

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

Sino-Forest Corporation

TENTH REPORT OF THE MONITOR

October 18, 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

**TENTH 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 October 9, 2012, this Court granted an Order extending the Stay Period to December 3, 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 Monitor's Sixth Report dated August 10, 2012 (the "**Sixth Report**") provided a report on the Sino-Forest business and subsidiaries. A copy of the Sixth Report (without appendices) is attached hereto as Appendix A. The Monitor and FTI Consulting (Hong Kong) Limited have continued to work with the Company and its advisors with respect to the Sino-Forest business and the financial status of the Sino-Forest Subsidiaries. The purpose of this Tenth Report is to provide a financial and operational update relating to the Sino-Forest Subsidiaries since the Sixth Report.
4. This Tenth Report is based on recent information and is subject to change based on additional information generated as a result of the ongoing activities by FTI (defined below) in Hong Kong in addition to the ongoing work by the Company's advisors located in Hong Kong and the PRC.
5. In preparing this Tenth 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 (the "**Independent Committee**") 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 Tenth Report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this Tenth Report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
6. Unless otherwise stated, all monetary amounts contained herein are expressed in US Dollars.

7. 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.
8. Capitalized terms not defined in this Tenth Report are defined in the Sixth Report.

GENERAL BACKGROUND

Sino-Forest Business

9. 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.
10. 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), 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.
11. 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.
12. Subsequent to the issuance of the MW Report, the Company devoted extensive time and resources to investigate and address the allegations in the MW Report as well as responding to additional inquiries from, among others, the Ontario Securities Commission, the Royal Canadian Mounted Police and the Hong Kong Securities and Futures Commission.
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.

FINANCIAL UPDATE REGARDING THE SINO-FOREST SUBSIDIARIES

Overview

14. Since the outset of these proceedings (including the Initial Order Affidavit and the Pre-Filing Report), stakeholders have been informed that the Company's business remained frozen and placed into a stalemate. Further, management of Sino-Forest has advised the Monitor that the uncertainty surrounding the business, and the deterioration of the company's relationships in the PRC, would only increase the longer that these proceedings continued without resolution and contracting parties in the PRC believed that they could avoid honouring their obligations in the expectation that the CCAA Proceedings would not be timely resolved in a way that saw the business continue. Management has also advised and continues to emphasize the importance of relationships in doing business in the PRC, which importance was also noted by the Independent Committee in the Second IC Report.

Financial Statements

15. As previously reported, the Company's most recent consolidated financial statements are as of December 31, 2011. In the following discussion of various balance sheet accounts, the Monitor used the most current information available from the Company based on its internal books and records.

Cash Position of Sino-Forest Subsidiaries

16. The Sixth Report set out the efforts undertaken by the Monitor and FTI Consulting (Hong Kong) Limited (collectively, "FTI") regarding verification of Sino-Forest's cash balances in its various accounts in the PRC and elsewhere. Monthly reconciliations (as described in the Sixth Report) are on-going. The updated breakdown of accounts reviewed up to August 31, 2012 are detailed below. No significant variations or other issues have arisen as a result of those checks.

USD	Sino-Wood	Sino-Panel	Non-PRC	Total
# of accounts with balances	147	175	217	539
Balances as at August 31, 2012 (\$ 000s)	\$ 84,030	\$ 118,943	\$ 130,244	\$ 333,217
% of bank account balances reviewed	79%	83%	90%	85%

Overview of Receivables

17. The Sixth Report provided an overview of Sino-Forest’s receivables. As of December 31, 2011, the Company had recorded receivables totalling approximately \$1.1 billion in their books and records. The \$1.1 billion is net of an allowance of \$73 million that was made in December 2011:

	\$000	%
BVI Standing Timber	887	82%
Wood WFOE Standing Timber	1	0%
Panel WFOE Standing Timber	42	4%
BVI Trading	126	12%
WFOE Trading	11	1%
Miscellaneous	14	1%
Total	1081	100%

(a) BVI Standing Timber Receivables

18. Since the commencement of the CCAA, none of the outstanding BVI Standing Timber receivables (which are owed by authorized intermediaries or “AIs”) have been collected or converted into new standing timber.
19. At the time of the issuance of the Sixth Report, FTI (in consultation with the Company and the advisors to the ad hoc committee of noteholders (the “AHC”)) had started to investigate the receivables in more detail. The Sixth Report set out that approximately \$887 million of these receivables were owed by six (6) AIs (the “AI Receivables”). The Sixth Report also set out that it had been discovered that three (3) of the AIs owing approximately \$504 million in receivables have de-registered themselves under PRC law.

20. Since discovering the de-registrations of these AIs, Sino-Forest has been attempting to set up meetings with the AIs and the financial backers of the AIs. To date, although there have been conversations with some of these AIs, none of the parties have agreed to a meeting. Further, Sino-Forest has been unable to contact the financial backers to the AIs.
21. FTI has been advised by the Company that it is considering the need to take a provision for a portion of the AI Receivables in its books and records as a result of the de-registering of the three (3) AIs as well as the magnitude of such provision.
22. In respect of the de-registered AIs, FTI continues to work with Sino-Forest and legal counsel to determine its available criminal and civil recourse under PRC law. Sino-Forest, with the assistance of its PRC legal counsel, is also exploring other alternatives to prevent additional third parties from de-registering and/or from de-registering without prior notice and has taken preliminary steps in this regard.

(b) BVI Trading Receivables

23. Accounts receivable relating to BVI trading (“**BVI Trading Receivables**”) are made up of sales of wood logs by Sino-Forest to twelve (12) separate entities. Ten (10) of these entities were registered in the PRC the other two (2) are registered in the BVI.
24. As set out in the Sixth Report, since the commencement of the CCAA Proceedings:
 - (a) there have been no collections of the outstanding BVI Trading Receivables; and
 - (b) Six (6) entities owing approximately \$63 million (of the total \$126 million) in receivables for BVI trading, have de-registered.
25. Since the Sixth Report, in consultation with the Company and the AHC, FTI has continued its investigation into these entities. In that regard, FTI has attempted to make contact with the entities owing the BVI Trading Receivables by telephone, but has had limited success in communicating with these entities and has not received any meaningful information as to their status or intention to honour their receivables. In two (2) instances, initial contact was made and a promise to investigate and respond was not kept.

Further contact of these two (2) entities has been attempted, but has been unsuccessful to date.

26. FTI has also made discreet site visits to the PRC entities' addresses of record and has found only one (1) of the entities is operational at the address of record. At the other nine (9) addresses, minimal operation or no evidence of existence of the entity was found.

(c) Panel WFOE Receivables

27. The Sino-Panel WFOE receivables (totalling \$42 million) are made up of sales of wood logs by Sino-Forest to nine (9) separate entities. All nine (9) of these entities were registered in the PRC.

28. Since the commencement of the CCAA:

- (a) there have been minimal collections from outstanding Panel WFOE receivables; and

- (b) One (1) entity owing approximately \$10 million in receivables for Sino-Panel WFOEs, has de-registered.

29. FTI has attempted to make contact with the entities owing the Panel WFOE receivables by telephone, but has had limited success in communicating with these entities and has not received any meaningful information as to their status or intention to honour their receivables.

30. FTI has also made discreet site visits to all nine (9) entities addresses of record and has found only two (2) of the entities are operational at the address of record. At the other seven (7) addresses, minimal operations or no evidence of existence of the entity was found.

Prepayments and the Status of the Thai Redwood Transaction

31. In the course of both its standing timber and trading business, Sino-Forest made prepayments (or deposits) from time to time. These prepayments were generally either in

respect of wood log deposits (such as in the case of the Thai Redwood Transaction) for prepaid lease interests for standing timber, or for prepaid plantation costs.

32. As of December 31, 2011, the financial statements of the Company show total prepayments of approximately \$219 million, split between current and non-current as detailed below:

Prepayments and Other Assets	Book Value	
	\$ millions	%
Current		
Prepaid Lease Payments	7	9%
Wood Logs Deposits	49	66%
Wood-Based Products Deposit	2	3%
Other	16	22%
Total Current	74	100%
Non-Current		
Prepaid Lease Payments	116	80%
Prepaid Plantation Costs	24	17%
Deposit for acquisition	2	1%
Other	3	2%
Total Non-Current	145	100%
Total	219	

33. The Company made allowances or impairment charges of approximately \$135 million prior to closing the December 31, 2011 books. Approximately \$108 million of the allowance related to wood log deposits, a further \$27 million related to prepaid plantation costs.

(a) Wood Log Deposits

34. As noted above the Company has recorded an impairment charge of \$108 million or roughly 70% of the outstanding wood log deposits at December 31, 2011. Prior to the impairment charge the balance of wood log deposits was \$157 million. The log trading business of the Company was discontinued in April of this year, which is the reason the Company has provided for the impairment charge.

(b) Status of Thai Redwood Transaction

35. The remaining balance of wood log deposits of \$49 million, relates mainly to the Thai Redwood Transaction which was described in detail in the Sixth Report.
36. Sino-Forest has taken additional steps in an attempt to recover its deposits paid to the supplier involved in Thai Redwood Transaction. These steps include:
 - (a) Sino-Forest has successfully obtained an ex-parte freezing order over certain of the supplier's assets located in Hong Kong;
 - (b) Sino-Forest has filed a request for Arbitration with the International Chamber of Commerce (the "ICC") on August 28, 2012;
 - (c) Demand letter has been sent to the supplier for the additional approximately \$40 million that the suppliers owed to Sino-Forest; and
 - (d) Sino-Forest and the relevant Supplier have agreed to hold further litigation in abeyance to allow for settlement discussions to take place in late October or early November.

(c) Prepaid Lease Payments

37. Historically, Sino-Forest made land lease payments for future periods in the normal course of its business. Some of these prepayments were for significant periods of time in the future, in certain cases as much as 30 years. Current Sino-Forest management has questioned this practice and has, in certain instances, refused to approve these disbursements. Sino-Forest has not entered into further arrangements of this nature during the CCAA Proceedings.
38. While, FTI has not examined the validity of the historical payments recorded in the books and records of the Company, certain land owners have alleged that they have not received amounts due under specific land leases even though these payments may have been made to third parties (referred to as "agents" by Sino-Forest). The Monitor understands that

litigation among the relevant Sino-Forest Subsidiary and such land owners is ongoing in the PRC.

(d) Prepaid Plantation Costs

39. Prepaid plantation costs are deposits which Sino-Forest has paid to third parties for partial acquisition costs of plantations. Sino-Forest is contractually bound to pay the remainder of the plantation acquisition costs at some point in the future based on the acquisition contract. Given the uncertainty surrounding the future operations of Sino-Forest, the Company has recorded an impairment charge against the amounts already paid as deposits.
40. The Company recorded an impairment charge of approximately \$27 million in December 2011, leaving a net balance of \$24 million in their books and records at December 31, 2011.

Inventory

41. The total inventory recorded in the books and records of the Company as at March 31, 2012 is as follows:

Inventory	\$000
Raw Materials	\$ 3,627
Work in Process	\$ 13,341
Finished Goods	\$ 19,929
Timber logs	\$ 26,581
Nursery	\$ 2,406
Total	\$ 65,884

42. Sino-Forest is not purchasing any new timber and is attempting to sell all of its existing inventory.

Timber Holdings

43. The Sixth Report set out the verification and validation efforts by the Company of its timber holdings. Specifically, the Sixth Report provided an overview of the verification efforts being undertaken by Indufor post-filing in respect of geo-referencing and digital mapping of compartments.
44. As of December 31, 2011, the Company has recorded total timber holdings of approximately \$3.4 billion (approximately 807k hectares):

Forest Estate Category	Sino-Forest Reported Forest Estate Area as at 31 December 2011 (ha)	Book Value at December 31, 2011 (\$000s)	Gross Area Detailed in the Purchase Contracts & Certificate Maps Supplied to Indufor (ha)	% of Hectares for which Maps have been provided by Company
WFOE Planted Timber and Leased Land	50,697	\$134,634	46,951	93%
WFOE Purchased Timber and Leased Land	31,371	\$83,310	13,780	44%
WFOE Purchased Timber Only without Land Leases entered	71,577	\$190,084	-	-
Mandra Purchased Timber and Leased Land	132,695	\$58,107	84,826	64%
BVI Purchased Timber Only without Land Leased entered	520,435	\$2,921,976	5,542	1%
Total	806,775	\$3,388,111	151,099	19%

Note: The book value of the WFOE Timber is approximately \$408 million at December 31, 2011, this amount has been allocated to the three WFOE categories above on a pro rata basis

45. As detailed in the Sixth Report, the Company engaged Indufor Asia Pacific Ltd. (“**Indufor**”) to conduct an area verification of the forestry estate of the Company.
46. In order for Indufor to begin its area verification work it must be provided maps of the various compartments of land by Sino-Forest. To date:
- (a) Sino-Forest has been able to provide Indufor maps for the majority of the compartments which are on leased lands (i.e. WFOE Planted Timber and Leased Lands, WFOE Purchased Timber and Leased Lands and Mandra);
 - (b) Sino-Forest has been able to produce less than 1% of the maps for compartments which do not include land leases; and
 - (c) The maps that were provided in respect of the less than 1% or 5,542 hectares were provided by certain of the former senior management group of Sino-Forest.

47. In the Second IC Report, the Independent Committee reported the potential consequences associated with not obtaining maps for non-leased lands (i.e. BVI Standing Timber), stating that it was not clear “how the Company would be able to identify the relevant areas of timber purchased by the BVI’s at the time of sale or harvesting”.
48. In light of recent results from attempts at obtaining maps, FTI has been informed that Indufor has been instructed by Sino-Forest to discontinue further area verification work at the present time while Sino-Forest, FTI and the AHC continue to discuss the appropriate work to be done.

Timber Suppliers

49. As set out in the Initial Order Affidavit and the Pre-Filing Report, Sino-Forest has a number of key relationships, which have been progressively breaking down since June 2011 such as its relationships with Sino-Forest’s “suppliers” (“**Suppliers**”). These are parties with whom Sino-Forest has entered into the purchase contracts for the timber assets. The contracts entered into by Sino-Forest and the Suppliers contain numerous clauses compelling the Suppliers to assist Sino-Forest (which assistance can include providing land rights certificates, dealing with the land owners and other matters which are crucial to Sino-Forest’s business operations).
50. FTI in consultation with the Company and the AHC, has commenced efforts to contact nine (9) Suppliers who were responsible for supplying approximately 93% of the Company’s total book value and area (hectares) of BVI Standing Timber and has sought to set up meetings with Suppliers.
51. FTI has learned that two (2) of nine (9) Suppliers have de-registered, and has been unable to date to confirm the corporate existence of a third entity. FTI has attempted to contact all nine (9) Suppliers with the result being that the Suppliers have either been unreachable or have indicated they were unavailable until after the end of the PRC national holiday week (which ends on October 7, 2012). Now that the holiday week is completed, efforts with these Suppliers will continue.

52. The Company, the AHC and FTI continue to assess the impact of the deterioration of these Supplier relationships on the Sino-Forest business and its future prospects as well as potential strategies (including legal strategies in the PRC) in that regard.
53. The Monitor notes from its review of the IC Reports that, in the course of its investigation, the Independent Committee also reported on the difficulty in receiving cooperation from AIs and Suppliers in connection with its investigation of Sino-Forest's relationships with such persons.

Mandra Timber Holdings

54. In 2010, the Company purchased Mandra for total consideration of approximately \$263 million. As at December 31, 2011, management booked an impairment charge of approximately \$212 million to the Mandra investment such that the net book value of Mandra as of March 31, 2012 was approximately \$51 million.
55. Sino-Forest has expressed the following reasons for the impairment:
 - (a) Approximately \$89 million of goodwill and intangibles was written off reflecting Sino-Forest's assessment of the deterioration of its business activities after MW and the uncertainty around the ability of the Company to implement its strategy with the Mandra asset; and
 - (b) Approximately \$90 million of timber fair value was written off reflecting Sino-Forest's assessment of a lack of support from local government and a change in attitude since June 2011 in respect of obtaining plantation harvesting rights as well as swapping plantation assets.
56. The future viability of the Mandra timber holdings continues to be reviewed by Sino-Forest, FTI and the AHC.

Management's Internal Financial Statements

57. As discussed earlier, the most current financial statements provided to FTI are December 31, 2011. Management continues to work on consolidated internal financial statements for Q1 and Q2 2012.

Cumulative Variance Analysis

58. 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 its forecast, is described below. Actual net cash flows are for the period from March 30, 2012 to September 7, 2012:

USD millions	Actual	Forecast	Difference
HK/BVI/Barbados	(20)	(11)	(9)
Sino-Wood	7	(15)	22
Sino-Panel	(18)	(64)	46

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

(a) HK/BVI/Barbados:

(i) The significant difference in actual versus forecast balances, is that the forecast assumed there would be revenue of \$9.5 million from the sale of Thai Redwood in early September, however, the sale did not take place. It should be noted that the forecast also assumed an additional \$42.5 million of revenue from the sale of Thai Redwood in September and October 2012.

(b) Sino-Wood

(i) The difference in Sino-Wood remains the same as reported in the Sixth Report. Business continues to be slow and so inflows are lower than

forecast, while expenditures (including capital expenditures) are also lower.

(c) Sino-Panel

- (i) The difference between actual cash inflow/outflow and the forecast has deteriorated by approximately \$7 million since the Sixth Report. The largest difference relates to the sale of Thai redwood which the Forecast assumed to be approximately \$20 million, however, there has been no revenue from the sale of the Thai Redwood in the period. It should be noted that the forecast assumed an additional \$53 million of revenue from the sale of Thai Redwood through the end of the year; and
- (ii) The forecast also assumed the purchase by Sino-Panel of approximately \$20 million in Standing Timber in the period from July 21, 2012 to September 7, 2012. None of the Standing Timber was purchased.

60. Sino-Forest is ahead of its estimated cash position at the present time. As set out in the Sixth Report, the forecast was originally prepared primarily by certain of the former senior manager group of Sino-Forest and as such, the appropriateness of many forecasted disbursements have not been fully assessed. This is particularly the case with respect to those disbursements that relate to future lease payments (discussed above). FTI has and will continue to support delaying the payment of these amounts, including the prepayment of long term land leases, however it should be noted that they are in the books and records of Sino-forest and may need to be paid in the future.

OPERATIONAL UPDATE REGARDING SINO-FOREST SUBSIDIARIES

Chops, Annual Review and Process to Change Legal Representatives

61. Issues relating to the legal representatives and chops (as set out in the Sixth Report) remain outstanding and have not been resolved. However, Sino-Forest's PRC subsidiaries have now completed their annual reviews.

Changes in Operations

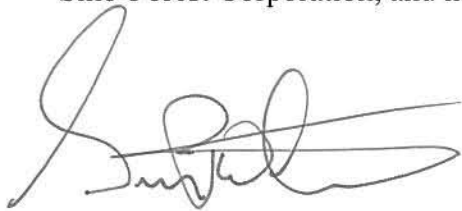
62. Since the Sixth Report, there have been no significant operational changes in the business. With respect to the balance of Sino-Forest's businesses, the Monitor is aware of the following updates:
- (a) Sino-Forest is analyzing all aspects of their current business to ascertain if any functions should be wound down. To date two subsidiaries have been identified as redundant and are in the process of being wound up. It is fully expected that additional subsidiaries will also be identified as redundant and will be wound up in the near term; and
 - (b) Sino-Forest is in the process of identifying real estate that can be leased/ sold for the purpose of realizing on empty premises.

Engagement of an Independent Consultant

63. On September 5, 2012, Sino-Forest Subsidiaries engaged the services of an independent consultant to assist management in its restructuring activities and to help prepare an action plan for the post-plan implementation period. The consultant does not have any management responsibility or control over any Sino-Forest Subsidiaries' operations, assets, business or affairs.

Dated this 18th day of October, 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', with a large, sweeping flourish extending to the right.

Greg Watson
Senior Managing Director

APPENDIX A – SIXTH REPORT

(Please see attached)

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

Sino-Forest Corporation

SIXTH REPORT OF THE MONITOR

August 10, 2012

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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.
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 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.

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%
BVI 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 be 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

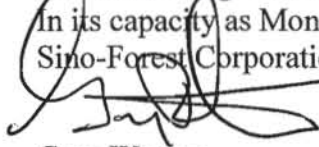
process and likely to take years to verify any significant percentage of the Sino-Forest estate.

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 'Sino-Forest Corporation, 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)

SIXTH REPORT OF THE MONITOR

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SUPERIOR COURT OF JUSTICE
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TENTH REPORT OF THE MONITOR

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