying on the exemption from the registration requirements of the United States Securities Act of 1933, as amended, pursuant to section 3(a)(10) thereof for the issuance of the Newco Shares, Newco Notes, and to the extent they may be deemed to be securities, the Litigation Trust Interest, and any other securities to be issued pursuant to the Plan.

I. BACKGROUND

7. As I explained in greater detail in the Initial Order Affidavit, SFC is an integrated forest plantation operator and forest products company, with most of its assets and the majority of its business operations located in the southern and eastern regions of the People's Republic of China

(the "PRC"). SFC's registered office is in Toronto and its principal business office is in Hong Kong.

A. Muddy Waters and SFC's Independent Committee

8. As a result of a report issued by short-seller Muddy Waters LLC ("Muddy Waters") on June 2, 2011, which alleged that SFC was a "near total fraud" and a "Ponzi scheme", SFC found itself embroiled in multiple class actions across Canada and in the U.S., investigations and regulatory proceedings with the Ontario Securities Commission (the "OSC"), the Hong Kong Securities and Futures Commission and the RCMP.

9. As I have described in prior affidavits filed with the Court and above, immediately after the allegations were made by Muddy Waters, the Board appointed an independent committee (the "IC") of the Board, which in turn engaged professionals in Ontario, Hong Kong and in the PRC to assist in investigating the allegations. The IC retained Osler Hoskin & Harcourt LLP in Canada, Mallesons (an international law firm with offices in Beijing, Shanghai and Hong Kong) and Jun He Law Offices (a PRC law firm). The IC also appointed PricewaterhouseCoopers to assist with the investigations.

10. The Board also retained new company counsel, Bennett Jones LLP, to assist and work with the IC and the IC's advisors, to assist management, to respond to class action claims against SFC and to respond on behalf of SFC to inquiries and demands from securities regulators.

11. The IC was active and met frequently to supervise professionals and receive reports about their progress.

12. The IC and its advisors worked to compile and analyze the vast amount of data required for their review of Sino-Forest's operations and business, the relationships between Sino-Forest and other entities, and Sino-Forest's ownership of assets. The IC supervised the investigation and preparation of three reports that addressed those aspects, described the extensive work of the IC and its advisors and the conclusions that could be reached from the work undertaken by them. Redacted versions of the IC reports were publicly disclosed.

13. The IC set out to address the issues raised by Muddy Waters in three core areas: (i) the verification of timber assets reported by Sino-Forest, (ii) the value of the timber assets held by Sino-Forest, and (iii) revenue recognition. In addition, in its First Interim Report, the IC's accounting advisors confirmed SFC's cash balances in specific account as at June 13, 2011, for accounts located inside and outside of the PRC. The results of the IC's efforts are described in greater detail in my Initial Order Affidavit.

B. Efforts to Obtain Audit Opinions

14. In late August 2011 the IC's efforts uncovered information that raised conduct issues about certain members of former management of Sino-Forest. This information was shared by the IC with staff of the OSC. This information resulted in the OSC imposing a temporary cease trade order (the "TCTO") on the securities of SFC on August 26, 2011, which order was later continued and continues in force.

15. Arising from these developments, certain former members of management were placed on administrative leave. The Board appointed me as Chief Executive Officer of SFC after Allen Chan resigned as Chairman, CEO and a Director, on August 28, 2011.

16. Following the events of late August, 2011, the IC continued its investigative work. From late August 2011 onward, under the Board's oversight, considerable effort was directed at determining if the issues identified by Muddy Waters and by investigative work to date could be resolved with sufficient time to allow SFC to become current in its financial reporting, and to obtain an audit opinion for 2011. Failure to issue quarterly results or to issue audited annual financial results could lead to the possible acceleration and enforcement of approximately \$1.8 billion in notes issued by SFC and guaranteed by many of its Subsidiaries.

17. Notwithstanding considerable efforts by the Board, the IC, management and advisors, in mid-November 2011, SFC's Audit Committee recommended, and the Board agreed, that SFC should defer the release of SFC's third quarter 2011 financial statements until certain conduct issues could be resolved to the satisfaction of the Board and SFC's external auditor.

18. By December 2011, it appeared that it would not be possible to obtain an audit opinion for 2011 in sufficient time to avoid defaults under SFC's Note Indentures, nor would it be possible to issue third quarter 2011 financial results.

19. On December 16, 2011, the Board established a Special Restructuring Committee ("RC") of the Board, comprised exclusively of directors independent of management of SFC, for the purpose of supervising, analyzing and managing the strategic options available to SFC. Subsequent to its appointment, the RC has been fully engaged and active in supervising and supporting SFC's restructuring efforts.

C. Defaults under the Indentures and the Support Agreement

20. SFC's inability to file its third quarter 2011 financial statements ultimately resulted in a default under its note indentures. After extensive discussions with an ad hoc committee of Noteholders (the "Ad Hoc Noteholders"), Noteholders representing a majority in principal amount of SFC's senior notes agreed to waive the default arising from the failure to release the SFC 2011 third quarter results. While the waiver agreements prevented an acceleration of the note indebtedness as a result of SFC's failure to file its 2011 third quarter results, the waiver agreements would have expired on April 30, 2012 (or any earlier termination of the waiver agreements in accordance with their terms). In addition, SFC's pending failure to file its audited financial statements for its fiscal year ended December 31, 2011 by March 30, 2012, would have caused another potential acceleration and enforcement event, creating additional uncertainty around SFC's business.

21. Following extensive arm's length negotiations between SFC and the Ad Hoc Noteholders, the parties agreed on a framework for a consensual resolution of SFC's defaults under its note indentures and the restructuring of its business, and entered into a restructuring support agreement (the "Support Agreement") on March 30, 2012, which was initially executed by holders of SFC's Notes holding approximately 40% of the aggregate principal amount of the Notes.

22. As further discussed below, additional Consenting Noteholders subsequently executed joinder agreements to the Support Agreement, resulting in Noteholders representing more than 72% of the aggregate principal amount of the Notes agreeing to support the restructuring contemplated by the Support Agreement.

23. Throughout this process, the Board and certain members of SFC management engaged with the Ad Hoc Noteholders, both through counsel and directly on a principal-to-principal basis, to assist them in understanding the restructuring challenges faced by SFC and its stakeholders, and to provide information to the Ad Hoc Noteholders in connection with their due diligence efforts.

24. From a commercial perspective, the restructuring contemplated by the Support Agreement was intended to separate Sino-Forest's business operations from the problems facing the parent holding company outside of the PRC, with the intention of saving and preserving the value of SFC's underlying business. To this end, two possible transactions were contemplated:

- (a) First, a court-supervised Sale Process being undertaken to determine if any person or group of persons would purchase SFC's business operations for an amount in excess of a threshold amount of consideration (which was set at 85% of the amount outstanding under the Notes at the CCAA filing date), with the potential for excess above such threshold amount being directed to stakeholders subordinate to the Noteholders. The Sale Process was intended to ensure that SFC pursued all avenues available to it to maximize value for its stakeholders;
- (b) Second, if the Sale Process was not successful, a transfer of the six immediate holding companies that own SFC's business to the Affected Creditors in compromise of their claims against SFC and the creation of a litigation trust (including funding) that would enable SFC's litigation claims against any Person not otherwise released within the CCAA proceedings to be preserved and pursued

for the benefit of SFC's stakeholders in accordance with the Support Agreement (the "Restructuring Transaction").

25. The decision to enter into the Support Agreement was given careful consideration by the Board of SFC. But for the negotiation and execution of the Support Agreement, SFC would have been unable to prevent the acceleration and enforcement of the rights of the Noteholders as soon as April 30, 2012, in which case SFC and Sino-Forest would have been unable to continue as a going concern.

26. The Support Agreement provided that SFC would make an application under the CCAA in order to implement the Sale Process and, failing receipt of a qualified bid, to implement the Restructuring Transaction.

27. Quite apart from the provisions of the Support Agreement, the circumstances facing SFC and its Subsidiaries (as described above and in the Initial Order Affidavit) necessitated the commencement of these CCAA proceedings in order to attempt to separate the business operations of Sino-Forest from the challenges facing the holding company parent in order to allow the business to be saved.

28. SFC applied to this Honourable Court and obtained an Initial Order under the CCAA on March 30, 2012 (the "Initial Order"), pursuant to which a limited stay of proceedings was also granted in respect of the Subsidiaries. The stay of proceedings provided for in the Initial Order was subsequently extended by Orders dated May 31, September 28, October 10, and November 23, 2012, and unless further extended by the Court, will expire on February 1, 2013.

II. THE NATURE OF SFC'S ASSETS AND SFC'S EFFORTS TO MARKET THEM

A. SFC's Assets

29. As described in the Initial Order Affidavit, SFC is a holding company with six direct subsidiaries of SFC (the place of incorporation is indicated in parentheses): Sino-Panel Holdings Limited (BVI); Sino-Global Holdings Inc. (BVI); Sino-Panel Corporation (Canada); Sino-Wood Partners Limited (Hong Kong); Sino-Capital Global Inc. (BVI) and Sino-Forest International (Barbados) Corporation (Barbados) (collectively, the "Direct Subsidiaries"). SFC also holds all of the preference shares of Sino-Forest Resources Inc. (BVI).

30. In addition, SFC holds an indirect majority interest in Greenheart Group Limited (Bermuda), an investment holding company whose shares are listed on the Hong Kong Stock Exchange. Together with its subsidiaries, Greenheart owns certain rights and manages hardwood forest concessions in the Republic of Suriname and a radiata pine plantation on freehold land in New Zealand. Greenheart has its own distinct operations and financing arrangements and is not party to or a guarantor of the notes issued by SFC. Greenheart and SFC operate out of separate office buildings in Hong Kong.

31. Including SFC, Sino-Forest Resources Inc. and the Direct Subsidiaries, there are 137 entities that make up the Sino-Forest companies: 67 companies incorporated in the PRC (with 11 branch companies), 58 BVI incorporated entities, 7 Hong Kong incorporated entities, 2 Canadian entities and 3 entities incorporated in other jurisdictions. Greenheart and its subsidiaries are not included in the foregoing. A list of all of the SFC subsidiaries (the "Subsidiaries") is attached as Exhibit "B" (which does not include subsidiaries of Greenheart, but does contain SFC branch companies). The term "Sino-Forest" is used herein to refer to the global enterprise as a whole.

32. I understand that in addition to claims against SFC, numerous stakeholders have asserted claims against the Subsidiaries in respect of their claims against SFC. As has been apparent from the outset of these proceedings, in order to achieve the commercial objective of separating the Sino-Forest business from the parent holding company, any successful resolution to these proceedings must provide a "clean break" between SFC and the Subsidiaries. Accordingly, as further described below, the Plan provides for the transfer of SFC's assets, including the Direct Subsidiaries, to Newco for the benefit of all of SFC's Affected Creditors as well as a release of the Subsidiaries in respect of such claims.

B. The Sale Process

33. As discussed above, the Support Agreement contemplated the sale of the assets of SFC (i.e. its Subsidiaries) through a court-supervised sale process in which the assets of SFC were offered for an amount of consideration equal to a minimum required threshold as set out in the Support Agreement, which was set at 85% of the outstanding amount of the Notes as of the CCAA filing date.

34. SFC applied for and obtained an order from this Court on March 30, 2012 (the "Sale Process Order") approving the sale process procedures (the "Sale Process Procedures") and authorizing and directing SFC, the Monitor, and SFC's financial advisor, Houlihan Lokey ("Houlihan"), to do all things reasonably necessary to perform each of their obligations under the Sale Process Order.

35. Pursuant to the Sale Process Procedures, SFC, through Houlihan sought out potential qualified strategic and financial purchasers (including existing shareholders and noteholders) of

SFC's assets on a global basis and attempted to engage such potential purchasers in the Sale Process.

36. The Sale Process Procedures approved in the Sale Process Order were carried out by the applicable parties. In particular, as described in the Fourth Report of the Monitor:

- (a) a notice was published in the Globe & Mail and the Wall Street Journal with respect to the Sale Process;
- (b) a teaser letter was sent to 85 potentially interested parties; and
- (c) fourteen confidentiality agreements were negotiated with parties who indicated an interest in the business.

37. The Sale Process Procedures provided SFC with up to 90 days from the day of the Sale Process Order to solicit letters of intent and, if qualified letters of intent were received within the required time period, a further 90 days to solicit qualified bids. As set out in the Sale Process Order, to constitute a Qualified Letter of Intent, the letter of intent must have, among other things, indicated that the bidder was offering to acquire SFC's assets for consideration not less than the Qualified Consideration. Qualified Consideration was defined in the Sale Process Procedures as:

"Qualified Consideration" means cash consideration payable to SFC (or such other form of consideration as may be acceptable to SFC and the Initial Consenting Noteholders) in an amount equal to 85% of the aggregate principal amount of the Notes, plus all accrued and unpaid interest on Notes, at the regular rates provided therefor pursuant to the Note indentures, up to and including March 30, 2012.

38. A number of letters of intent were received by SFC on or about the June 28, 2012 deadline set out in the Sale Process Procedures. However, in accordance with the Sale Process Order, SFC, Houlihan and the Monitor determined that none of the letters of intent constituted a Qualified Letter of Intent, because none of them offered to acquire the assets of SFC for the Qualified Consideration. As such, on July 10, 2012, SFC announced the termination of the Sale Process and SFC's intention to proceed with the Restructuring Transaction.

III. SINO-FOREST'S STAKEHOLDERS

39. In order to move forward with its restructuring efforts in a timely manner, it was critical for SFC to ascertain all claims against SFC, its Subsidiaries and its directors and officers in order to assess what impact such claims may have with respect to its restructuring. Accordingly, SFC, in consultation with the Monitor, developed a claims process, which was approved by Order of this Honourable Court on May 14, 2012 (the "Claims Process Order"). The Claims Process Order was not appealed.

40. Under the Claims Process Order, Proofs of Claim and D&O Proofs of Claim were required to be filed with the Monitor on or before the Claims Bar Date (June 20, 2012), while Restructuring Claims were required to be filed on or before the Restructuring Claims Bar Date (the later of the Claims Bar Date and 30 days after a Person is deemed to receive a Proof of Claim Document Package). D&O Indemnity Proofs of Claim were also required to be filed with the Monitor on a date that was relative to when the director or officer received notice of a D&O Proof of Claim.

41. In order to identify the nature and extent of claims asserted against the Subsidiaries, the Claims Process Order required any claimant that had or intended to assert a right or claim against

one or more Subsidiaries relating to a purported claim made against SFC to so indicate on their Proof of Claim.

42. In its Thirteenth Report, the Monitor described the claims submitted pursuant to the Claims Process Order, certain of which are also discussed below.

A. The Noteholders

43. As indicated, at the date of filing, Sino-Forest had approximately \$1.8 billion of principal amount of debt owing under the Notes, plus accrued and unpaid interest. There are four series of Notes issued and outstanding, as follows:

- (a) *2017 Senior Notes:* There are \$600 million in principal amount of guaranteed senior notes that were issued on October 21, 2010, bearing interest at a rate of 6.25% per annum, payable semi-annually (the "2017 Senior Notes"). These are supported by guarantees from 60 Subsidiaries and share pledges from ten of those same Subsidiaries.
- (b) *2016 Convertible Notes:* There are \$460 million in principal amount of convertible guaranteed notes that were issued on December 17, 2009, bearing interest at a rate of 4.25% payable semi-annually (the "2016 Convertible Notes"). These notes are supported by guarantees from 64 Subsidiaries.
- (c) *2014 Convertible Notes:* There are \$399,517,000 in principal amount of senior notes that were issued on July 27, 2009, bearing interest at a rate of 10.25% per annum, payable semi-annually (the "2014 Senior Notes"). These notes are

supported by guarantees from 60 Subsidiaries and share pledges from ten of those same Subsidiaries.

- (d) *2013 Convertible Notes:* There are \$345 million in principal amount of convertible guaranteed notes that were issued on July 23, 2008, bearing interest at a rate of 5% per annum, payable semi-annually (the "2013 Convertible Notes"). These notes are supported by guarantees from 64 Subsidiaries.

The 2017 Senior Notes, 2016 Convertible Notes, 2014 Senior Notes and 2013 Convertible Notes are collectively referred to herein as the "Notes" and holders of the Notes, the "Noteholders".

44. As of the date of the Support Agreement, the Initial Consenting Noteholders held approximately 40% of the aggregate principal amount of the four series of Notes. Pursuant to certain notice provisions established in the Initial Order, SFC continued to solicit additional Noteholder support and all Noteholders who wished to become Consenting Noteholders and participate in the Early Consent Consideration; (each as defined in the Support Agreement and described below) were given the opportunity to do so by the early consent deadline of May 15, 2012. As of May 15, 2012, Noteholders (including the Initial Consenting Noteholders) holding in aggregate approximately 72% of the principal amount of the Notes, and representing more than 66.67% of the principal amount of each of the four series of Notes, agreed to support the Plan.

B. Shareholders / Former Noteholders

45. As I explained in the Initial Order Affidavit, SFC and certain of its officers, directors and employees, along with SFC's former auditors, technical consultants and the Underwriters

(defined below) involved in prior equity and debt offerings, have been named as defendants in eight class action lawsuits.

46. Five of these class action lawsuits, commenced by three separate groups of counsel, were filed in the Ontario Superior Court of Justice on June 8, 2011, June 20, 2011, July 20, 2011, September 26, 2011 and November 14, 2011. A carriage motion in relation to these actions was heard on December 20 and 21, 2011, and by Order dated January 6, 2012, Justice Perell appointed Koskie Minsky LLP and Siskinds LLP as class counsel. As a result, Koskie Minsky LLP and Siskinds LLP discontinued their earliest action, and their other two actions have been consolidated and will move forward as one proceeding. The other two Ontario actions, commenced by other counsel, have been stayed.

47. Pursuant to Justice Perell's January 6, 2012 Order, Koskie Minsky LLP and Siskinds LLP have filed a fresh as amended Statement of Claim in the consolidated proceeding. A copy of that amended Statement of Claim is attached as Exhibit "C". The plaintiffs in the Ontario Class Action (the "Ontario Class Action Plaintiffs"), on behalf of current and former shareholders of SFC, seek damages against SFC and the other defendants in the Ontario Class Action in the amount of \$6.5 billion for general damages, \$174.8 million in connection with a prospectus issued in June 2007, \$330 million in relation to a prospectus issued in June 2009, and \$319.2 million in relation to a prospectus issued in December 2009. The market cap for SFC during the times of the alleged misrepresentations ranged from \$546.5 million to \$6.15 billion.

48. The Ontario Class Action Plaintiffs also assert claims on behalf of former holders of SFC's Notes in the amounts of \$345 million for the 2013 Convertible Notes, \$400 million for the 2014 Senior Notes, \$460 million for the 2016 Convertible Notes, and \$600 million for the 2017 Senior

Notes, for a total claim of approximately \$1.8 billion. The first class action claim that asserted any claims on behalf of Noteholders was issued on September 26, 2011. The Noteholder component of this claim asserts, among other things, damages for loss of value in the Notes. In the months following the Muddy Waters report, the relevant Notes traded at a range of \$53 to \$64 per \$100 amount of principal owing.

49. A similar class action was filed in Quebec. Attached as Exhibit "D" is a copy of the Quebec pleading. A third class action was filed in Saskatchewan. Attached as Exhibit "E" is a copy of the Saskatchewan Statement of Claim. While a Proof of Claim was filed by the plaintiffs in the Quebec class action, no Proof of Claim was filed by the plaintiffs in the Saskatchewan class action.

50. Additionally, on January 27, 2012, a class action was commenced against SFC and other defendants in the Supreme Court of the State of New York, U.S.A. The complaint alleges that the action is brought on behalf of persons who purchased SFC shares on the over-the-counter market and on behalf of non-Canadian purchasers of SFC debt securities. The quantum of damages sought is not specified in the complaint. Attached as Exhibit "F" is a copy of the most recent version of the Complaint in the New York proceeding. The plaintiffs in the New York proceeding have filed a Proof of Claim in this proceeding.

51. In this proceeding, an "Ad Hoc Committee of Purchasers of the Applicant's Securities" (the "Ad Hoc Securities Purchasers Committee") has appeared to represent the interests of shareholders and noteholders who have asserted class action claims against SFC and others. The Ad Hoc Securities Purchasers Committee is represented in this proceeding by Siskinds LLP, Koskie Minsky, and Paliare Roland Rosenberg Rothstein LLP. As indicated above, two of these

firms won the right to represent the plaintiffs in the Ontario class action, and the Siskind firm is plaintiff counsel in the Quebec class action.

52. On June 26, 2012, SFC brought a motion for an order directing that claims against SFC that arise in connection with the ownership, purchase or sale of an equity interest in SFC and related indemnity claims are "equity claims" as defined in section 2 of the CCAA, including the claims by or on behalf of current or former shareholders asserted in class action proceedings commenced against SFC. The equity claims motion did not purport to deal with the component of the class action proceedings that relate to debt claims.

53. The Ad Hoc Securities Purchasers Committee did not oppose the relief requested. The relief was opposed only by SFC's former auditors and the Underwriters.

54. In reasons released on July 27, 2012, a copy of which is attached as Exhibit "G", this Honourable Court granted the relief sought by SFC (the "Equity Claims Decision"), finding at paragraph 77 that "the claims advanced in the Shareholder Claims are clearly equity claims."

55. The Ad Hoc Securities Purchasers Committee did not appeal this decision. I am advised by counsel that none of the parties who later appealed the decision suggested that the Court's determination on the characterization of the shareholder claims against SFC was incorrect. As further discussed below, the Equity Claims Decision was affirmed by the Court of Appeal for Ontario on November 23, 2012.

56. Consistent with the Equity Claims Decision, shareholder claims against SFC are subordinated and not entitled to vote or receive distributions under the Plan.

57. On October 26, 2012, the Ad Hoc Securities Purchasers Committee stated that they would not directly or indirectly oppose the Plan, so long as no amendment is made to the Plan that in the opinion of the Ad Hoc Securities Purchasers Committee, in the good faith exercise of its discretion, would be materially prejudicial to the interests of the Ad Hoc Securities Purchasers Committee.

58. The Ad Hoc Securities Purchasers Committee will not oppose a Plan which provides that: (i) all shareholder claims against SFC will be subordinated as "Equity Claims" and released without consideration under the Plan; (ii) all former noteholder claims against SFC will be released without consideration under the Plan (other than a 25% interest in the Litigation Trust); and (iii) the quantum of the "Indemnified Noteholder Class Action Limit" in the Plan (as further discussed below) will be set at \$150 million.

59. As discussed below, the Plan preserves all of the aforementioned claims against defendants to the Class Action Claims (present or future) other than SFC, the Subsidiaries, the Named Directors and Officers or the Trustees under the Notes (the "Third Party Defendants"), subject in the case of any Indemnified Noteholder Class Action Claims to the Indemnified Noteholder Class Action Limit.

60. SFC's existing shares will be cancelled pursuant to the Plan and the Plan Sanction Order.

C. Auditors

61. Since 2000 SFC has had two auditors: Ernst & Young LLP ("E&Y"), who acted as auditor from 2000 to 2004 and 2007 to 2012, and BDO Limited ("BDO"), who acted as auditor from 2005 to 2006.

62. I understand from counsel to SFC that the auditors have asserted claims against SFC for contribution and indemnity for any amounts paid or payable in respect of the shareholder class actions, with each of the auditors having asserted claims in excess of \$6.5 billion. In addition the auditors have asserted claims for payment of professional fees associated with SFC after the release of the Muddy Waters report, and generalized claims for damage to reputation. A summary extract from E&Y's Proof of Claim is attached as Exhibit "H". A summary extract from BDO's Proof of Claim is attached as Exhibit "I".

63. In the Equity Claims Decision, the Court stated at paragraph 84 that "the claims of E&Y, BDO and the Underwriters constitutes an 'equity claim' within the meaning of the CCAA. Simply put, but for the Class Action Proceedings, it is inconceivable that claims of this magnitude would have been launched by E&Y, BDO and the Underwriters as against SFC."

64. The auditors and Underwriters appealed the decision to the Court of Appeal for Ontario. The hearing of that appeal was held on November 13, 2012. On November 23, 2012, the Court of Appeal dismissed the appeal. Attached as Exhibit "J" is a copy of the reasons of the Court of Appeal.

65. Consistent with the Equity Claims Decision and the Court of Appeal's dismissal of the appeal, the claims of the auditors for indemnity in respect of the shareholder class action claims are subordinated and are not entitled to vote or receive any distributions under the Plan. The auditors' claims for defence costs relating to the defence of shareholder class actions (which have not yet been determined to be equity or debt claims) are treated as Unresolved Claims under the Plan.

66. The auditors have also asserted indemnification claims in respect of the class action claims against them by the former Noteholders. As these indemnification claims have not been determined to be "equity claims", the Plan provides for these claims by placing Plan consideration in respect of the amount of these claims into the Unresolved Claims Reserve, to be distributed to the defendants if any of these claims become non-contingent Proven Claims. The amount of these potential indemnification claims has been limited to a global limit of \$150 million by operation of the "Indemnified Noteholder Class Action Claim Limit" under the Plan, which limits the amount of the Indemnified Noteholder Class Action Claims against the Third Party Defendants to \$150 million in the first instance. The Plan preserves the right to contest these indemnity claims, including the right to seek an order of the CCAA Court that these indemnification claims in respect of claims by former noteholders should be subordinated in the same manner as the indemnification claims in respect of the shareholders actions have been.

67. The auditors have also asserted claims against the Subsidiaries for, among other things, indemnification in connection with the shareholder class actions. Those claims have tended to treat SFC and the Subsidiaries interchangeably or as one collective entity. These claims are released under the Plan in the same manner as the Noteholders' guarantee claims against the Subsidiaries are released under the Plan.

D. Underwriters

68. In each instance where SFC has had a debt or equity public offering, such offering has been underwritten. The following firms have acted as SFC's underwriters and also have been named as defendants in the Ontario Class Action: Credit Suisse Securities (Canada) Inc., Credit Suisse Securities (USA) LLC, TD Securities Inc., Dundee Securities Corporation, RBC

Dominion Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Cannacord Financial Ltd and Maison Placements Canada Inc. (the "Underwriters"). Certain of the Underwriters also are defendants in the New York class action.

69. Like the auditors, the Underwriters have filed claims against SFC seeking contribution and indemnity for the shareholder class actions. A copy of a representative sample of a proof of claim filed by one of the Underwriters is attached as Exhibit "K".

70. The Equity Claims Decision discussed above, upheld by the Court of Appeal for Ontario, applies equally to the Underwriters as it does to the auditors. Accordingly, the Underwriters' indemnity claims in respect of shareholder claims have been subordinated and are not entitled to vote or receive any distributions under the Plan. The Underwriters' claims for defence costs relating to the defence of shareholder class action, together with such claims of the auditors, are treated as Unresolved Claims under the Plan.

71. The Underwriters have also asserted indemnification claims in respect of the class action claims against them by the former Noteholders. For the same reasons and subject to the same terms as described above with respect to the auditors' indemnification claims, the Plan provides for these claims by placing Plan consideration in respect of the amount of these claims into the Unresolved Claims Reserve, limited to a global limit of \$150 million by operation of the Plan.

72. Certain of the Underwriters have also asserted claims against the Subsidiaries in connection with the four Note offerings. Like all other SFC-related claims against the Subsidiaries, these claims are released under the Plan.

E. Ontario Securities Commission

73. On June 8, 2011, six days after the Muddy Waters report was released and the Board of SFC appointed the IC to investigate the allegations contained in that report, the OSC publicly announced that it was investigating matters related to SFC.

74. SFC believes that it has cooperated with the OSC. Under the supervision of the Board, SFC has made extensive production of documents, including documents sourced from jurisdictions outside of the OSC's power to compel production. Under the supervision of the Board, SFC also has facilitated interviews by the OSC with SFC and other Sino-Forest personnel. In circumstances where OSC staff sought to examine Sino-Forest personnel resident in the PRC, outside the OSC's jurisdiction to compel attendance at examination, SFC arranged to bring individuals to Hong Kong to be examined.

75. Absent cooperation from SFC, SFC was at risk that the OSC would seek to exercise additional powers in relation to SFC beyond imposing the TCTO. These additional powers could have extended to the appointment of a receiver over SFC. The Board's decision to inform the OSC of the results of the IC's investigative work, and to cooperate with the OSC's investigation, was important to preserving stakeholder value.

76. SFC has responded to extensive inquiries and has provided periodic oral briefings to OSC staff. The three reports prepared by the IC were provided to OSC staff on an unredacted basis. A significant portion of the professional costs incurred by SFC subsequent to June 2, 2011 relates to the production of documents and other information to OSC staff, and to producing Sino-Forest personnel for interviews with OSC staff.

77. In April 2012, SFC received an Enforcement Notice from OSC staff. Enforcement Notices typically are issued by OSC staff at or near the end of an investigation, identify issues that have been the subject of investigation, and advise that staff contemplate commencing formal proceedings in relation to those issues. Enforcement Notices afford recipients an opportunity to make representations before a decision is taken by staff of the OSC to commence formal proceedings. OSC staff asserted that the Enforcement Notice was protected from disclosure pursuant to sections 16 and 17 of the Ontario *Securities Act*.

78. On May 22, 2012, a Notice of Hearing and Statement of Allegations was issued by OSC staff against SFC, Allen Chan, Albert Ip, Alfred C.T. Hung, George Ho, Simon Yeung, and David Horsley. A copy of the Statement of Allegations is attached as Exhibit "L". OSC staff alleged in the Statement of Allegations that SFC and the other respondents, except David Horsley, had engaged in a complex fraudulent scheme to inflate the assets and revenue of SFC and made materially misleading statements in SFC's public disclosure record. It is further alleged by OSC staff that such conduct was contrary to the Ontario *Securities Act* and contrary to the public interest. No date has been set for a hearing on the merits.

79. On September 25, 2012, SFC received a second "Enforcement Notice" from OSC staff, which OSC staff again asserted was protected from disclosure. SFC issued a press release announcing the receipt of this Enforcement Notice on September 26, 2012, a copy of which is attached as Exhibit "M". The press release describes how the second Enforcement Notice includes a further allegation, which is similar in nature to the allegations in the Statement of Allegations discussed above.

80. By letter dated September 13, 2012, a copy of which is attached as Exhibit "N", counsel for OSC staff advised that OSC staff would not be seeking any monetary sanctions against SFC, and that they would not seek monetary sanctions against any of the directors and officers of SFC in excess of CAD\$100 million. This amount was later reduced to CAD\$84 million, as set out in a further letter dated October 25, 2012, a copy of which is attached as Exhibit "O".

F. Trade Creditors and Other Creditors

81. As SFC is a holding company whose business is substantially carried out through its subsidiaries in the PRC and Hong Kong, SFC has very few trade creditors. The Monitor's Thirteenth Report explains that only three trade claims have been filed pursuant to the Claims Process Order. Other than a claim filed by the former Chief Financial Officer of SFC arising from the termination of his employment, I am not aware of any other creditors of significance that have filed claims pursuant to the Claims Process Order.

IV. EFFORTS AND ACHIEVEMENTS IN ARRIVING AT A NEGOTIATED RESOLUTION

82. The fundamental component of SFC's proposed restructuring, being a complete separation of the Subsidiaries and the Sino-Forest business from SFC in compromise of the claims asserted against SFC, has not changed since the commencement of these proceedings.

83. As indicated above, SFC obtained the support of 72% of the Noteholders to its proposed restructuring at an early stage of this proceeding. On October 26, 2012, SFC also obtained the non-objection to the Plan of the Ad Hoc Securities Purchasers Committee. Significant efforts have been made to arrive at a consensual resolution with the other stakeholders described above.

84. On July 25, 2012, this Honourable Court issued a mediation order (the "Mediation Order"), on the consent of all parties, directing that a mediation take place on September 4 and 5, 2012.

85. In advance of the mediation, SFC established a confidential data room, as contemplated by the Mediation Order. That data room made available to those parties to the mediation who signed non-disclosure agreements with SFC approximately 18,000 documents that had been assembled in order to potentially make them available to participants in the Sale Process and additional documents that were requested by the Ad Hoc Securities Purchasers Committee.

86. The mediation took place on September 4 and 5, 2012. Justice Newbould acted as the mediator. While the mediation did not result in a global resolution, it is my understanding from counsel that all parties appeared to participate in good faith with a view to arriving at a consensual resolution. I am advised by counsel that there have been further discussions continuing among certain of the parties since the conclusion of the mediation, but those discussions have not resulted in a further settlement as at the date of the swearing of this affidavit. I am not aware of the specifics of the matters which may have been discussed by other parties to the mediation.

87. Following the mediation, SFC conducted extensive negotiations with the Ad Hoc Noteholders, with the participation of the Monitor and its counsel, to produce the draft plan that was filed with the Court on October 19, 2012 (the "October 19 Draft Plan"). On October 26, 2012, the Ad Hoc Securities Purchasers Committee confirmed that they would not object to the October 19 Draft Plan.

88. As discussed above, SFC's main creditors consist of (i) the Noteholders and (ii) the Third Party Defendants who claim indemnity from SFC and its subsidiaries on a contingent basis, the

contingency being whether or not they are ultimately found to be liable in the shareholder and noteholder class actions that are pending against them.

89. As a result of the Equity Claims Decision, the Third Party Defendants' indemnity claims in respect of shareholder class action claims are subordinated equity claims (leaving aside that they are contingent and contested in any event). With respect to the Third Party Defendants' indemnity claims in respect of the noteholder class action claims against them, these claims have now been limited to \$150 million, collectively and in the aggregate for all Third Party Defendants, by operation of the Indemnified Noteholder Class Action Limit, which has limited the underlying claims by former noteholders against the Third Party Defendants to \$150 million. As discussed, the Plan provides for these contingent, unresolved claims through the creation of the Unresolved Claims Reserve.

V. THE PLAN

A. Background and Overview

90. On August 28, 2012, SFC brought a motion for an order approving the filing of the Plan (the "Plan Filing and Meeting Order") and for calling a meeting of creditors to vote on the Plan. I swore an affidavit in connection with that motion, a copy of which is attached without exhibits as Exhibit "P".

91. On August 31, 2012, this Honourable Court issued the Plan Filing and Meeting Order as well as an endorsement stating that the Plan Filing and Meeting Order was made without any determination of (a) the test for approval of the Plan; (b) the validity or quantum of any claims; and (c) the classification of creditors for voting purposes. The endorsement also stated that the

Plan Filing and Meeting Order did not prevent or restrict any party from opposing the Sanction Order now being sought. A copy of the endorsement is attached as Exhibit "Q".

92. The Plan sets out to achieve the following purposes:

- (a) to effect a full, final and irrevocable compromise, release, discharge, cancellation and bar of all Affected Claims;
- (b) to effect the distribution of the consideration provided for herein in respect of Proven Claims;
- (c) to transfer ownership of the Sino-Forest business to Newco and then to Newco II, in each case free and clear of all claims against SFC and certain related claims against the Subsidiaries, so as to enable the SFC Business to continue on a viable, going concern basis for the benefit of the Affected Creditors; and
- (d) to allow Affected Creditors and Noteholder Class Action Claimants to benefit from contingent value that may be derived from litigation claims to be advanced by the Litigation Trustee.

93. SFC believes that the Plan represents the best available outcome in the circumstances and that those with an economic interest in SFC, when considered as a whole, will derive a greater benefit from the implementation of the Plan and the continuation of the business of Sino-Forest as a going concern than would result from a bankruptcy or liquidation of SFC and Sino-Forest. SFC also believes that the Plan reasonably takes into account the interests of the Third Party Defendants, who seek indemnity and contribution from SFC and its Subsidiaries on a contingent basis, in the event that they are found to be liable to SFC's stakeholders.

94. Given that the Sale Process was not successful, the Plan contemplates that a new company and a further subsidiary ("Newco" and "Newco II", respectively) will be incorporated and SFC will transfer substantially all of its assets to Newco in compromise and satisfaction of all claims made against it. The result will be that Newco will own, directly or indirectly, all of SFC's Subsidiaries and SFC's interest in Greenheart and its subsidiaries as well as any intercompany debts owed by the Subsidiaries to SFC. Pursuant to the Plan, as explained in further detail below, the shares of Newco will be distributed to the Affected Creditors.

95. The terms of the October 19 Draft Plan were described in greater detail in the Monitor's Thirteenth Report. This Plan was amended on November 28, 2012. Attached as Exhibit "R" is a copy of the Plan, as amended. Attached as Exhibit "S" is a blackline comparison of the Plan to the October 19 Draft Plan filed with the Court. Attached as Exhibit "T" is a copy of the Plan Supplement dated November 21, 2012 (the "Plan Supplement").

B. Distributions Under the Plan

96. The Plan contemplates the distribution of (1) Newco Shares, (2) Newco Notes, and (3) Litigation Trust Interests, each as further described below.

1. Newco Shares

97. Pursuant to the terms of the Plan, Affected Creditors with Proven Claims are entitled to their pro-rata share of 92.5% of the Newco Shares and Early Consenting Noteholders also entitled to their pro-rata share of 7.5% of the Newco Shares.

98. As set out in Exhibit C to the Plan Supplement, Newco will be incorporated as an exempt company under the laws of the Cayman Islands pursuant to the Plan. It will have a single class of voting shares, being the Newco Shares. Newco is not, and there is no current intention for

Newco to become, a reporting issuer in any jurisdiction of Canada or elsewhere and the Newco Shares will not be listed on any stock exchange or quotation service on the Plan Implementation Date. The board of directors of Newco will initially consist of up to five directors that will be satisfactory to the Initial Consenting Noteholders. Thereafter, directors will be elected by shareholders on an annual basis at Newco's annual general meeting. Certain shareholders holding large blocks of shares will be entitled to elect directors.

99. As set out in Exhibit C to the Plan Supplement, prior to the Plan Implementation Date, it is intended that Newco will organize Newco II as a wholly-owned subsidiary and an exempt company under the laws of the Cayman Islands, for the purpose of acquiring from Newco the SFC assets to be transferred by SFC to Newco on the implementation of the Plan. The purpose of this step is to organize Newco (namely, Newco II) in a tax and jurisdictionally efficient manner for purposes of any subsequent sale of all or substantially all of Newco's assets (for example, Newco II will own all of the Direct Subsidiaries in a single jurisdiction, rather than in four separate jurisdictions).

100. Newco will be named Evergreen China Holdings Ltd. and Newco II will be named Evergreen China Holdings II Ltd.

2. *Newco Notes*

101. Pursuant to the terms of the Plan, Affected Creditors with Proven Claims are entitled to their pro-rata share of the Newco Notes.

102. As set out in Exhibit D to the Plan Supplement (which defines the capitalized terms used in this paragraph), Newco Notes in the aggregate principal amount of US\$300 million will be issued under an Indenture. They will be guaranteed by the Subsidiary Guarantors and secured by

pledges, mortgages and/or charges of the Collateral as described in Exhibit D to the Plan Supplement. Interest may be paid in cash or in PIK notes at rates prescribed in the Indenture and described in Exhibit D to the Plan Supplement. The Newco Notes will mature seven (7) years after the Original Issue Date, unless earlier redeemed pursuant to the terms thereof and the Indenture.

3. *Litigation Trust Interests*

103. Pursuant to the terms of the Plan, Affected Creditors with Proven Claims are entitled to their pro-rata share of 75% of the Litigation Trust Interests and the Noteholder Class Action Claimants are entitled to their pro-rata share of 25% of the Litigation Trust Interests.

104. The Litigation Trust will hold the Litigation Trust Claims (each as defined in the Plan), which include all claims and actions that have been or may be asserted by or on behalf of (i) SFC against any and all third parties, and (ii) the Note Indenture Trustees (on behalf of the Noteholders) against any and all persons in connection with the Notes; provided that Litigation Trust Claims will not include claims released under the Plan or claims advanced in the Class Actions.

105. The Litigation Trust will be governed by a Litigation Trust Agreement, a draft form of which was attached as Exhibit B to the Plan Supplement. The Litigation Trust will be funded by SFC with the Litigation Funding Amount, \$1 million. Pursuant to the Plan, Newco may subsequently elect to advance additional funding to the Litigation Trust. The Litigation Trustee (who has not yet been selected) will be charged with the responsibility to preserve and enhance the value of the Litigation Trust Assets (as defined in the Litigation Trust Agreement), through the prosecution, compromise and settlement, abandonment or dismissal of all claims held by the

Litigation Trust. In addition, the Plan contemplates that, prior to the Plan Implementation Date, SFC and the Initial Consenting Noteholders may agree to exclude one or more claims from being transferred to the Litigation Trust in which case such claims will be released on the Plan Implementation Date.

106. I am advised by counsel that the Litigation Trust Claims will be transferred to the Litigation Trust subject to the equities, limitation defences and other defences that otherwise may be asserted against SFC, and none of those equities, litigation defences and other defences are purported to be compromised by the Plan.

107. SFC will also be transferring all respective rights, title and interests in and to any lawyer-client privilege, work product privilege or other privilege or immunity attaching to any documents or communications associated with the Litigation Trust Claims to the Litigation Trust for the benefit of the beneficiaries of the Litigation Trust.

C. Reserves Established Under the Plan

108. The Plan contemplates the establishment of the Administration Charge Reserve, the Unaffected Claims Reserve, the Unresolved Claims Reserve, and the Monitor's Post-Implementation Reserve. Notwithstanding that the Initial Order created a Directors' Charge of \$3.2 million, the Named Directors and Officers have agreed to stand back from making any claims against the Directors' Charge as part of the comprehensive arrangements inherent in the Plan agreed to by the Initial Consenting Noteholders such that the Plan no longer provides for a Directors' Charge Reserve. The Monitor's Thirteenth Report also describes the purpose of each of these Reserves.

109. The amount of the Administration Charge Reserve is \$500,000 or such other amount as may be agreed to by the Monitor and the Initial Consenting Noteholders. The amount of the Unaffected Claims Reserve will be established on the Plan Implementation Date and is estimated to be \$1,800,000. The amount of the Monitor's Post-Implementation Reserve will initially be \$5,000,000 or such other amount as may be agreed by SFC, the Monitor and the Initial Consenting Noteholders.

110. Any funds remaining in the Administration Charge Reserve or the Unaffected Claims Reserve will be transferred to the Monitor's Post-Implementation Reserve. The Monitor may, in its discretion, release excess cash from the Monitor's Post-Implementation Reserve to Newco. Once the Monitor determines that the cash remaining in the Monitor's Post-Implementation Reserve is no longer necessary for administering SFC, the Monitor shall transfer the remaining funds to Newco.

111. The Unresolved Claims Reserve will contain Newco Shares, Newco Notes, and Litigation Trust Interests in respect of any Unresolved Claims. It is expected that the Unresolved Claims as at the Plan Implementation Date will consist primarily of the contingent and unresolved indemnity claims against SFC by the Third Party Defendants in respect of (a) Class Action Indemnity Claims relating to the Indemnified Noteholder Class Action Claims, which have been limited to \$150 million collectively and in the aggregate by operation of the consensual Indemnified Noteholder Class Action Limit; (b) \$30 million in respect of unresolved claims for reimbursement of Defence Claim Costs; and (c) \$500,000 in respect of unresolved claims filed by certain trade and other creditors, some of which have been accepted for voting purposes but not yet for distribution purposes.

112. Pursuant to the Plan and the Sanction Order, each of SFC, the Monitor, and the Initial Consenting Noteholders have reserved all rights to seek or obtain an Order at any time directing that any Unresolved Claims should be disallowed in whole or in part or should receive the same treatment as Equity Claims. The Plan and the Sanction Order provide that all parties with Unresolved Claims will have standing in respect of any proceeding to determine whether or not an Unresolved Claim constitutes a Proven Claim (in whole or in part) entitled to consideration under the Plan.

113. The Plan Supplement also describes the establishment of SFC Escrow Co., which will act as the Unresolved Claims Escrow Agent. Subject to the terms of the Plan, SFC Escrow Co. will hold distributions in respect of any Unresolved Claim in existence at the Plan Implementation Date in escrow until settlement or final determination of the Unresolved Claim in accordance with the Claims Process Order, the Meeting order, the Plan or otherwise, as applicable.

1. Indemnified Noteholder Class Action Claims

114. As I discussed above, there is a component of the class action claims that relates to the debt issuances and, in some respect, some of the class action plaintiffs are former noteholders. Section 4.4(a) of the Plan makes clear that those claims, as against SFC, the Subsidiaries or the Named Directors and Officers (other than those claims that are Section 5.1(2) D&O Claims, Conspiracy Claims or Non-Released D&O Claims) are fully, finally, irrevocably and forever compromised and released. However, these Noteholder Class Action Claims against Third Party Defendants are not compromised or released and may continue to proceed against the Third Party Defendants, provided that the Class Action Plaintiffs have agreed that the aggregate amount of such claims that may be asserted against Third Party Defendants in respect of

Indemnified Noteholder Class Action Claims shall not exceed the Indemnified Noteholder Class Action Limit, which has been established at a global amount of \$150 million in the aggregate for all Third Party Defendants.

115. The Indemnified Noteholder Class Action Limit was established after extensive and difficult negotiations and discussion spanning many months among the Ad Hoc Securities Purchasers Committee, the Ad Hoc Noteholders and SFC. As a result of the limit, the maximum exposure of the Third Party Defendants with respect to Indemnified Noteholder Class Action Claims is, in the aggregate, \$150 million. Accordingly, the maximum potential indemnity claims of such Third Party Defendants against SFC are likewise limited to \$150 million in the aggregate. Such contingent indemnity claims are treated as Unresolved Claims under the Plan, and the potential Plan consideration that could be distributed in respect of any such indemnity claims that could become Proven Claims will be held in escrow in the Unresolved Claims Reserve.

2. Defence Costs

116. The Equity Claims Decision, as affirmed by the Court of Appeal, did not determine whether Defence Cost Claims of the auditors and Underwriters would be treated in the same manner as their indemnity claims against the company. Accordingly, the Plan treats Defence Cost Claims as Unresolved Claims, with the potential Plan consideration that could be distributed in respect of any such claims that could become Proven Claims to be held in the Unresolved Claims Reserve.

D. Releases Under the Plan

117. The Plan includes releases for certain parties (the "Released Parties"), including certain current and former directors and officers of SFC (collectively, the "Named Directors and Officers"). The identification of the Named Directors and Officers and the scope of the releases were heavily negotiated among various constituents as part of the negotiation of the Plan and form a fundamental element of the commercial deal embodied in the Plan.

118. There are four main categories of claims against the Named Directors and Officers that will not be released pursuant to the Plan:

- (a) Non-Released D&O Claims, being claims for fraud or criminal conduct;
- (b) Conspiracy Claims;
- (c) Section 5.1(2) D&O Claims; and
- (d) Non-monetary remedies of the OSC.

119. The Plan contemplates that recovery in respect of claims against the Named Directors and Officers of SFC in respect of any Section 5.1(2) D&O Claims and any Conspiracy Claims shall be directed to insurance proceeds available from the insurance policies maintained by SFC.

120. SFC maintained director and officer insurance coverage in 2011 providing for a total of \$60 million of coverage, which applies to both defence costs and any damages or settlements. The primary policy is provided by ACE INA Insurance with a policy limit of \$15 million, with excess layers provided by Chubb, ERIS (Lloyds) and Travelers (collectively, the "2011 Insurance Policies"). Slightly in excess of \$10 million of the \$60 million limit has been paid out

on account of insured costs incurred by SFC and by other insured persons under the 2012 policies.

121. When the 2011 policies were not renewed after their expiry on December 31, 2011, SFC obtained coverage from other providers totalling \$55 million for 2012 (the "2012 Insurance Policies"). The 2012 Insurance Policies contain a "prior acts" exclusion, and therefore are not available to respond to claims arising from the Muddy Waters allegations.

122. Both the 2011 Insurance Policies and 2012 Insurance Policies provide for three types of coverage: (a) director and officer liability; (b) corporate liability for indemnifiable loss; and (c) corporate liability arising from securities claims. The insurance policies are subject to a number of exclusions, and contain coverage and claims limits.

123. In addition to the release of the Named Directors and Officers, and advisors involved in these proceedings, the Plan provides for releases of all claims relating to claims against SFC that may be made against the Subsidiaries. As I explained in my Initial Order Affidavit, while SFC is a holding company, the "business" of SFC is conducted through the Subsidiaries (which are not CCAA applicants).

124. There can be no effective restructuring of SFC's business and separation from its Canadian parent (which SFC has said from the outset was the objective of the commencement of these proceedings) if the claims asserted against the Subsidiaries arising out of or connected to claims against SFC remain outstanding. Just as the claims of the Noteholders against the Subsidiaries are to be released under the Plan upon implementation, so are the other claims against the Subsidiaries which relate to claims asserted against SFC (as well as any claims that the Subsidiaries have against SFC).

VI. THE MEETING

125. The Plan Filing and Meeting Order sets out the procedure for the calling and conduct of the meeting of creditors to vote in respect of the Plan.

A. Meeting Materials, Notice, and Mailing

126. The Plan Filing and Meeting Order approved the forms of Information Circular, Notice to Affected Creditors, Ordinary Affected Creditors' Proxy, Noteholders' Proxy, Instructions to Ordinary Affected Creditors, Instructions to Registered Noteholders, Instructions to Unregistered Noteholders and Instructions to Participant Holders (collectively, the "Meeting Materials"). A copy of the Meeting Materials is attached as Exhibit "U".

127. The Mailing Date set out in the Plan Filing and Meeting Order was to be no later than September 20, 2012, provided that such date could be extended by the Monitor with the consent of SFC and the Initial Consenting Noteholders. The Mailing Date was ultimately set as October 24, 2012.

128. A separate order was obtained by the Monitor on October 24, 2012 (the "Revised Noteholder Mailing Process Order") to effect a more efficient process for the mailing of the Meeting Materials to the Noteholders. A copy of the Revised Noteholder Mailing Process Order is attached as Exhibit "V".

129. The Monitor has set out in its Thirteenth Report how the Plan Filing and Meeting Order was complied with and how notice was effected as required.

130. The Plan Filing and Meeting Order permits SFC, with the consent of the Monitor to amend, restate, modify and/or supplement any of such materials, subject to the terms of the Plan, provided that the Monitor, SFC or the Chair shall communicate the details of any such amendments, restatements, modifications and/or supplements to Affected Creditors present at the Meeting prior to any vote being taken at the meeting, among other things.

131. The Plan Supplement was distributed in accordance with the terms of the Plan Filing and Meeting Order to Affected Creditors. The Plan (as amended on November 28, 2012) was provided to the CCAA service list as well as posted on the Monitor's website on November 28, 2012.

132. Based on information provided to me by counsel and by the Monitor in its Thirteenth Report, I believe that SFC has complied with all requirements in the Plan Filing and Meeting Order with respect to the mailing of the Meeting Materials.

B. The Meeting

133. The Plan Filing and Meeting Order authorized SFC to call the Meeting and to hold and conduct the Meeting on the Meeting Date at the offices of Bennett Jones LLP, 3400 One First Canadian Place, Toronto, Ontario, for the purpose of seeking approval of the Plan by the Affected Creditors with Voting Claims at the Meeting in the manner set forth in the Plan Filing and Meeting Order.

134. The Meeting Date was set to be November 29, 2012, and this was communicated to Affected Creditors in the Meeting Materials. Further changes to the Plan resulted in the Meeting Date being extended to November 30, 2012. SFC issued a press release announcing this

extension, and the Monitor's counsel also communicated the fact of the extension by way of email to the Service List. The location of the Meeting was moved to the offices of Gowling Lafleur Henderson LLP, counsel to the Monitor, at 1 First Canadian Place, 100 King Street West, 16th Floor, Toronto, Ontario.

135. The outcome of the Meeting will be reported in a further report by the Monitor prior to the Sanction Order hearing.

C. Entitlement to Vote and Classification of Creditors

136. The voting process is described in some detail in the Monitor's Thirteenth Report. By way of general overview only, the Plan Filing and Meeting Order provides that the only Persons entitled to vote at the Meeting are the Beneficial Noteholders with Voting Claims that have beneficial ownership of one or more Notes as at the Voting Record Date (August 31, 2012), and Ordinary Affected Creditors with Voting Claims as at the Voting Record Date.

137. The Plan Filing and Meeting Order provides that each Affected Creditor with an Unresolved Claim could also attend the Meeting and is entitled to one vote at the Meeting in respect of such Unresolved Claim. The Monitor is required to keep a separate record of votes cast by Affected Creditors with Unresolved Claims and to report on such vote at the Sanction Hearing.

138. The Plan Filing and Meeting Order provides that each of the Third Party Defendants is entitled to vote as a member of the Affected Creditors Class in respect of any Class Action Indemnity Claim that it has properly filed in respect of the Indemnified Noteholder Class Action Claims, provided that the aggregate value of all such claims shall, for voting purposes, be

deemed to be limited to the amount of the Indemnified Noteholder Class Action Limit. The Monitor is required to keep a separate record of votes cast by the Third Party Defendants in respect of such Class Action Indemnity Claims and to report to the Court with respect thereto at the Sanction Hearing.

139. The Plan Filing and Meeting Order provides that the following Persons do not have the right to vote at the Meeting: Unaffected Creditors; Noteholder Class Action Claimants; Equity Claimants; any Person with a D&O Claim; any Person with a D&O Indemnity Claim (other than a D&O Indemnity Claim in respect of Defence Costs Claims or in respect of the Indemnified Noteholder Class Action Claims); any Person with a Subsidiary Intercompany Claim; and any other Person asserting Claims against SFC whose Claims do not constitute Affected Creditor Claims on the Voting Record Date.

VII. STEPS TAKEN AT THE OSC WITH RESPECT TO PLAN STEPS

140. The mailing of the Meeting Materials, the holding of the Meeting, and the steps contemplated to implement the Plan could have individually or collectively constituted an act in furtherance of a trade, which would have been contrary to the TCTO first made by the OSC on August 26, 2011.

141. To avoid that result, SFC sought and obtained two orders of the OSC to vary the TCTO. First, on September 18, 2012, the OSC issued an order varying the TCTO to permit the distribution of the Meeting Materials as contemplated by the Plan Filing and Meeting Order. A copy of the September 18, 2012 order is attached as Exhibit "W".

142. Second, on October 26, 2012, the OSC issued an order varying the TCTO to permit: (a) the holding of the Meeting; and (b) the CCAA Plan Trades and all acts in furtherance thereof, other than CCAA Plan Trades required to give effect to an Alternative Sale Transaction, provided that the requisite creditor approval is obtained, this Honourable Court issues a sanction order, and SFC has complied and is in compliance with the terms of all CCAA court orders. A copy of the October 26, 2012 order is attached as Exhibit "X".

143. As a result, except in the circumstances where an Alternative Sale Transaction was being pursued, there are no further regulatory requirements that relate to the OSC that are needed to effectuate the transactions contemplated in the Plan, other than an order from the OSC and other provincial securities regulators for a decision that SFC is not a reporting issuer effective as of the implementation date of the Plan. If granted, that order would result in SFC and Newco not being reporting issuers in Ontario or any other province in Canada following the implementation date of the Plan.

VIII. PLAN SANCTION

A. SFC Has Complied with the CCAA and the Orders Granted in these Proceedings

144. As I explained in my Initial Order Affidavit and as was found by this Honourable Court in its endorsement on the Initial Order, a copy of which is attached as Exhibit "Y", SFC is a "debtor company" under section 2 of the CCAA. It is a "company" continued under the CBCA that has debts far in excess of the CDN \$5 million statutory requirement, and is insolvent with liabilities to creditors far exceeding CDN \$1,000.

145. Since the commencement of these proceedings, SFC has complied with the provisions of the CCAA, the Initial Order and all subsequent Orders of the Court granted in these proceedings. I am not aware, and I am advised by counsel that they are unaware, of any steps taken by SFC that are not authorized by the CCAA.

146. This Honourable Court has been kept up to date with regular updates provided in affidavits that I have sworn and in reports of the Monitor that have been filed with the Court. In particular, SFC made full and timely disclosure of, among other things: (a) developments occurring at the OSC and with OSC Staff; (b) steps taken by SFC in response to various developments in SFC's business, including a number of departures of senior management personnel at SFC; (c) the efforts to negotiate a global resolution of issues among all stakeholders; (d) the efforts to market the assets of SFC pursuant to the Sale Process Order; and (e) developments in SFC's business, including the difficulties SFC has experienced in realizing upon and recovering receivables from third parties.

147. Accordingly, after consulting with counsel and reviewing the documents described above, I believe that all steps taken by SFC since the inception of this proceeding have been authorized by the CCAA.

B. The Plan is Fair and Reasonable

148. Since the Muddy Waters report was issued on June 2, 2011, SFC has expended considerable efforts and resources examining alternatives to find the best possible resolution to the issues facing the company described above.

149. Prior to filing for the protection under the CCAA, SFC did everything within its power to avoid the defaults that ultimately forced it to commence insolvency proceedings. However, as described above and in my Initial Order Affidavit, SFC was in default under certain of the Notes as a result of being unable to issue 2011 third quarter financial statements. While waivers of such defaults were obtained for a period of time, those waivers were set to expire at the end of April, 2012 and the Noteholders, with the guarantees and share pledges described above, would have been in a position to enforce their rights under the Note Indentures. Any alternative to the commencement of CCAA proceedings would have risked the immediate cessation of the Sino-Forest business resulting in significant detriment to SFC's stakeholders.

150. As previously discussed, following the commencement of these CCAA proceedings, SFC conducted a court supervised Sale Process to determine whether there was a potential purchaser willing to purchase the assets of SFC for the Qualified Consideration. With the assistance of Houlihan, the market was thoroughly canvassed and no such bidder could be found. In accordance with the Sale Process Procedures, SFC terminated the Sale Process and proceeded towards developing the Plan to implement the Restructuring Transaction.

151. The Plan that will ultimately be put to Affected Creditors at the Meeting was the subject of significant and extensive negotiations. In negotiating the Plan, the Board of SFC considered the interests of all stakeholders of SFC. Alternatives were explored throughout the negotiations, and the Plan was the product of such negotiations. I do not believe that there are other viable alternatives that would have been acceptable to SFC and its creditors. The Plan represents the best available alternative remaining in these proceedings, and provides a better result for SFC's creditors than could be achieved through a bankruptcy or liquidation.

152. As discussed above, SFC is a holding company and the Sino-Forest business is held through the Subsidiaries. To recover any value in a bankruptcy or liquidation scenario, creditors would need to realize upon the assets where they are resident. The majority of SFC's business operations are located in the PRC, and the majority of SFC's forest plantations are located in the southern and eastern regions of the PRC, primarily in inland regions suitable for large-scale replanting. Other jurisdictions where bankruptcy or liquidations would need to take place would be in Hong Kong or the British Virgin Islands (the "BVI").

153. Beyond the legal hurdles of effecting any bankruptcy or liquidation in these various jurisdictions, any of SFC's creditors seeking a liquidation in the PRC, Hong Kong or BVI, will be confronted with significant difficulties in collecting receivables as has been detailed by the Monitor in its earlier reports and which I described during my cross-examination on an earlier report and in dealing with the substantial claims that have been asserted against the Subsidiaries as identified in the claims process. Significant efforts have been expended by Sino-Forest over the past several months to recover its receivables, and notwithstanding long-standing relationships with many of the parties owing such amounts, SFC has largely been unsuccessful. The ability of third party creditors of a Canadian parent company (or a liquidator appointed outside of the PRC in respect of the Subsidiaries) to collect such receivables in these various regions is speculative, at best.

154. Any creditors in a bankruptcy or liquidation scenario in these various jurisdictions would also have significant challenges in monetizing any of the assets of the Subsidiaries, given the challenges in establishing title capable of being transferred to a buyer that have been described in the reports of the Independent Committee, my earlier affidavits and certain reports of the Monitor. Even if such assets were successfully monetized, insofar as such assets are located in

the PRC, creditors would be faced with the numerous legal and regulatory issues associated with removing funds from the PRC.

155. Any liquidation or bankruptcy of SFC, through its Subsidiaries, would result in loss of value to the creditors of SFC and its Subsidiaries as a going concern. As I have testified on a number of occasions, significantly greater value can be obtained through the Sino-Forest business continuing as a going concern than could be obtained through piecemeal dismantling of the enterprise through a bankruptcy or liquidation.

156. In developing the Plan, I do not believe that SFC or the Board has acted in a manner that unfairly disregards, or is unfairly prejudicial to, or oppresses the interests of any stakeholders. It is not unfair for shareholders to not receive any distribution under the Plan given that there are insufficient funds to satisfy the claims of SFC's creditors. The treatment of shareholder claims and related indemnity claims is fair and consistent with the Equity Claims Decision, as affirmed by the Court of Appeal. As I have described above, a sizeable majority of the Noteholders have agreed to support the Plan, and the Ad Hoc Securities Purchasers Committee and the Quebec Class Action Plaintiffs have stated that they will not oppose it. To the extent that certain claims are Unresolved Claims at the time of the Plan's implementation, such claims are provided for through the creation of the Unresolved Claims Reserve, which will preserve the potential Plan Consideration in respect of such claims, to the extent that any of them (or any part of any of them) becomes a Proven Claim.

157. SFC has stated from the outset of these proceedings that it is necessary to have a clean break for the Subsidiaries from SFC in order for these proceedings to be successful. The primary purpose of the CCAA proceeding was to extricate the business of Sino-Forest, through the

operation of SFC's Subsidiaries, from the cloud of uncertainty surrounding SFC. Accordingly, there is a clear and rational connection between the release of the Subsidiaries and the Plan and it is difficult to see how any viable plan could be made that does not cleanse the Subsidiaries of the claims made against SFC. The Subsidiaries are effectively contributing their assets to SFC to satisfy SFC's obligations under their guarantees of SFC's Note indebtedness, for the benefit of the Affected Creditors (the Subsidiaries are not asserting against SFC for doing so, and in fact are releasing SFC from any such claims and guaranteeing the Newco Notes).

158. The Plan will enable SFC to achieve a going concern outcome for the business of Sino-Forest that fully and finally deals with debt issues and will extract the business of Sino-Forest from the uncertainties surrounding SFC. The Plan will provide stability for Sino-Forest's employees, suppliers, customers and other stakeholders, and provide a path for recovery of the debt owed to SFC's non-subordinated creditors.

159. The Plan preserves the rights of aggrieved parties, including SFC, to pursue those parties that are alleged to share some or all of the responsibility for the problems that caused SFC to file for CCAA protection in the first place. Releases are not being granted to individuals who have been charged by OSC staff, or to other individuals against whom the Ad Hoc Securities Purchasers Committee wishes to preserve litigation claims.

160. The Named Directors and Officers group consists principally of Board members and members of management who have been important to efforts to avoid note defaults and later to facilitate SFC's restructuring efforts. It also included some individuals formerly associated with SFC who, to SFC's knowledge, are not implicated in any conduct issues. The Named Directors and Officers are Andrew Agnew, William E. Ardell, James Bowland, Leslie Chan, Michael

Cheng, Lawrence Hon, James M.E. Hyde, Richard M. Kimel, R. John (Jack) Lawrence, Jay A. Lefton, Edmund Mak, Tom Maradin, Simon Murray, James F. O'Donnell, William P. Rosenfeld, Peter Donghong Wang, Garry West, Kee Y. Wong, and me.

161. I have described above the steps taken to investigate conduct issues, avoid note defaults and ultimately to facilitate the restructuring efforts. These efforts would not have been possible without the active participation of the Board and members of remaining management.

162. In addition to these positive efforts, the Board also dealt with conduct issues as facts came to light. As described above, certain individuals were placed on administrative leave following late August 2011. As described in prior affidavits, since the commencement of these CCAA proceedings, Allen Chan, Alfred Hung, George Ho, Simon Yeung, Albert Ip, and David Horsley have ceased to be employed by Sino-Forest. Other less senior employees also have ceased to be employed by Sino-Forest.

163. Finally, a release of the Named Directors and Officers is necessary to effect a greater recovery for SFC's creditors, rather than preserve indemnification rights and dilutive participation entitlements for the Named Directors and Officers.


164. For the reasons discussed above, SFC believes that the Plan provides a fair and reasonable balance among its stakeholders while providing the ability for the Sino-Forest to continue as a going concern for the benefit of stakeholders.

165. As I have explained in several prior affidavits, to achieve a going concern outcome for the business of Sino-Forest, SFC cannot remain in CCAA for much longer. There have already been considerable strains on Sino-Forest's business relationships and the company's ability to


collect very sizable accounts receivable have been significantly constrained by the fact of these insolvency proceedings. Moreover, as indicated by the Monitor's Thirteenth Report and the proposed cash flow forecast in the Monitor's Twelfth Report, while SFC has sufficient cash to exist to February 1, 2013, SFC's cash position is being rapidly depleted and SFC will likely have insufficient funds to continue operating in these CCAA proceedings for any extended period of time beyond February 1, 2013.

166. Subject to obtaining approval of the Plan by the requisite majority of Affected Creditors with Proven Claims at the Meeting, for the reasons stated above, I believe that the Plan is appropriate and should be sanctioned by this Honourable Court.

SWORN BEFORE ME at the City of Hong Kong, Special Administrative Region, People's Republic of China, this 29th day of November, 2012


Chan Ching Yee
 Solicitor
 Reed Smith
 Richards Butler
 20/F Alexandra House
 Hong Kong SAR

A Commissioner of Oaths


W. Judson Martin

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

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

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

Proceedings commenced in Toronto

**AFFIDAVIT OF W. JUDSON MARTIN
(Sworn November 29, 2012)**

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

SINO-FOREST CORPORATION

Plaintiffs

ERNST & YOUNG LLP, et al

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

Defendants

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

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

PROCEEDING COMMENCED AT TORONTO

**AFFIDAVIT OF W. JUDSON MARTIN, SWORN THIS
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Court File No. CV-12-9667-00CL

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**RESPONDING MOTION RECORD OF
SINO-FOREST CORPORATION**

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