

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

Sino-Forest Corporation

SEVENTH REPORT OF THE MONITOR

August 17, 2012

**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

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

INTRODUCTION

1. On March 30, 2012 (the "**Filing Date**"), Sino-Forest Corporation (the "**Company**") filed for and obtained protection under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). Pursuant to the Order of this Honourable Court dated March 30, 2012 (the "**Initial Order**"), FTI Consulting Canada Inc. was appointed as the Monitor of the Company (the "**Monitor**") in the CCAA proceedings. By Order of this Court dated April 20, 2012, the powers of the Monitor were expanded in order to, among other things, provide the Monitor with access to information concerning the Company's subsidiaries. Pursuant to an Order of this Court made on May 31, 2012, this Court granted an Order extending the Stay Period (as defined in the Initial Order) to September 28, 2012. The proceedings commenced by the Company under the CCAA will be referred to herein as the "**CCAA Proceedings**".
2. On the Filing Date, the Court also issued an Order authorizing the Company to conduct a Sale Process (the "**Sale Process Order**").
3. The purpose of this Seventh Report is to support the Company's request for approval of the Meeting Order (defined below).

4. In preparing this Seventh Report, the Monitor has relied upon unaudited financial information of Sino-Forest, Sino-Forest's books and records, certain financial information prepared by Sino-Forest, the Reports of the Independent Committee of the Company's Board of Directors dated August 10, 2011 (the "**First IC Report**"), November 13, 2011 (the "**Second IC Report**"), and January 31, 2012 (the "**Final IC Report**" and together, the "**IC Reports**"), and discussions with Sino-Forest's management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. In addition, the Monitor notes that on January 10, 2012, the Company issued a press release cautioning that the Company's historic financial statements and related audit reports should not be relied upon. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this Seventh Report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this Seventh Report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in US Dollars.
6. The term "**Sino-Forest**" refers to the global enterprise as a whole but does not include references to the Greenheart Group. "**Sino-Forest Subsidiaries**" refers to all of the direct and indirect subsidiaries of the Company, but does not include references to the Greenheart Group.
7. Capitalized terms not defined in this Seventh Report are as defined in the affidavit of Judson Martin sworn August 14, 2012 (the "**Martin Affidavit**"), the Plan and/or the Meeting Order.

GENERAL BACKGROUND

Sino-Forest Business

8. Sino-Forest conducts business as a forest plantation operator in the People's Republic of China ("**PRC**"). Its principal businesses include ownership and management of forest

plantation trees, the sale of standing timber and wood logs, and complementary manufacturing of downstream engineered-wood products.

9. The Company is a public holding company whose common shares were listed on the Toronto Stock Exchange (“TSX”). Prior to August 26, 2011 (the date of the Cease Trade Order, defined below), the Company had 246,095,926 common shares issued and outstanding and trading under the trading symbol “TRE” on the TSX. Effective May 9, 2012, the common shares were delisted from the TSX.
10. On June 2, 2011, Muddy Waters, LLC (“MW”), which held a short position on the Company’s shares, issued a report (the “MW Report”) alleging, among other things, that Sino-Forest is a “ponzi-scheme” and a “near total fraud”. The MW Report was issued publicly and immediately caught the attention of the media on a world-wide basis.
11. Subsequent to the issuance of the MW Report, the Company devoted extensive time and resources to investigate and address the allegations in the MW Report as well as responding to additional inquiries from, among others, the Ontario Securities Commission (“OSC”), the Royal Canadian Mounted Police and the Hong Kong Securities and Futures Commission.
12. In view of the MW Report, the subsequent litigation and regulatory investigations and other issues continue to have a significant negative impact on the Company and have threatened the long term viability of Sino-Forest’s operations. For the reasons discussed in the Pre-Filing Report and the Initial Order Affidavit, the Company and the business was placed into a stalemate that could not be resolved without the Court supervised solution offered by the CCAA Proceedings.
13. The Pre-Filing Report and the Initial Order Affidavit provide a detailed outline of Sino-Forest’s corporate structure, business, reported assets and financial information as well as a detailed chronology of the Company and its actions since the issuance of the MW Report in June 2011.

Background Relating to the CCAA Proceedings to Date

14. On August 8, 2012, the Monitor issued its sixth report (the “**Sixth Report**”) providing an update on the Company’s CCAA Proceedings as well as providing certain information and an update relating to the Sino-Forest Subsidiaries and that information is therefore not repeated in detail herein. A copy of the Sixth Report (without appendices) is attached as Appendix A hereto.
15. As had previously been reported by the Monitor, as contemplated by the Company’s restructuring support agreement (the “**RSA**”) with certain initial consenting noteholders, the Company ran a sale process pursuant to which letters of intent (“**LOIs**”) were sought on or before June 28, 2012 (the “**Phase I Bid Deadline**”). In order to move to “Phase II” of the sale process, the sale process procedures contemplated that one or more “Qualified Letters of Intent” had to have been received by the Phase I Bid Deadline. On July 10, 2012, the Company issued a press release indicating that none of the LOIs received constituted Qualified Letters of Intent and that the Company was therefore terminating the sale process and proceeding with the restructuring transaction contemplated by the RSA.
16. The Sixth Report also highlighted some of the ongoing issues in the Sino-Forest business including:
 - (a) The virtual standstill of the standing timber business since the MW Report;
 - (b) Reduced operations in the remainder of the Sino-Forest businesses;
 - (c) Significant difficulties in the collection of receivables, including the de-registration of certain authorized intermediaries owing approximately \$504 million in receivables to BVI entities; and
 - (d) De-Registration of suppliers to the Sino-Forest standing timber business.
17. The Sixth Report also provided an update on the verification efforts being made by Indufor, Sino-Forest’s forestry consultant. It was also clear from the Sixth Report that the nature of the work being done would likely take several years before any significant

progress on verification would be achieved and that work, in any event, would not address title or valuation issues.

18. The Sixth Report also provided an update on events within the CCAA Proceedings including the granting of the Mediation Order as well as the Company's motion regarding Equity Claims and the Court's decision and order on that issue (the "**Equity Order**"). Pursuant to the Equity Order, the Court found that Shareholder Claims (as defined in the Equity Order) and related indemnity claims were "equity claims" within the meaning of section 2(1) of the CCAA. The only issue that the Court determined was premature for decision was whether claims of the Third Party Defendants in respect of defence costs constituted "equity claims". On August 16, 2012, Ernst & Young LLP, the Underwriters and BDO Limited each served notices of motion for leave to appeal the Equity Order to the Ontario Court of Appeal. The Company has advised the Monitor that it intends to oppose the motions for leave to appeal. The Monitor is supportive of the Company's position.

THE PLAN

19. The Company has now filed its proposed plan of compromise and reorganization (the "**Plan**") along with its motion for a Meeting Order (defined and discussed below) and information circular (the "**Information Circular**"). The following paragraphs contain a summary of certain of the significant provisions of the Plan. Reference should be made to the Plan for the complete terms of the Plan.
20. The Plan contemplates that a new company ("**Newco**") will be incorporated and the Company will transfer substantially all of its assets to Newco. As a result, Newco will directly or indirectly own all of the Sino-Forest Subsidiaries as well as the Company's interest in the Greenheart Group. The shares of Newco will be distributed to Affected Creditors with Proven Claims pursuant to the terms of the Plan.

Assets Available for Distribution

21. Under the Plan, the following assets will be made available for distribution to Affected Creditors with Proven Claims:

- (a) Newco Shares;
 - (b) Newco Notes; and
 - (c) Litigation Trust Interests.
22. Under the Plan, it is contemplated that Affected Creditors with Proven Claims will receive their pro rata share of:
- (a) 92.5% of the Newco Shares;
 - (b) 100% of the Newco Notes; and
 - (c) 75% of the Litigation Trust interests.
23. The remaining 7.5% of the Newco Shares will constitute the Early Consent Equity Sub-Pool and will be issued and distributed to the Early Consent Noteholders. The remaining 25% of the Litigation Trust Interests will be allocated to the Noteholder Class Action Claimants (subject to the caveats set out in the Plan).¹

Classification of Creditors

24. All Affected Creditors will constitute a single class for the purposes of voting and considering the Plan. Equity Claimants will constitute a separate class, but will have no right to attend the Meeting or vote on the Plan (in such capacities).
25. Unaffected Creditors will not be entitled to vote on the Plan or attend the Meeting (in such capacities).

Treatment of Claims against the Company

26. The Claims filed under the Claims Procedure Order largely fall into three categories: (a) current noteholder claims; (b) class action plaintiff claims; and (c) Third Party Defendant

¹ Pursuant to the Plan, if the Noteholder Class Action Claims against any of the Third Party Defendants are finally resolved within two (2) years of the Plan Implementation Date, then the entitlements of such claimants to the Litigation Trust Interests are cancelled.

indemnity claims. There were very few ordinary trade or other claims filed. Treatment of these largest categories of claims can essentially be broken down as follows:

- (a) *Current Noteholder Claims.* Claims of the current noteholders (relating indebtedness and obligations under the notes, including Subsidiary guarantees) are compromised and holders of those claims will be entitled to their pro rata distribution under the Plan as discussed above, of Newco Shares, Newco Notes and the Litigation Trust Interests;
- (b) *Class Action Plaintiff Claims.* Claims of the Class Action Plaintiffs are broken down into two (2) sub-categories:
 - (i) Class Action Claims relating to share purchases – these claims are classified as equity claims and not entitled to any distribution and are released against the Company, the Named Directors and Officers and Subsidiaries under the Plan. There is no release for these Class Action Claims against the other Third Party Defendants under the Plan; and
 - (ii) Class Action Claims relating to note purchases – these claims are released as against the Company, the Subsidiaries and the Named Directors and Officers. These Class Action Claims are not released against the other Third Party Defendants, however, with respect to all such claims against Third Party Defendants that are validly indemnified by the Company, the collective aggregate amount of all such Indemnified Noteholder Class Action Claims is limited to the Indemnified Noteholder Class Action Limit.² With respect to all such claims against the Third Party Defendants that are not validly indemnified by the Company, those claims are not limited by the Indemnified Noteholder Class Action Limit. Class Action Claims relating to the note purchases will not receive any distribution of

² The Indemnified Noteholder Class Action Limit is an amount to be agreed upon by the Company, the Monitor, the Initial Consenting Noteholders and counsel to the Ontario Class Action Plaintiffs or otherwise determined by the Court. The Monitor is aware that there have been conversations with the Ontario Class Action Plaintiffs regarding the quantum of the Indemnified Noteholder Class Action Limit, however, as of the date of this Report, no amount has been agreed upon.

Newco Shares or Newco Notes, but are entitled to their pro rata share of 25% of the Litigation Trust Interests, subject to the caveats set out in Plan.

- (c) *Indemnity Claims by the Third Party Defendants.* Claims of the Third Party Defendants against the Company can be broken down into three (3) categories:
- (i) Indemnity claims relating to the Indemnified Noteholder Class Action Claims which will be treated as Unresolved Claims unless and until proven – but only up to the Indemnified Noteholder Class Action Limit;
 - (ii) Defence Costs Claims (some or all of which may later be determined to be Equity Claims), which will be treated as Unresolved Claims unless and until proven; and
 - (iii) the balance of the Third Party Defendants' claims are classified as Equity Claims, and shall not be entitled to distribution or participation under the Plan and are released.
- (d) Claims of the Third Party Defendants against the Subsidiaries are released under the Plan.
- (e) Early Consent Noteholders are also entitled to their pro rata share of the Early Consent Equity Sub-Pool (i.e. 7.5% of the Newco Shares) as provided for under the Plan.
27. With respect to the Indemnity Claims of Third Party Defendants, as set out below, the Meeting Order provides that the terms of the Equity Order and the Meeting Order will be sufficient for classifying these claims as Equity Claims and as such, the Monitor will not be required to send out Notices of Revision or Disallowance or take any further steps in connection with the Claims Procedure Order. The Monitor believes this approach to classification and related relief dispensing with the requirement to issue Notices of Revision or Disallowance regarding the Equity Claims is consistent with the Equity Order and is appropriate in these circumstances.

28. The Plan also contemplates that there would be a number of “Unaffected Claims” including claims secured by Charges (under the Initial Order), governmental priority claims, employee priority claims, Lien Claims, claims of the Trustees for reasonable fees and expenses and trade payables incurred by the Company after the Filing Date.
29. Unaffected Claims (to the extent that they are valid and enforceable) will be satisfied as follows:
 - (a) For Claims secured by the Administration Charge or the Directors’ Charge, outstanding invoices issued sufficiently prior to the implementation of the Plan will be paid in full prior to the Effective Time and any amounts after the Effective Time will be paid out of and limited to the Administration Charge Reserve and the Directors’ Charge Reserve respectively (the Administration Charge Reserve and Directors’ Charge Reserve are discussed in more detail below).
 - (b) For Lien Claims, at the election of the Initial Consenting Noteholders (with the consent of the Monitor), the Company will satisfy Lien Claims by either the return of property securing such Lien Claim or repayment of the Lien Claim in full.
 - (c) The balance of Unaffected Claims will be paid in full from the Unaffected Claims Reserve (discussed in greater detail below) and recovery for those claims will be restricted to the funds available in the Unaffected Claims Reserve.

Treatment of Claims against the Directors and Officers

30. The Plan provides for the compromise and release of claims filed against certain “Named Directors and Officers” other than those claims that cannot be released under Section 5.1(2) of the CCAA (“**Retained D&O Claims**”) and claims for fraud and criminal conduct (“**Non-Released D&O Claims**”). Retained D&O Claims are not released but recovery in respect of such claims against Named Directors and Officers is restricted to available insurance proceeds. Non-Released D&O Claims are not released.

31. The “Named Directors and Officers” are Andrew Agnew, William E. Ardell, James Bowland, Leslie Chan, Michael Cheng, Lawrence Hon, David J. Horsley, James M.E. Hyde, Richard M. Kimel, R. John (Jack) Lawrence, Jay A. Lefton, Edmund Mak, Tom Maradin, Judson Martin, Simon Murray, James F. O’Donnell, Kai Kit Poon, William P. Rosenfeld, Peter Donghong Wang, Garry West and Kee Y. Wong, in their respective capacities as Directors or Officers.
32. Claims against any Other Directors and Officers are not released but are subject to the Indemnified Noteholder Class Action Limit to the extent that they are Indemnified Noteholder Class Action Claims.

Treatment of D&O Indemnity Claims

33. D&O Indemnity Claims by the Named Directors and Officers are deemed to have no value and are released under the Plan, except that any D&O Indemnity Claims for Defence Costs shall be treated in the same way as the claims for Defence Costs of other Third Party Defendants and any claims for indemnification properly subject to the Directors’ Charge, shall be limited to the Directors’ Charge Reserve (discussed in greater detail below).
34. D&O Indemnity Claims by any of the Other Directors and Officers are deemed to have no value and are released under the Plan except that any D&O Indemnity Claims for Defence Costs shall be treated in the same way as the claims for Defence Costs of other Third Party Defendants, and any Class Action Indemnity Claim in respect of indemnity claims for the Indemnified Noteholder Class Action Claims shall be subject to the Indemnified Noteholder Class Action Limit.

Intercompany Claims

35. Any and all claims that the Company may have against any of the Sino-Forest Subsidiaries and/or the Greenheart Group will be assigned to Newco and any obligations that the Company owes to any Sino-Forest Subsidiaries and/or Greenheart Group will be assumed by Newco on the Plan Implementation Date.

Reserves

36. The Plan contemplates the establishment of a number of reserves including:
- (a) The Administration Charge Reserve;
 - (b) The Directors' Charge Reserve;
 - (c) The Unaffected Claims Reserve;
 - (d) The Unresolved Claims Reserve; and
 - (e) The Monitor's Post-Implementation Reserve.
37. The quantum of the reserves has not yet been established. With respect to the Unresolved Claims Reserve, it is anticipated that the assets in this reserve will consist of Newco Shares, Newco Notes and Litigation Trust Interests which will be distributed in accordance with the Plan and discussed in greater detail below.
38. With respect to the balance of the reserves, the Monitor is aware that the Company intends to finalize the amounts of the reserves (in accordance with the consultation and consent requirements under the Plan) prior to the Sanction Hearing. It is anticipated that the Sanction Order will affirm the amount of the reserves. If agreement cannot be reached with respect to some or all of the reserves, direction will be sought from the Court. The Monitor expects that it will report further on the proposed funding amounts of the reserves prior to the Sanction Hearing.
39. The reserves are intended to fund the purposes for which they are established under the Plan. If there is excess cash in the reserves (other than the Unresolved Claims Reserve), those funds will initially be transferred to the Monitor's Post-Implementation Reserve, which is a reserve intended for funds required to fund the on-going estate requirements after the implementation of the Plan. At this time, it is not known what those cash requirements may be. However, the Monitor intends to continue to work with the Company in order to understand the estimated cash requirement for the administration of the Company after Plan implementation. The Plan also provides that the Monitor may

release funds from the Monitor's Post-Implementation Reserve to Newco from time to time and if there are excess funds after the Monitor is satisfied funds are no longer necessary for administering the Company, those funds will be transferred to Newco.

Releases

40. The Plan provides for the release of a number of parties including the Company, the Subsidiaries, the Named Directors and Officers (other than for Retained D&O Claims and Non-Released D&O Claims, discussed above), Newco, the directors and officers of Newco, the Noteholders, members of the ad hoc committee of Noteholders, the Trustees, the Monitor, FTI HK, counsel for the Directors of SFC, counsel for the Monitor, the SFC Advisors, the Noteholder Advisors and present and former affiliates, subsidiaries, directors, officers, members, partners or employees of the foregoing.
41. As discussed above, the Plan does not release claims against the Other Directors and Officers (although Indemnified Noteholder Class Action Claims against those Directors and Officers are limited to the Indemnified Noteholder Class Action Limit). The Plan also does not release Retained D&O Claims (although recovery on those claims is limited to insurance proceeds) or Non-Released D&O Claims.

Mechanics for Distribution of Newco Shares, Newco Notes and Litigation Trust Interests

42. The Plan sets out the mechanics for the issuance and distribution of Newco Shares, Newco Notes and the Litigation Trust Interests on the initial and subsequent Distribution Dates. In essence, the Plan provides flexible alternatives for the issuance, distribution and registration of the Newco Shares and Newco Notes depending on whether the registers will be maintained by a Transfer Agent, whether the Newco Shares and/or Newco Notes are DTC eligible and whether the Newco Shares and/or Newco Notes are maintained in a Direct Registration System.
43. The Plan contemplates that the Monitor will undertake the necessary actions to both notify Noteholders and Ordinary Affected Creditors and obtain all contact and registration information necessary for the ultimate distributions contemplated by the Plan. The Plan also contemplates that the Monitor may, from time to time, hold Newco Shares

and/or Newco Notes in escrow for the benefit of Persons entitled thereto under the Plan, for a period of time for logistical purposes and other purposes contemplated in the Plan (including the Unresolved Claims Reserve) during the course of the implementation of the Plan.

44. The Monitor and the Company are engaged in ongoing discussions regarding which of the Monitor's responsibilities are more appropriately performed by an agent or other service provider to be retained for this purpose. The Monitor and the Company are also continuing to discuss whether there are any ongoing tax or other implications which may impact some of the implementation steps of the Plan.
45. Pursuant to the Plan, the Litigation Trustee will allocate, administer and track the interests in the Litigation Trust.

The Restructuring Transaction

46. The Plan contains specific implementation steps for completion of the restructuring transaction and the transfer of substantially all of the Company's assets to Newco. Reference to the Plan should be made to see the proposed steps. The Plan contemplates that the Monitor will be active in facilitating the implementation of the Plan including overseeing the distribution of Newco Shares and Newco Notes as well as maintaining the reserves.
47. A summary of the restructuring transaction is as follows:
 - (a) *Incorporation of Newco.* Newco shall be incorporated prior to the Plan Implementation Date. Newco shall be authorized to issue an unlimited number of Newco Shares and shall have no restrictions on the number of its shareholders.
 - (b) *Cash Payments and Satisfaction of Lien Claims*
 - (i) The Company shall pay required funds to the Monitor for the purpose of funding the Unaffected Claims Reserve, the Administration Charge Reserve, the Directors' Charge Reserve and the Monitor's Post-Implementation Reserve.

- (ii) The Company or its subsidiaries shall pay to the Noteholder Advisors each such Person's respective portion of the Expense Reimbursement and all fees and expenses owing to each of the SFC Advisors, Chandler Fraser Keating Limited and Spencer Stuart.
 - (iii) The Lien Claims shall be satisfied in accordance with the terms of the Plan.
- (c) *Transaction Steps*
- (i) All accrued and unpaid interest owing on, or in respect of, or as part of, Affected Creditor Claims will be released and discharged.
 - (ii) All of the Affected Creditors shall be deemed to assign, transfer and convey to Newco all of their Affected Creditor Claims, and from and after the occurrence of this step, Newco shall be the legal and beneficial owner of all Affected Creditor Claims.
 - (iii) In consideration for the assignment, transfer and conveyance of the Affected Creditor Claims to Newco, Newco will issue the Newco Shares and Newco Notes as contemplated by the Plan.
 - (iv) The Company shall be deemed to assign, transfer and convey to Newco all shares and other equity interests in the capital of (i) the Direct Subsidiaries and (ii) any other Subsidiaries that are directly owned by the Company immediately prior to the Effective Time for Newco Promissory Note 1 representing a purchase price equal to the fair market value of the Direct Subsidiary Shares.
 - (v) The Company shall be deemed to assign, transfer and convey to Newco all SFC Intercompany Claims for the assumption by Newco of all of the Company's obligations to the Subsidiaries in respect of Subsidiary Intercompany Claims and Newco Promissory Note 2, representing a

purchase price equal to the fair market value of such SFC Intercompany Claims.

- (vi) The Company shall be deemed to assign, transfer and convey to Newco all other SFC Assets³ excluding the Litigation Funding Amount, Newco Promissory Note 1 and Newco Promissory Note 2 for a purchase price equal to the fair market value of such other SFC Assets and, in consideration therefor, Newco shall issue Newco Promissory Note 3.
- (vii) The Company shall establish the Litigation Trust and shall contribute the Litigation Funding Amount to the Litigation Trustee for the benefit of the Litigation Trust.
- (viii) The Company shall settle and discharge the Affected Creditor Claims by assigning Newco Promissory Note 1, Newco Promissory Note 2 and Newco Promissory Note 3 (collectively, the “**Newco Promissory Notes**”) and the remaining Litigation Trust Interests held by the Company to Newco. Such assignment shall constitute payment, by set-off, of the full principal amount of the Newco Promissory Notes and of a portion of the Affected Creditor Claims equal to the aggregate principal amount of the Newco Promissory Notes and the fair market value of the Litigation Trust Interests so transferred (with such payment being allocated first to the Noteholder Claims and then to the Ordinary Affected Creditor Claims).
As a consequence thereof:

(A) Newco shall be deemed to discharge and release the Company of and from all of the Company’s obligations to Newco in respect of the Affected Creditor Claims, and all of Newco’s rights against the

³ Under the Plan, “Excluded SFC Assets” means (i) the rights of the Company to be transferred to the Litigation Trust in accordance with section 6.3(n) of the Plan; (ii) any entitlement to insurance proceeds in respect of insured Claims and/or Retained D&O Claims; (iii) any secured property of the Company that is to be returned in satisfaction of a Lien Claim pursuant to section 4.2(c)(i) of the Plan; (iv) any input tax credits or other refunds received by the Company after the Effective Time; and (v) cash in aggregate amount of (and for the purpose of): (A) the Litigation Funding Amount; (B) the Unaffected Claims Reserve; (C) the Administration Charge Reserve; (D) the Directors’ Charge Reserve; (E) the Expense Reimbursement; and (F) any amounts in respect of Lien Claims to be paid in accordance with section 4.2(c)(ii) of the Plan.

Company of any kind in respect of the Affected Creditor Claims shall thereupon be fully, finally, irrevocably and forever compromised, released, discharged and cancelled; and

(B) the Company shall be deemed to discharge and release Newco of and from all of Newco's obligations to the Company in respect of the Newco Promissory Notes, and the Newco Promissory Notes and all of the Company's rights against Newco in respect thereof shall thereupon be fully, finally, irrevocably and forever released, discharged and cancelled.

(ix) Newco shall cause a portion of the Litigation Trust Interests it acquired to be assigned to and registered in the name of the Affected Creditors with Proven Claims as contemplated under the Plan and to the Monitor in respect of Unresolved Claims.

(d) *Releases.* All of the Releases under the Plan will be effective, the Charges will be discharged and released and Newco shall have no liability or obligations for any Claims, D&O Claims or D&O Indemnity Claims (as more fully set out in the Plan).

(e) *Cancellation of Existing Shares and Notes.* On the first Business Day that is 31 days after the Plan Implementation Date, all Existing Shares and Equity Interests will be cancelled and a plan of reorganization pursuant to section 191 of the CBCA will be implemented in accordance with the Plan.

(f) *Vesting of Assets Free and Clear.* All of the SFC Assets will be deemed to vest in Newco free and clear of all Claims, Charges or Encumbrances (as set out more fully in the Plan).

48. The Monitor intends to continue discussions with the Company as to the extent of its role as well as the appropriateness of hiring an experienced agent to assist in certain of these steps.

The Sanction Order

49. In the event that the Plan is approved by the Required Majority at the Meeting, the Company will be authorized to seek the Sanction Order. The required terms of the

Sanction Order are set out in the Plan and include the sanctioning of the Plan, confirmation of the releases and confirmation of the reserve amounts.

Conditions to Implementation of the Plan

50. The implementation of the Plan is subject to numerous and extensive conditions that may only be waived in accordance with the Plan by the Company and/or the Initial Consenting Noteholders as set out in the Plan. A summary of the significant conditions is as follows:

(a) *Plan Approval Matters*

- (i) the Plan shall have been approved by the Required Majority and the Court;
- (ii) the Sanction Order shall have been made and shall be in full force and effect prior to October 12, 2012 (or such later date as may be consented to by the Company and the Initial Consenting Noteholders), and all applicable appeal periods in respect thereof shall have expired and any appeals therefrom shall have been disposed of by the applicable appellate court;
- (iii) all filings under Applicable Laws that are required in connection with the Restructuring Transaction shall have been made and any regulatory consents or approvals that are required in connection with the Restructuring Transaction shall have been obtained and, in the case of waiting or suspensory periods, such waiting or suspensory periods shall have expired or been terminated;
- (iv) there shall not be in effect any preliminary or final decision, order or decree by a Governmental Entity, no application shall have been made to any Governmental Entity, and no action or investigation shall have been announced, threatened or commenced by any Governmental Entity, in consequence of or in connection with the Restructuring Transaction that restrains, impedes or prohibits (or if granted could reasonably be expected to restrain, impede or prohibit) the Restructuring Transaction or any

material part thereof or requires or purports to require a variation of the Restructuring Transaction.

(b) *Newco Matters*

- (i) the organization, incorporating documents, articles, by-laws and other constating documents of Newco (including any shareholders agreement, shareholder rights plan and classes of shares (voting and non-voting)) and any affiliated or related entities formed in connection with the Restructuring Transaction or the Plan, and all definitive legal documentation in connection with all of the foregoing, shall be acceptable to the Initial Consenting Noteholders and in form and in substance reasonably satisfactory to the Company;
- (ii) the composition of the board of directors of Newco and the senior management and officers of Newco that will assume office, or that will continue in office, as applicable, on the Plan Implementation Date shall be acceptable to the Initial Consenting Noteholders;
- (iii) the terms of employment of the senior management and officers of Newco shall be acceptable to the Initial Consenting Noteholders;
- (iv) except as expressly set out in this Plan, Newco shall not have: (i) issued or authorized the issuance of any shares, notes, options, warrants or other securities of any kind, (ii) become subject to any Encumbrance with respect to its assets or property; (iii) become liable to pay any indebtedness or liability of any kind (other than as expressly set out in the Plan); or (iv) entered into any Material agreement;
- (v) any securities that are formed in connection with the Plan, including the Newco Shares and the Newco Notes, when issued and delivered, shall be duly authorized, validly issued and fully paid and non-assessable and the issuance thereof shall be exempt from all prospectus and registration requirements and resale restrictions of any applicable securities, corporate

or other law, statute, order, decree, consent decree, judgment, rule, regulation, ordinance, notice, policy or other

(c) *Plan Matters*

- (i) the Indemnified Noteholder Class Action Limit shall be acceptable to the Company, the Monitor and the Initial Consenting Noteholders;
- (ii) the aggregate amount of Proven Claims held by Ordinary Affected Creditors shall be acceptable to the Company, the Monitor and the Initial Consenting Noteholders;
- (iii) the amount of each of the Unaffected Claims Reserve, the Administration Charge Reserve, the Directors' Charge Reserve and the Monitor's Post-Implementation Reserve shall, in each case, be acceptable to the Company, the Monitor and the Initial Consenting Noteholders;
- (iv) the Litigation Funding Amount shall be acceptable to the Company, the Monitor and the Initial Consenting Noteholders;
- (v) the amount of each of the following shall be acceptable to the Company, the Monitor and the Initial Consenting Noteholders: (i) the aggregate amount of Lien Claims to be satisfied by the return to the applicable Lien Claimants of the applicable secured property in accordance with the Plan; and (ii) the aggregate amount of Lien Claims to be repaid in cash on the Plan Implementation Date in accordance with the Plan;
- (vi) the aggregate amount of Unaffected Claims, and the aggregate amount of the Claims listed in each subparagraph of the definition of "Unaffected Claims" shall, in each case, be acceptable to the Company, the Monitor and the Initial Consenting Noteholders;
- (vii) the aggregate amount of Unresolved Claims and the amount of the Unresolved Claims Reserve shall, in each case, be acceptable to the

Company, the Monitor and the Initial Consenting Noteholders and shall be confirmed in the Sanction Order;

- (viii) Litigation Trust and the Litigation Trust Agreement shall be in form and in substance acceptable to the Company, the Monitor and the Initial Consenting Noteholders and the Company, each acting reasonably, and the Litigation Trust shall be established in a jurisdiction that is acceptable to the Initial Consenting Noteholders and the Company, each acting reasonably;
- (ix) the Company, the Monitor and the Initial Consenting Noteholders, each acting reasonably, shall be satisfied with the proposed use of proceeds and payments relating to all aspects of the Restructuring Transaction and the Plan, including, without limitation, any change of control payments, consent fees, transaction fees, third party fees or termination or severance payments, in the aggregate of \$500,000 or more, payable by the Company or any Subsidiary to any Person (other than a Governmental Entity) in respect of or in connection with the Restructuring Transaction or the Plan, including without limitation, pursuant to any employment agreement or incentive plan of the Company or any Subsidiary;
- (x) the Company, the Monitor and the Initial Consenting Noteholders, each acting reasonably, shall be satisfied with the status and composition of all liabilities, indebtedness and obligations of the Subsidiaries and all releases of the Subsidiaries provided for in the Plan and the Sanction Order shall be binding and effective as of the Plan Implementation Date;

(d) *Plan Implementation Date Matters*

- (i) the steps required to complete and implement the Plan shall be in form and in substance satisfactory to the Company and the Initial Consenting Noteholders;

- (ii) the Noteholders and the Early Consent Noteholders shall receive, on the Plan Implementation Date, all of the consideration to be distributed to them pursuant to the Plan;
- (iii) all of the following shall be in form and in substance satisfactory to the Company and the Initial Consenting Noteholders: (i) all materials filed by the Company with the Court or any court of competent jurisdiction in the United States, Canada, Hong Kong, the PRC or any other jurisdiction that relates to the Restructuring Transaction; (ii) the terms of any court-imposed charges on any of the assets, property or undertaking of any of the Company, including without limitation any of the Charges; (iii) the Initial Order; (iv) the Claims Procedure Order; (v) the Meeting Order; (vi) the Sanction Order; (vii) any other Order granted in connection with the CCAA Proceeding or the Restructuring Transaction by the Court or any other court of competent jurisdiction in Canada, the United States, Hong Kong, the PRC or any other jurisdiction; and (viii) the Plan (as it is approved by the Required Majority and the Sanction Order);
- (iv) any and all court-imposed charges on any assets, property or undertaking of the Company, including the Charges, shall be discharged on the Plan Implementation Date on terms acceptable to the Initial Consenting Noteholders and the Company, each acting reasonably;
- (v) the Company shall have paid, in full, the Expense Reimbursement and all fees and costs owing to the SFC Advisors on the Plan Implementation Date, and Newco shall have no liability for any fees or expenses due to the SFC Advisors or the Noteholder Advisors either as at or following the Plan Implementation Date;
- (vi) the Company or the Subsidiaries shall have paid, in full all fees owing to each of Chandler Fraser Keating Limited and Spencer Stuart on the Plan Implementation Date, and Newco shall have no liability for any fees or

expenses due to either Chandler Fraser Keating Limited and Spencer Stuart as at or following the Plan Implementation Date;

- (vii) the Company shall have paid all reasonable fees and expenses, including reasonable legal fees, of the Trustees in connection with the performance of their respective duties under the Note Indentures or this Plan that are outstanding as of the Plan Implementation Date, and the Initial Consenting Noteholders shall be satisfied that SFC has made adequate provision in the Unaffected Claims Reserve for the payment of the reasonable fees and expenses, including reasonable legal fees, to be incurred by the Trustees after the Plan Implementation Date in connection with the performance of their respective duties under the Note Indentures or this Plan;
 - (viii) there shall not exist or have occurred any Material Adverse Effect, and the Company shall have provided the Initial Consenting Noteholders with a certificate signed by an officer of the Company, without any personal liability on the part of such officer, certifying compliance with the Plan as of the Plan Implementation Date;
 - (ix) there shall have been no breach of the Noteholder Confidentiality Agreements (as defined in the RSA) by the Company or any of the Sino-Forest Representatives (as defined therein) in respect of the applicable Initial Consenting Noteholder;
 - (x) the Plan Implementation Date shall have occurred no later than November 30, 2012 (or such later date as may be consented to by the Company and the Initial Consenting Noteholders);
- (e) *RSA Matters*
- (i) all conditions set out in sections 6 and 7 of the RSA shall have been satisfied or waived in accordance with the terms of the RSA;
 - (ii) the RSA shall not have been terminated;

(f) *Other Matters*

- (i) the Initial Consenting Noteholders shall have completed due diligence in respect of the Company and the Sino-Forest Subsidiaries and the results of such due diligence shall be acceptable to the Initial Consenting Noteholders prior to the date of the hearing of the Sanction Order;
- (ii) if so requested by the Initial Consenting Noteholders, the Sanction Order shall have been recognized and confirmed as a binding and effective pursuant to an order of a court of competent jurisdiction in Canada, the United States, and any other jurisdiction requested by the Initial Consenting Noteholders, and all applicable appeal periods in respect of any such recognition order shall have expired and any appeals therefrom shall have been disposed of by the applicable appellate court; and
- (iii) all press releases, disclosure documents and definitive agreements in respect of the Restructuring Transaction or the Plan shall be in form and substance satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably.

Closings Risks Associated with the Plan

51. As is apparent from the number and substance of many of the conditions, even if the Company were to obtain the affirmative vote of the Required Majority at the Meeting, it is not clear whether all such conditions can be met. In particular, the Monitor notes that the implementation of the Plan remains subject to the completion of due diligence in respect of the Company and the Sino-Forest Subsidiaries by the Initial Consenting Noteholders prior to the Sanction Order hearing.

THE MEETING ORDER

52. On August 14, 2012, the Company filed its motion for a plan filing and meeting order (the “**Meeting Order**”) for a motion returnable August 28, 2012.

53. The terms of the Meeting Order are set out in the Martin Affidavit and therefore not repeated herein. Briefly, the terms of the Meeting Order include the following:

(a) *Classification of Creditors:*

- (i) Affected Creditors will constitute a single class for the purposes of voting on the Plan;
- (ii) Equity Claimants will constitute a single class but shall have no right to attend the Meeting or vote on the Plan (in that capacity).

(b) *Provisions relating to Equity Claimants.* The Meeting Order specifically provides that:

- (i) the class action plaintiffs in respect of their Shareholder Claims and the Third Party Defendants in respect of their Related Indemnity Claims (which shall consist of the entirety of the Third Party Defendants' Claims) (other than indemnity claims of the Third Party Defendants relating to Indemnified Noteholder Class Action Claims and any Defence Costs Claims that have not been determined to be Equity Claims) shall constitute Equity Claims;
- (ii) that the terms of the Equity Order and Meeting Order constitute the determination of such Claims as "Equity Claims" for the purposes of the Claims Procedure Order; and
- (iii) The Monitor is not required to send Notices of Revision or Disallowance in respect of such Claims.

(c) *Notices.* The Meeting Order provides:

- (i) for the posting of materials on the Monitor's website within three (3) Business Days of the granting of the Meeting Order;

- (ii) for an extensive mailing process on a date to be selected by the Monitor (in consultation with the Company and counsel for the Initial Consenting Noteholders) that is twenty (20) days after the date of the Meeting Order for mailing of meeting materials to Ordinary Affected Creditors, the Trustees and DTC as well as a process for notification of Participant Noteholders, Beneficial Noteholders and/or Unregistered Noteholders, if any;
 - (iii) that the Monitor may retain an agent to assist the Monitor in carrying out many or all of these administrative functions.
- (d) *Meeting Date.* The Meeting Date shall be a date to be set by the Monitor (in consultation with the Company and counsel for the Initial Consenting Noteholders) which shall be within thirty (30) days of the Mailing Date.
- (e) *Conduct of the Meeting.* The Meeting will be held at the offices of Bennett Jones LLP, 3400 First Canadian Place, Toronto, Ontario on the Meeting Date.
- (f) *Voting Procedure.* The Meeting provides that at the Meeting, the Chair shall direct a vote, by written ballot, on a resolution to approve the Plan and any amendments thereto.
- (g) *Voting of Unresolved Claims.* The Meeting Order provides that:
- (i) Persons with Unresolved Claims shall be entitled to vote and shall be recorded by the Monitor, who shall report on such votes (and any impact such votes would have on the approval of the Plan) at the Sanction Hearing; and
 - (ii) Each of the Third Party Defendants shall be entitled to one vote in respect of any Class Action Indemnity Claim it has filed in respect of the Indemnified Noteholder Class Action Claims, provided that the aggregate value of all such Class Action Indemnity Claims shall, for voting purposes, be deemed to be equal to the amount of the Indemnified

Noteholder Class Action Limit. The Monitor will keep a separate record of the votes and report to the Court on the results (including any impact on the approval of the Plan) at the Sanction Hearing.

- (h) *Monetary Claims of the Ontario Securities Commission.* The Meeting Order amends the Claims Procedure Order to provide for a call for monetary claims of the Ontario Securities Commission against the Company or any Directors and/or Officers on or before September 21, 2012.
- (i) *Sanction Hearing.* If the Plan is approved by the Required Majority, the Applicant may apply to the Court at 10am on a date that is within three (3) Business Days of the Meeting Date for the Sanction Order.

CONCLUSION

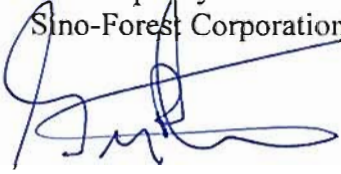
- 54. The Monitor remains hopeful that the Mediation will be productive. As such, the Monitor currently intends to select the Mailing Date as a date after the completion of the Mediation on September 10, 2012.
- 55. However, since the beginning of the filing and as was described in the Initial Order Affidavit and the Pre-Filing Report and again more recently reported in the Sixth Report, there are many difficulties in the Sino-Forest business and those difficulties have worsened since the Filing Date. The ongoing deterioration of the Sino-Forest business is evident given the increasing difficulties with collection of receivables, de-registration of AIs and suppliers, the ongoing standstill in the standing timber and trading businesses and decreased performance on the remainder of the businesses. This deterioration and on-going difficulties are unlikely to be remedied while the uncertainties relating to the parent company (i.e. Sino-Forest Corporation) continue.
- 56. The Monitor is of the view that it is important for the CCAA Proceedings to be completed as soon as possible and, as such, believes that the granting of the Meeting Order at this time is appropriate and fair and reasonable in the circumstances.

Dated this 17th day of August, 2012.

FTI Consulting Canada Inc.

In its capacity as Monitor of

~~Sino-Forest Corporation, and not in its personal capacity~~

A handwritten signature in blue ink, appearing to read 'Greg Watson', is written over a light grey rectangular background. The signature is stylized and somewhat cursive.

Greg Watson

Senior Managing Director

**APPENDIX A - SIXTH REPORT
(WITHOUT APPENDICES)**

(See Attached)

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

Sino-Forest Corporation

SIXTH REPORT OF THE MONITOR

August 10, 2012



**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

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


INTRODUCTION

1. On March 30, 2012 (the "**Filing Date**"), Sino-Forest Corporation (the "**Company**") filed for and obtained protection under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). Pursuant to the Order of this Honourable Court dated March 30, 2012 (the "**Initial Order**"), FTI Consulting Canada Inc. was appointed as the Monitor of the Company (the "**Monitor**") in the CCAA proceedings. By Order of this Court dated April 20, 2012, the powers of the Monitor were expanded in order to, among other things, provide the Monitor with access to information concerning the Company's subsidiaries. Pursuant to an Order of this Court made on May 31, 2012, this Court granted an Order extending the Stay Period (as defined in the Initial Order) to September 28, 2012. The proceedings commenced by the Company under the CCAA will be referred to herein as the "**CCAA Proceedings**".
2. On the Filing Date, the Court also issued an Order authorizing the Company to conduct a Sale Process (the "**Sale Process Order**").
3. The purpose of this Sixth Report is to:
 - (a) Provide an update on the Company's CCAA proceedings including with respect to:



- (i) the Sale Process;
 - (ii) Mediation;
 - (iii) the Plaintiffs' Motion re Document Production;
 - (iv) Claims Process;
 - (v) the Company's Equity Claims Motion;
- (b) Report on the receipts and disbursements of the Company for the period May 19, 2012 to July 20, 2012; and
- (c) Provide certain information relating to the Sino-Forest Subsidiaries, including:
- (i) overview of the Sino-Forest chops, annual review and process to change legal representatives;
 - (ii) the cash position of the Sino-Forest Subsidiaries;
 - (iii) receivables;
 - (iv) the Thai Redwood Transaction;
 - (v) management's internal December 2011 financial statement impairment provisions;
 - (vi) disbursements;
 - (vii) cumulative variance analysis for the Sino-Forest Subsidiaries;
- (d) Provide an update on Sino-Forest Subsidiary operations, including:
- (i) operational changes;
 - (ii) wood fibre operations;
 - (iii) other businesses; and



- (e) Provide an update on timber assets and verification efforts.
4. In preparing this Sixth Report, the Monitor has relied upon unaudited financial information of Sino-Forest, Sino-Forest's books and records, certain financial information prepared by Sino-Forest, the Reports of the Independent Committee of the Company's Board of Directors dated August 10, 2011 (the "**First IC Report**"), November 13, 2011 (the "**Second IC Report**"), and January 31, 2012 (the "**Final IC Report**" and together, the "**IC Reports**"), and discussions with Sino-Forest's management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. In addition, the Monitor notes that on January 10, 2012, the Company issued a press release cautioning that the Company's historic financial statements and related audit reports should not be relied upon. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this Sixth Report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this Sixth Report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
 5. Unless otherwise stated, all monetary amounts contained herein are expressed in US Dollars.
 6. The term "**Sino-Forest**" refers to the global enterprise as a whole but does not include references to the Greenheart Group. "**Sino-Forest Subsidiaries**" refers to all of the direct and indirect subsidiaries of the Company, but does not include references to the Greenheart Group.
 7. Capitalized terms not defined in this Sixth Report are as defined in the pre-filing report of the proposed monitor dated March 30, 2012 (the "**Pre-Filing Report**") and the affidavit of W. Judson Martin sworn March 30, 2012 (the "**Initial Order Affidavit**"). Copies of the Initial Order Affidavit (without exhibits) and the Pre-Filing Report are attached as Appendices "A" and "B" hereto.
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GENERAL BACKGROUND

Sino-Forest Business

8. Sino-Forest conducts business as a forest plantation operator in the People's Republic of China ("PRC"). Its principal businesses include ownership and management of forest plantation trees, the sale of standing timber and wood logs, and complementary manufacturing of downstream engineered-wood products.
9. The Company is a public holding company whose common shares were listed on the Toronto Stock Exchange ("TSX"). Prior to August 26, 2011 (the date of the Cease Trade Order, defined below), the Company had 246,095,926 common shares issued and outstanding and trading under the trading symbol "TRE" on the TSX. Effective May 9, 2012, the common shares were delisted from the TSX.
10. On June 2, 2011, Muddy Waters, LLC ("MW"), which held a short position on the Company's shares, issued a report (the "MW Report") alleging, among other things, that Sino-Forest is a "ponzi-scheme" and a "near total fraud". The MW Report was issued publicly and immediately caught the attention of the media on a world-wide basis.
11. Subsequent to the issuance of the MW Report, the Company devoted extensive time and resources to investigate and address the allegations in the MW Report as well as responding to additional inquiries from, among others, the Ontario Securities Commission ("OSC"), the Royal Canadian Mounted Police and the Hong Kong Securities and Futures Commission.
12. In view of the MW Report, the subsequent litigation and regulatory investigations and other issues continue to have a significant negative impact on the Company and have threatened the long term viability of Sino-Forest's operations. For the reasons discussed in the Pre-Filing Report and the Initial Order Affidavit, the Company and the business was placed into a stalemate that could not be resolved without the Court supervised solution offered by the CCAA Proceedings.
13. The Pre-Filing Report and the Initial Order Affidavit provide a detailed outline of Sino-Forest's corporate structure, business, reported assets and financial information as well as

a detailed chronology of the Company and its actions since the issuance of the MW Report in June 2011.

UPDATE ON CCAA PROCEEDINGS

Update on Sale Process

14. On the Filing Date, the Company obtained the Sale Process Order. The Phase 1 Bid Deadline (as defined in the Sale Process Order) was June 28, 2012. On July 10, 2012, the Company issued a press release announcing that the Company had determined that none of the letters of intent were qualified letters of intent and therefore it was terminating the Sale Process and proceeding with the restructuring transaction contemplated under the Support Agreement.
15. Also on July 10, 2012, the Monitor issued its fourth report (the "**Fourth Report**") to the Court providing an update with respect to the Sale Process and the letters of intent that had been received on the Phase 1 Bid Deadline. The Fourth Report also noted that none of the LOIs (as defined in the Fourth Report) were deemed "Qualified Letters of Intent" under the sale process procedures and the Company subsequently issued a press release confirming the termination of the sale process.
16. Many parties actively involved in these proceedings have requested a summary of the LOIs received. The Monitor agrees with the Company that this information is sensitive and should not be publicly available. However, the Monitor does believe that summary information regarding the LOIs should be placed in the Data Room (defined below) and made available to Mediation Parties (defined below) who have executed a Mediation Confidentiality Agreement (defined below) prior to the Mediation (defined below).

Update on Mediation

17. The Monitor's fifth report dated July 16, 2012 filed in support of the Monitor's motion for a mediation order (the "**Mediation Motion**") provided the background and context leading up to the Mediation Motion.
18. On July 25, 2012, this Court granted an Order (the "**Mediation Order**");

- (a) directing mediation (“**Mediation**”) among specified “Mediation Parties”;
- (b) providing for the establishment of a data room (“**Data Room**”) for access by Mediation Parties subject to confidentiality restrictions;
- (c) scheduling September 4, 5 and, if necessary, 10 as the mediation dates; and
- (d) appointing the Honourable Justice Newbould as mediator.

A copy of the Mediation Order is attached as Appendix C hereto.

19. Since the granting of the Mediation Order, the Company has worked with the Plaintiffs and the Third Party Defendants to execute confidentiality agreements in the form agreed to with such parties at the hearing for the Mediation Order (the “**Mediation Confidentiality Agreement**”). A copy of the index to the Data Room and access to the Data Room has been provided to those Mediation Parties that have executed a Mediation Confidentiality Agreement as of the date of this Report.

The Plaintiff's Motion re Document Production

20. On July 10, 2012, the Plaintiffs served a notice of motion (the “**Notice of Motion**”) (followed by a full motion record on July 11, 2012) for a motion returnable July 16, 2012 (the “**Plaintiffs' Document Motion**”) regarding the disclosure of certain documents set out in their Notice of Motion. At a Court conference call held on July 13, 2012, the Plaintiffs' Document Motion was adjourned to July 25, 2012. At a 9:30 appointment held on July 23, 2012, the motion was further adjourned to July 30, 2012.
21. The Plaintiffs and the Company subsequently agreed upon the list of documents to be put in the Data Room and settled a form of Order in respect of the Plaintiffs' Document Motion. The Order was granted by this Court on July 30, 2012. A copy of the Order is attached as Appendix D hereto.

Update on Claims Process

22. Pursuant to an Order of this Court made on May 14, 2012, this Court granted the Claims Procedure Order providing for a call for claims against the Company and its officers and



directors. While the Claims Procedure Order did not purport to create a bar date in respect of claims against Sino-Forest Subsidiaries, claimants against the Company were ordered to indicate whether they asserted or intended to assert a similar claim against some or all of the Sino-Forest Subsidiaries. The primary claims bar date was June 20, 2012 (the “**Claims Bar Date**”).¹

23. On or about the Claims Bar Date, the Monitor received a total of 228 claims with a face value in excess of \$112 billion. This includes potential duplicative claims filed against the Company and its officers, directors and subsidiaries. A summary of the claims received to date is as follows:

	# of Claims Submitted	\$ of Claims Submitted (millions)
Claims	164	\$ 66,334
D&O Claims	64	\$ 45,861
Total Claims	228	\$ 112,195

24. As of the date of this Report, the Monitor is continuing to review the claims received, particularly in light of the Equity Claims Decision (defined below), discussed in further detail below.
25. The Monitor is also reviewing the claims under the Company’s four series of notes including the guarantees and pledges given by Sino-Forest in connection with the notes. The Monitor intends to put its summary regarding the guarantees and security in the Data Room.

¹The applicable bar date for certain claims including Restructuring Claims and D&O Indemnity Claims is as set out in the Claims Procedure Order.



The Company's Equity Claims Motion

26. On June 26, 2012, this Court heard a motion brought by the Company for a direction that certain claims against the Company that result from the ownership, purchase or sale of an equity interest in the Company and resulting indemnity claims are “equity claims” as defined in the section 2 of the CCAA. The motion was not opposed by the Plaintiffs but was opposed by certain Third Party Defendants.

27. On July 27, 2012, this Court issued its decision (the “**Equity Claims Decision**”). A copy of the Equity Claims Decision is attached as Appendix E hereto. Pursuant to the Equity Claims Decision, this Court found, *inter alia*, that:²

- (a) It was not premature to determine the issue set out in the Company’s motion. Instead:
 - (i) it had been clear since the outset of the CCAA proceedings that this issue would have to be determined and this issue could be determined independently of the Claims Procedure Order;
 - (ii) the Court did not accept that any party can be said to be prejudiced if this threshold issue is determined at this time;
 - (iii) this threshold issue does not depend upon a determination of quantification of any claim; and
 - (iv) the effect of the Equity Claims Decision will be to establish whether the claims of E&Y, BDO and the Underwriters will be subordinated pursuant to the CCAA and is independent of determinations as to validity and quantification.
- (b) The Shareholder Claims and Related Indemnity Claims are “equity claims” as defined in section 2 of the CCAA.

² Capitalized terms used in the summary and not otherwise defined have the meaning given to them in the Equity Claims Decision. This summary is for information purposes only. Reference should be made to the Equity Claims Decision itself.



- (c) With respect to the claims of E&Y, BDO and the Underwriter, the Court concluded that the most significant aspect of those claims constitute “equity claims”. However, the Court did not make a determination as to whether defence costs incurred in defending the class action claims were “equity claims”.
 - (d) The Equity Claims Decision was without prejudice to the Company’s right to apply for a similar order with respect to (i) any claims in the statement of claim that are in respect of securities other than shares and (ii) any indemnification claims against the Company related thereto.
28. On August 3, 2012, the Court issued an Order reflecting the terms of the Equity Claims Decision, a copy of which is attached as Appendix F hereto.

RECEIPTS AND DISBURSEMENTS OF THE COMPANY FOR THE PERIOD TO JULY 20, 2012

Actual Receipts & Disbursements for the Period May 19, 2012, to July 20, 2012

29. The Company’s actual net cash flow for the period from May 19, 2012, to July 20, 2012 (the “**Current Period**”) together with an explanation of key variances as compared to the May 23 Forecast (as defined in the Monitor’s Third Report) is described below. Actual net cash flows for the Current Period were approximately \$8.5 million higher than forecast and summarized as follows:



\$000 CAD	Forecast	Actual	Difference
Cash inflow			
Insurance Proceeds	\$ -	\$ 6,664	\$ 6,664
Interest Income	\$ 412	\$ 417	\$ 5
Total cash inflow	\$ 412	\$ 7,081	\$ 6,669
Cash outflow			
Payroll and Benefits	\$ 121	\$ 111	\$ (9)
Board & Committee Fees	\$ 392	\$ 307	\$ (85)
Travel	\$ 185	\$ 47	\$ (137)
Rent, Communication & Utilities	\$ 40	\$ 52	\$ 13
Taxes & Other	\$ 102	\$ 47	\$ (55)
Total cash outflow	\$ 839	\$ 565	\$ (273)
Net Operating Cashflow	\$ (426)	\$ 6,516	\$ 6,942
Restructuring Costs			
Professional Fees	\$ 10,482	\$ 8,946	\$ (1,536)
Total Restructuring Costs	\$ 10,482	\$ 8,946	\$ (1,536)
Net Cash Flow	\$ (10,908)	\$ (2,430)	\$ 8,478
Opening Cash Balance	\$ 61,007	\$ 61,007	\$ -
Net Cash Balance	\$ (10,908)	\$ (2,430)	\$ 8,478
Ending Cash Balance	\$ 50,099	\$ 58,577	\$ 8,478

30. The key variances in actual receipts and disbursements compared to the May 23 Forecast is a favourable variance of approximately \$8.5 million primarily relating to:
- (a) A positive variance of approximately of \$6.7 million in cash inflows. This variance is permanent in nature and related to insurance proceeds received by Sino-Forest in respect of professional fees incurred. The timing and estimated value of potential insurance proceeds was unknown at the time of the preparation of the May 23 Forecast and therefore was not included as part of the Forecast; and
 - (b) A positive variance of approximately \$1.5 million in professional fees. This variance is temporary in nature and is expected to reverse in the coming weeks as invoices are submitted by the professionals and paid by Sino-Forest.

INFORMATION RELATING TO SINO-FOREST SUBSIDIARIES

31. As set out in the Third Report of the Monitor, the Monitor (both directly and through FTI Consulting (Hong Kong) Limited (“**FTI HK**” and together with the Monitor, “**FTI**”)) established communication protocols and reporting mechanisms with Sino-Forest in Hong Kong and the People’s Republic of China (“**PRC**”).
32. The Monitor was granted further powers pursuant to the Expanded Powers Order dated April 20, 2012, the majority of which related to direct access and involvement in the Sino-Forest Subsidiaries, as opposed to the Company itself. The Company’s request for the Expanded Powers Order was primarily as a result of certain enforcement notices received from the OSC in April 2012, and personnel changes resulting from those changes.
33. FTI continues to work with Sino-Forest on its operational, financial, legal and other issues. Much of the Monitor’s activities to date have included, and continue to include, monitoring and reviewing financial information and Sino-Forest Subsidiaries’ activities in addition to attending certain meetings between the Company and third parties.
34. The purpose of this overview is to inform on the status of the Sino-Forest Subsidiaries from the start of the CCAA proceedings to date. In assessing Sino-Forest, including what actions and steps should be taken, reference was made to the IC Reports and the work and background conducted by the Independent Committee and its advisors. Copies of the IC Reports are attached as Appendices G through I hereto.

General Overview

35. As was set out in the Initial Order Affidavit as well as the Pre-Filing Report, in the months after the release of the MW Report and the subsequent commencement of investigations and litigation involving Sino-Forest Corporation, the ultimate parent of the Sino-Forest Companies, the majority of the business in the PRC came to a virtual standstill. Although certain business segments continued, they did so at diminished levels and Sino-Forest’s primary business, namely the purchase and sale of standing timber, froze. Both the Initial Order Affidavit and the Pre-Filing Report observed that a

court supervised process was necessary for any chance of resolving the stalemate that the business found itself in.

36. As discussed in the following sections, Sino-Forest's financial and operational aspects of the business in the PRC continue to be negatively impacted by the uncertainty regarding the Company's affairs. Operations in Sino-Forest's standing timber business (which accounts for the vast majority of Sino-Forest's historical reported revenue and asset base) remain frozen and the remainder of Sino-Forest's businesses are operating at substantially lower levels than in past years.
37. Further, Sino-Forest's existing senior management team has been significantly reduced since the commencement of the CCAA proceedings. As has been previously reported and disclosed by the Company, in April 2012, in response to enforcement notices issued by the OSC, a number of personnel changes were made whereby members of senior management were terminated. The chief financial officer also stepped down from that role, although he remains an employee of the Company. The Monitor understands that the terminated personnel played a significant role in Sino-Forest's business. Due to the on-going concern in the Company and the Sino-Forest business, it has not been an option for Sino-Forest to replace these individuals.
38. Although Sino-Forest's cash position may appear to be ahead of its forecast (see below), the original subsidiary level forecast was mostly prepared by individuals who are no longer employed by Sino-Forest as a result of the personnel changes in April 2012 and may not be an appropriate reference point. In reality, although disbursements are lower than normal, collection of receivables is proving difficult (as discussed below) and, to date, Sino-Forest has not been able to revive its business.
39. As evidenced by recent events, Sino-Forest is experiencing the results of a deteriorating business across multiple fronts, including:
 - (a) Provisions in respect of uncollectible receivable balances and assets with impaired values have been taken in the 2011 year end internal financial statements (which are discussed in further detail below);



- (b) Management will need to review the impact of the recent de-registrations on the interim 2012 internal financial statements and to consider the need for further provisions in respect of amounts owed by de-registered AIs (which is discussed in more detail below);
 - (c) Work being performed by third party consultants to verify Sino-Forest's forestry estate is on-going and estimated to take years to complete and/or to verify a substantial portion of the estate;
 - (d) There is no indication that Sino-Forest will be able to resume its business absent a successful restructuring and resolution in these CCAA proceedings; and
 - (e) There is a limited pool of funds that continues to be depleted throughout the CCAA proceedings.
40. The deterioration of Sino-Forest is also directly influenced by what appears to be the beginning of a breakdown of its relationships with certain AIs and suppliers. As described in the Pre-filing Report, the Initial Order Affidavit and as set out in the IC Reports, it is clear that there is an emphasis put on "business relationships" among parties that is paramount to any contractual or legal relationship that may have been entered into by the parties. These relationships are relied upon for the conduct of business in this industry in the PRC. In the course of its investigation, the IC reported that it was apparent that integral to Sino-Forest's business model was its relationship with business partners. Recent events highlight the breakdown:
- (a) Certain authorized intermediaries ("AIs") who are necessary for selling standing timber under the BVI structure and who had outstanding receivable balances with Sino-Forest, have de-registered (which is discussed in more detail below);
 - (b) Certain suppliers responsible for selling standing timber to Sino-Forest have de-registered; and



(c) The trading business has stopped importing, other than the existing Thai Redwood transaction. The Thai Redwood transaction that was expected to occur in May 2012 has been delayed multiple times.

41. The Monitor also notes that as the restructuring proceedings continue with no resolution, the ability of Sino-Forest to maintain its relationship with the PRC government may become increasingly difficult.

Chops. Annual Review and Process to Change Legal Representatives

42. Upon filing, FTI began discussions regarding the corporate governance of the Sino-Forest Subsidiaries, particularly the PRC entities which are located in various regions in the PRC. Through initial conversations and advice provided by Hong Kong and PRC counsel, the Monitor learned that, as a corporate governance matter, companies incorporated in the PRC:


- (a) Are represented by an individual who is appointed as the “legal representative” of that company in dealing with external parties and under the PRC law; and
- (b) conduct business through “chops” which are akin to company seals. PRC companies can have different kinds of chops including the “company chops”, “financial chops” and “individual bank signatory chop”. These chops are generally located at the subsidiary where they are used and may only be used by authorized individuals.

43. Shortly after the Filing Date, Sino-Forest sent out a company-wide letter (the “Letter”) to all of the subsidiaries identifying new restrictions on the use of the chops and prohibiting the use of these chops without prior permission from identified senior management of Sino-Forest. As discussed in further detail below, the Letter also outlined a new protocol for proposed disbursements and for entering into new contracts and commitments above a pre-determined threshold, including prior review by FTI.

44. As previously reported, in April 2012 there were several personnel changes due in large part to the ongoing investigation and charges laid by the OSC. As a consequence of these



changes, the Company and FTI undertook a diligence exercise to determine the legal representatives for all Sino-Forest PRC companies and the location and security of the various chops. A summary of the steps taken is as follows:

- (a) The Company, through its legal counsel, conducted a corporate review of the PRC subsidiaries to determine the identity of the legal representatives of each company. This review showed that there was a consistent legal representative across many of the subsidiaries and that in most cases the legal representative was no longer an employee of Sino-Forest.
 - (b) FTI then conducted physical visits of approximately 50% of Sino-Forest's PRC subsidiaries and observed the location of the company chop, financial chop and individual bank signatory chop for those subsidiaries it inspected.
 - (c) It was determined that it was not necessary or prudent to conduct an initial review of all PRC subsidiaries. This determination was based on the fact that: chops are physically located at the subsidiary offices throughout the PRC, the costs associated with physically visiting all locations and the relative levels of business historically reported by such subsidiaries. Instead, FTI selected a sample of subsidiaries to visit based on levels of business, cash balances and physical ability to visit those locations.
45. Based on the inspections that FTI has conducted, the chops appear to be physically locked in storage or other cabinets at the subsidiary level. Initially, there was one exception, but FTI has been advised that it has been remedied. FTI cannot be sure that the chops are kept under lock and key at all times given the practical prohibitions on such monitoring. However, FTI is advised by Sino-Forest management that the protocols set out in the Letter continue to be followed.
46. The Monitor expressed concern to Sino-Forest regarding the physical location of the chops at each of the subsidiaries as well as the legal representatives (particularly those that are no longer employees of Sino-Forest). These concerns were somewhat mitigated by the implementation of the new controls under the Letter. Further, at the time these
- 

concerns were initially raised, Sino-Forest's view was that (a) physical relocation of the chops to a more centralized location was not possible as a practical matter as they are needed by each subsidiary on a daily basis to conduct any business; and (b) any changes in legal representatives or other protocols at that time were not timely due to the fact that the PRC subsidiaries were undergoing their annual review process. The annual review process is described in more detail below.

47. Over the past number of months, Sino-Forest's PRC subsidiaries have been undergoing annual reviews. These reviews are government mandated and companies are required to pass these reviews every year in order to carry on business in the PRC. As of July 31, 2012, all of the annual reviews have now been completed. FTI is advised that all but three (3) of the PRC subsidiaries have passed their review and FTI is now in the process of receiving copies of the stamped business licenses indicating that the reviews were successful. For those three (3) that remain outstanding, two (2) are expected to be complete by August 10, 2012 and the last one by August 31, 2012.
48. Given the completion of the annual reviews, the Monitor is re-visiting discussions with Sino-Forest management to determine whether further steps should be taken to either replace the legal representatives and/or obtain a greater degree of certainty on the use and security of the chops.

Cash Position of Sino-Forest Subsidiaries

49. Prior to the CCAA proceedings, the Independent Committee, through its financial advisor, PricewaterhouseCoopers LLP ("PwC") was trying to verify the cash position of Sino-Forest. PwC was able to complete verification as of June 13, 2011 of 81% of the cash position in the PRC and 100% in Hong Kong.
50. Since the Filing Date, FTI has continued to work with Sino-Forest to verify cash positions on an on-going basis particularly given the fact that the PwC verification was as of ten (10) months prior to the filing.
51. Sino-Forest has approximately 546 bank accounts, 327 of which are located in various parts of the PRC. FTI initially commenced work to understand the logistics, location and



reported balances in these accounts and based on that, determined that the best approach was to conduct an initial review of all accounts with a balance over \$5 million. The further following actions continue to be taken by FTI in order to verify cash positions:

- (a) FTI performs a monthly review of bank statements for over 60% of the bank accounts as compared to the bank statements. Included in the accounts that are under review are all of the accounts with significant balances as well as a monthly random review of selected accounts with smaller balances;
- (b) FTI has also physically visited specific banks in efforts to confirm certain account balances as at March 31, 2012. Sino-Forest has 17 bank accounts in the PRC with balances in excess of \$5 million as at March 30, 2012. The 17 accounts represent approximately 65% of the expected total of all PRC bank accounts, or 44% of the expected total of all account balances;
- (c) FTI selected 9 of the 17 accounts to be verified and visited the banks with local Sino-Forest personnel located in: Hunan Province, Jiangzi Province, Guizhou Province, Shanghai and Guangzhou. No material misstatements were identified for any of the reviewed account balances as of March 30, 2012; and
- (d) There were 216 non-PRC bank accounts with a total balance of approximately \$167 million as at March 30, 2012. FTI has verified all of these accounts with a balance of over \$100,000 by checking bank statements, which represents approximately 99% of the total non-PRC balance. FTI performs a selected review of a portion of the non-PRC bank accounts on an ongoing basis.

52. As an example, the breakdown of accounts reviewed per segment for June 2012 is detailed below. Based on the review procedures set out in 51(a) and (d) above, there were no material misstatements in those accounts checked.

USD	Sino-Wood	Sino-Panel	Non-PRC	Total
# of accounts with balances	147	180	219	546
Balances as at June 30, 2012 (\$ 000s)	\$ 92,709	\$ 126,275	\$ 145,235	\$ 364,218
% of bank account balances reviewed	58%	64%	69%	64%

Receivables

53. The Initial Order Affidavit set out Sino-Forest's receivable balances, including ongoing difficulties in collecting those receivables given the MW Report and the uncertainty surrounding the business. Sino-Forest had, in fact, instructed one of its then PRC counsel to send demand letters in respect of significant receivable balances.
54. As of July 12, 2012, the Company had recorded receivables totalling approximately \$1 billion. Details regarding the outstanding receivables balance can be found below:

	\$	%
BVI Standing Timber	\$ 887	82%
Wood WFOE Standing Timber	\$ 1	0%
Panel WFOE Standing Timber	\$ 42	4%
BVJ Trading	\$ 126	12%
WFOE Trading	\$ 11	1%
Miscellaneous	\$ 14	1%
Total	\$ 1,081	100%

55. Subsequent to the commencement of the CCAA proceedings, management engaged another PRC law firm, Jingtian & Gongcheng ("J&G") to follow up on the collection of outstanding receivables. Collection methods include detailed analysis of existing outstanding receivables, demand letters, follow up on demand letters that Sino-Forest's prior PRC counsel had advised it sent and face-to-face discussions with third parties in respect of certain specific outstanding receivables.
56. FTI has also begun participating (and continues to participate) in weekly meetings with Sino-Forest for a status update on legal proceedings/actions launched against specific debtors throughout the CCAA proceedings. FTI has also been participating (and continues to participate) in weekly meetings with subsidiaries as well as weekly calls with Jingtian & Gongcheng.
57. More recently, FTI has taken additional measures in following up on the status of the outstanding receivables, understanding the nature of collection methods being used and the impact these methods may have had on reducing the total outstanding balance.



58. In the course of FTI's increased role in assisting with the collection of receivables, FTI requested J&G to conduct searches of several entities, the results of which can be summarized as follows:
- (a) Searches were conducted against six (6) AIs with whom the BVI entities conduct business for standing timber and who make up approximately \$887 million of the Company's reported receivables. Based on the search results, three (3) of those entities, representing \$504 million in receivables, have been de-registered.
 - (b) Searches were conducted against twelve (12) entities with whom the BVI entities conduct business for BVI trading and who make up approximately \$126 million of the Company's reported receivables. Based on the search results, six (6) of those entities, representing \$63 million, have been de-registered, one (1) of which is also included in paragraph (a) above.
59. Although discussions are ongoing regarding the impact of de-registration and possible recourse available to Sino-Forest, the receivables position of Sino-Forest appears to be significantly different from past reported receivables. On July 31, 2012, the Company issued a press release outlining the discoveries made regarding the de-registration of these parties. A copy of the press release is attached as Appendix J hereto.
60. By far, the most significant impact of the above has been the de-registration of the AIs. As was set out in the IC Reports as well as the Initial Order Affidavit, there has always been very little insight into the business of the AIs including their books and records, cash collections and disbursements. Further, based on the IC investigation, it is apparent that there are on-going issues with respect to many aspects of the business transactions between Sino-Forest and the AIs, including the nature of many of these relationships. Historically, receivables from AIs were not collected as they were used to offset new standing timber purchases, as described in the description of the BVI model in the Initial Order Affidavit and the IC Reports.
61. The Monitor has been informed by King & Wood Mallesons that "de-registration" in the PRC is effectively the wind-up or termination of such company. In other words, after de-



registration, the company ceases to exist. However, as of the date of this Report, the Company and the Monitor are still at the stage of obtaining further legal advice regarding the de-registration process and possible civil and/or criminal remedies that might be available to Sino-Forest including pursuit of the shareholders of the AIs that have been de-registered and other related parties.

62. In the event that, in fact, these debts are not honoured, they may be written off by the Sino-Forest Subsidiaries that they are owed to, which would a typical accounting practice.

The Thai Redwood Transaction

63. In March 2011, at the initiation of a former senior employee of Sino-Forest, Sino-Forest entered into two contracts (which were subsequently amended) for the purchase of approximately 6,500 tons of Thai Redwood through a PRC distributor (the “**Thai Redwood Transaction**”). In connection with the entering into of those contracts, Sino-Forest paid a deposit of \$15 million in April 2011 and a further deposit of \$32 million in December 2011.
64. Since the commencement of the proceedings, Sino-Forest has made ongoing efforts to either receive the Thai Redwood or get a return of the deposits. In that regard, numerous meetings have taken place with various individuals involved in the Thai Redwood Transaction. FTI has attended some of these meetings.
65. To date, Sino-Forest has not received shipment of the Thai Redwood. Sino-Forest and FTI have been advised by the supplier that the delay is due to many complicating factors including the political changes in Thailand and weather conditions. However, the significant delay has been of great concern to both the Monitor and the Company and, as a result, Sino-Forest is in ongoing negotiations with its supplier for return of the deposit or delivery of the wood. As of the date of this report, no resolution has been reached. It is the Monitor’s view that, at this point, recovery of either the deposits or delivery of the Thai Redwood is uncertain.



Management's Internal December 2011 Financial Statement Impairment Provisions

66. Management of the Company advised the Monitor that it has recorded approximately \$560 million in impairment provisions in respect of its internal 2011 financial statements. Management is currently working on finalizing the internal financial statements for Q1 2012 and expects to do so over the coming weeks.
67. A majority of the write-offs that pertain to the internal 2011 year-end financial statements relate to goodwill impairment, trade receivable impairments, fair value impairments of standing timber and deposits and plantation prepayments made in respect of contractual commitments. The 2011 provision does not take into account any potential additional write-offs related to accounts receivable, that may have to be accounted for due to the recent discovery of the de-registration of AIs or other third parties as described above. Any additional provisions will be recorded in the Q1 2012 internal financial statements.
68. The Monitor has had a number of discussions with the Company's management to understand the rationale and underlying justification for this provision. The Monitor has also requested back up information and documentation to try to understand the Company's decision more thoroughly. To date, the Monitor has reviewed a number of documents and makes the following observations:
 - (a) Approximately 13% of the provision taken relates to trade receivable impairments and bad debts written off. The impairment provision relates to the fact that the receivables balances are more than one year old and the Company follows a policy of providing for receivables that are more than one year past due. There are a number of customers that may also be suppliers and/or be related to suppliers and therefore there may be opportunities for set-off that management is currently looking into;
 - (b) Approximately 20% of the provision taken relates to wood log deposits, of which approximately 30% relate to certain 2011 deposits with the same supplier discussed above, who is party to the Thai Redwood Transaction, but relating to separate transactions. The assumptions underlying the impairments are based on



a lack of activity with counterparties to Sino-Forest's log supply agreements since MW;

- (c) Approximately 38% of the provision taken appears to be related to Mandra goodwill and intangibles and write offs of the fair value of timber assets based on management's estimate of recovery;
 - (d) The remaining provision amounts include certain balances that management has deemed impaired and/or written off due to existing external circumstances; and
 - (e) There are a number of explanations that are still outstanding as they relate to specific questions in the PRC and/or analysis performed by individuals who are no longer employed by Sino-Forest.
69. The Monitor continues to hold discussions with management to better understand the assumptions underlying the write-offs and potential impact on the existing business. The Monitor continues to review explanations and supporting documentation in both Canada and Hong Kong.

Disbursements

70. As set out above, the Letter provided for a new protocol on authorized disbursements. The Letter specifically provided that no disbursements or new commitments were to be made over an agreed upon threshold without approval from senior management and review by FTI.
71. FTI continues to work with Sino-Forest to monitor disbursements and confirm that the protocol on disbursements is followed. On a weekly basis, FTI reviews a list of proposed payments by Sino-Forest in excess of a pre-determined threshold. On a monthly basis, FTI reviews a sample of bank statements to verify that payments in excess of a pre-determined threshold were made and to verify the ending cash balances. Based on these controls, with one exception that took place shortly after the Filing Date, the appropriate protocols on disbursements appear to be followed.

72. As of July 20, 2012, Sino-Forest is approximately \$91 million ahead of its cash flow, a significant portion of this relating to a difference in actual versus forecast disbursements. Further details explaining the variance analysis can be found in the section entitled "Cumulative Variance Analysis".
73. A significant portion of the approximately \$91 million is attributable to lower actual disbursements than forecast in Sino-Panel. The differences are primarily a result of:
- (a) approximately \$18 million in operating expenses that were lower than forecast due to lower work levels at manufacturing plants, poor weather conditions; and
 - (b) approximately \$50 million in outstanding accounts payable payments for plantation purchases and lease payments that have been delayed (at this point in time, it is still unknown what portion of the difference is timing versus permanent).

Cumulative Variance Analysis

74. The Sino-Forest Subsidiaries' net cash flows broken down by Sino-Forest's key operating lines, together with an explanation of key variances as compared to forecast is described below. Actual net cash flows are for the period from March 30, 2012 to July 20, 2012.

USD millions	Actual	Forecast	Difference
HK/BVI/Barbados	\$ (16)	\$ (18)	\$ (2)
Sino-Wood	\$ 12	\$ (10)	\$ (22)
Sino-Panel	\$ (10)	\$ (63)	\$ (53)

The key variances in actual receipts and disbursements as compared to forecast are:

- (a) Sino-Wood:
 - (i) Sino-Wood received a \$5 million bank loan which was not originally forecast by the Company;



- (ii) Sino-Wood was supposed to receive an approximate \$5 million capital injection which has been delayed;
 - (iii) Expenses related to planted plantations of approximately \$5 million were lower than forecast due to unforeseen weather and timing issues; and
 - (iv) General overhead expenses were lower than forecast by approximately \$3 million resulting primarily from timing differences.
- (b) Sino-Panel:
- (i) Sino-Forest forecast that the Thai Redwood Transaction would be completed and that approximately \$14 million in sales would have occurred. The Thai Redwood Transaction has been delayed and therefore the sales have not yet materialized;
 - (ii) Delayed payment to a specific supplier harvesting timber has further delayed expected revenue of approximately \$9 million related to the timber;
 - (iii) A majority of the forecast accounts payable have been delayed. A portion of the positive variance of approximately \$50 million may be a permanent difference, but this has not yet been determined; and
 - (iv) Operating expenses were lower than forecast due to lower work levels at the manufacturing plants than forecast, poor weather and the delayed Thai Redwood Transaction. A portion of the positive variance of \$18 million may be permanent, but this has not yet been determined.

UPDATE ON SINO-FOREST SUBSIDIARY OPERATIONS

75. Reference should be made to the IC Reports and the Initial Order Affidavit for an overview of the different segments of Sino-Forest's business as well as historic operating levels.



Operational Changes

76. Since the filing, the Monitor is not aware of any new Sino-Forest entities being incorporated or any major transfers of assets among subsidiaries. Sino-Forest has continued to employ the vast majority of its employees (other than those personnel changes that have previously been discussed), the majority of whom work in Sino-Forest's manufacturing operations.
77. Subsequent to the filing, management of the Sino-Panel subsidiaries was replaced after the April 2012 personnel changes were made. New management of Sino-Panel are in the process of dealing with on-going operational issues, meeting with agents and negotiating resolutions to the outstanding legal matters.

Wood Fibre Operations

78. As set out in the Initial Order Affidavit for the year ended December 2010, revenue from wood fibre operations accounted for approximately 96.4% of Sino-Forest's reported revenue. In June 2011, upon the release of the MW Report, wood fibre operations, effectively halted, with very little purchases or sales in the third or fourth quarter of 2011 and no purchases or sales in 2012.

Other Businesses

79. The balance of Sino-Forest's businesses (which are all described in the Initial Order Affidavit) accounted for approximately 3.6% of Sino-Forest's reported revenue in 2010. These businesses were also significantly impacted by the MW Report, and have continued at diminished levels for the balance of 2011 and the first quarter of 2012.
80. A brief summary of some of those on-going businesses is as follows:
- (a) *Manufacturing and Other Operations.* The industrial segment of the subsidiaries includes manufacturing and industrial operations and employs approximately 2290 employees. Historically, only two of the operations provided positive financial performance, the remaining industrial operations have historically incurred financial losses. There has been no significant changes in the operations of this business segment.



- (b) *Log Trading.* The subsidiaries dealing with trading activities are in the process of being shut down. The only potential forecast incoming supply of logs is related to the Thai Redwood Transaction, which has been discussed above. The trading business segment has an inventory of existing logs, which they are in the process of selling.

Overall Impact

81. The Monitor continues to be of the view that it is important for these proceedings to be completed as soon as possible given the events that have taken place and may continue to take place which have a significantly negative impact on the business.

UPDATE ON TIMBER ASSETS AND VERIFICATION EFFORTS

82. The Monitor is aware that verification and valuation of the Sino-Forest assets is of ongoing interest to many participants in the Sino-Forest CCAA proceedings for various reasons. Indeed, verification and valuation were issues that was addressed by the IC in its reports. The Final Report provided some information regarding verification work that was considered. However, the IC observed that even if verification work was able to be completed, there were still significant hurdles to establishing valuation given the title issues in the BVI model and the relationship issues regarding many of the AIs.
83. Indufor was engaged by Sino-Forest during the course of the independent committee investigation to perform an area verification of the forestry estate of Sino-Forest. However, for the reasons set out above as well as the time consuming nature of verification, very little or no verification was completed prior to the issuance of the Final Report.
84. Indufor, under the supervision of Stewart Murray and the Company, has continued to work on verification post-filing. The area verification process is a two stage process that is being undertaken in the PRC. The process involves incrementally confirming the geographic location of each compartment, followed by a verification of each compartment's area of stocked forest cover using an independent source of satellite imagery.



85. The Monitor has been advised that the area verification exercise currently being undertaken by Indufor is a lengthy process and requires the dedication of long term resources. The work Indufor is undertaking includes the following:
- (a) Registering and digitizing maps;
 - (b) The use of Satellite imagery and image pre-processing routines;
 - (c) Atmospheric Correction;
 - (d) Vegetation classification;
 - (e) Map uplift, digitization and satellite imagery process (a time-consuming process that is necessary to ensure compliance with restrictions that apply to the distribution of PRC maps); and
 - (f) Area verification.
86. To date, Indufor has completed six (6) verification reports confirming the compartment locations of 63,956 hectares of the Sino-Forest estate to date. The confirmation involves geo-referencing and digital mapping of the compartments and represents approximately 8% of total Sino-Forest reported net stocked area of 808,685 hectares as at the end of December 31, 2011. Analysis and findings of these reports are limited solely to the area that has been verified. No extrapolations of findings to the wider Sino-Forest estate are possible or implied.
87. The Monitor is not yet clear as to whether the Indufor work will ultimately be timely or helpful in resolving the questions concerning the value of Sino-Forest's business. The Monitor understands that this type of work is extremely time consuming and that, in order to complete any meaningful amount of verification could take years, at a minimum.
88. As set out in previous documents including the IC Reports and the Initial Order Affidavit, asset verification to any degree of certainty may be difficult in this situation given many factors including, the nature of the assets, geographical impediments, political impediments and financial resources available. The verification exercise is a lengthy



process and likely to take years to verify any significant percentage of the Sino-Forest estate.

89. The Monitor also notes that even if Indufor is able to verify even a portion of the assets, further work will need to be done to verify the underlying documents and assumptions used by Indufor. Lastly, as discussed above, verification does not establish title or deal with the relationships with the AIs (or address the issues arising from the de-registration of AIs).

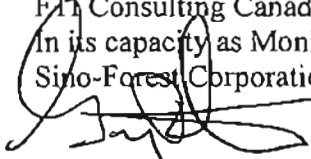


Dated this 10th day of August, 2012.

FTI Consulting Canada Inc.

In its capacity as Monitor of

Sino-Forest Corporation, and ~~not~~ in its personal capacity

A handwritten signature in black ink, appearing to read 'Greg Watson', is written over the text 'and not in its personal capacity'.

Greg Watson

Senior Managing Director



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

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)
(PROCEEDING COMMENCED AT TORONTO)

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SEVENTH REPORT OF THE MONITOR

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