

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

Sino-Forest Corporation

TWELFTH REPORT OF THE MONITOR

November 16, 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

**TWELFTH 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 purpose of this Twelfth Report is to:

- (a) To provide an update on the Company's CCAA Proceedings since the Monitor's ninth report dated October 3, 2012 (the "**Ninth Report**");
 - (b) Report on the receipts and disbursements of the Company for the period of September 22, 2012 to November 2, 2012;
 - (c) Report on the Company's post-filing consolidated cash position and liquidity as detailed in the Company's November 3 Forecast (defined below); and
 - (d) Support the Company's motion and recommend that the Court grant an order extending the stay of proceedings (the "**Stay Period**") to and including February 1, 2013.
4. In preparing this Twelfth 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 Twelfth Report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this Twelfth 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 Twelfth Report are defined in the Ninth Report.

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), 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, the Royal Canadian Mounted Police and the Hong Kong Securities and Futures Commission.
12. 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

Appeal of Equity Claims Decision

13. As set out in the Ninth Report, each of EY, the Underwriters and BDO served notice of their intention to seek leave to appeal the Order in respect of the Company's equity claims motion. On October 10, 2012, the Court of Appeal granted leave to appeal (the "**Leave Decision**"). The appeal was heard on November 13, 2012. As of the date of this Twelfth Report, the Court of Appeal has not released its decision.

Creditors' Meeting and the Plan

14. The Company has now filed a revised plan of compromise and arrangement dated October 19, 2012 (the "**Plan**") along with a revised information statement dated October 20, 2012. In accordance with the Meeting Order and the Order of this Court made on October 29, 2012, the Monitor set October 24, 2012 as the Mailing Date and provided the Mailing Materials in accordance with those Orders.

15. Pursuant to the Leave Decision, the Court of Appeal requested that the Meeting be postponed until after the appeal had been resolved. However, the Company subsequently clarified that the Meeting Date could be set on the understanding that if the appeal had not been resolved by that date, that the Meeting Date might have to be adjourned.

16. The Meeting Date (as defined in the Meeting Order) has been set as November 29, 2012 starting at 10am at the offices of Bennett Jones LLP.

Plaintiffs' Motions

17. As set out in the Ninth Report, the Plaintiffs had brought a number of motions including relief relating to the lifting of the Stay, the production of documents and for representation and voting. These motions were all ultimately adjourned to October 29, 2012.

18. As a result of an agreement reached between the Plaintiffs and the Company, on October 29, 2012, the Plaintiffs only pursued their motion for a lifting of the Stay only against EY, BDO, the Underwriters, Allen Chan, David Horsely and Kai Kit Poon. The document production

motion and the representation/voting motion were adjourned to be brought on no earlier than January 16, 2013 barring a change to the Plan that has a material adverse impact to the Plaintiffs.

19. On November 6, 2012, the Court issued its decision upholding the Stay in respect of EY, BDO, the Underwriters, Allen Chan, David Horsely and Kai Kit Poon on the basis that it was to be re-evaluated no later than December 10, 2012.

RECEIPTS AND DISBURSEMENTS FOR THE PERIOD TO NOVEMBER 2, 2012

Actual Receipts and Disbursements of the Company for the Period September 22, 2012 to November 2, 2012

20. The Company's actual net cash flow for the period of September 22, 2012 to November 2, 2012 (the "**Current Period**") together with an explanation of key variances as compared to the September 22 Forecast (as defined in the Monitor's Ninth Report) is described below. Net ending cash balance was CAD\$1.5 million higher than forecast and is summarized below:

\$000 CAD	Forecast	Actual	Difference
Cash inflow			
Insurance Proceeds	\$ -	\$ 802	\$ 802
Interest Income	\$ 412	\$ 409	\$ (4)
Total cash inflow	\$ 412	\$ 1,211	\$ 798
Cash outflow			
Payroll and Benefits	\$ 41	\$ 53	\$ 12
Board & Committee Fees	\$ 322	\$ 223	\$ (99)
Travel	\$ 68	\$ 36	\$ (31)
Rent, Communication & Utilities	\$ 23	\$ 33	\$ 11
Taxes & Other	\$ 75	\$ 87	\$ 12
Total cash outflow	\$ 527	\$ 432	\$ (95)
Net Operating Cashflow	\$ (115)	\$ 778	\$ 893
Restructuring Costs			
Professional Fees	\$ 6,920	\$ 6,273	\$ (647)
Total Restructuring Costs	\$ 6,920	\$ 6,273	\$ (647)
Net Cash Flow	\$ (7,035)	\$ (5,495)	\$ 1,540
Opening Cash Balance	\$ 47,491	\$ 47,491	\$ -
Net Cash Flow	\$ (7,035)	\$ (5,495)	\$ 1,540
Ending Cash Balance	\$ 40,456	\$ 41,996	\$ 1,540

21. The key variance in actual receipts and disbursements compared to the September 22 Forecast is a favourable variance of approximately \$1.5 million primarily relating to:
- (i) A positive variance of approximately of \$800,000 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 preparation of the September 22 Forecast and was therefore not included as part of the Forecast; and
 - (ii) A positive variance of approximately \$650,000 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.

THE COMPANY'S CASH FLOW FORECAST

Cash Flow Projections

22. The Company has prepared a revised cash flow forecast for the period of November 3, 2012 to February 1, 2013 (the “**November 3 Forecast**”). The November 3 Forecast shows a negative net cash flow of approximately CAD\$13.8 million and is summarized below:

\$000 CAD	Forecast
Cash inflow	
Interest Income	\$ 412
Total cash inflow	\$ 412
Cash outflow	
Payroll and Benefits	\$ 82
Board & Committee Fees	\$ 412
Travel	\$ 144
Rent, Communication & Utilities	\$ 44
Taxes & Other	\$ 132
Total cash outflow	\$ 813
Net Operating Cashflow	\$ (401)
Restructuring Costs	
Professional Fees	\$ 13,390
Total Restructuring Costs	\$ 13,390
Net Cash Flow	\$ (13,791)
Opening Cash Balance	\$ 41,996
Net Cash Flow	\$ (13,791)
Ending Cash Balance	\$ 28,205

23. A copy of the November 3 Forecast can be found in Appendix A. It is anticipated that the Company's projected liquidity requirements for the proposed extension of the Stay Period will be met by existing cash available to the Company.

EXTENSION OF THE STAY PERIOD

24. Pursuant to an Order of the Court made on October 9, 2012, an extension of the Stay Period was granted to December 3, 2012 so that Applicant could continue to work toward

implementing the Plan. The Company is now seeking a further extension of the Stay Period to February 1, 2013.

25. The Monitor believes that the proposed extension is fair and reasonable in the circumstances. The Company requires further time to progress with its restructuring activities, including: (a) holding the Meeting; and (b) if the Plan is approved by the Required Majority (as defined in the Plan) and sanctioned by the Court, implementing the Plan.
26. The Monitor believes that the Company is acting in good faith and with due diligence in taking steps to facilitate its restructuring.

CONCLUSION

27. For the reasons set out above, the Monitor supports and recommends the Company's request for an extension of the Stay Period to February 1, 2013.

Dated this 16th day of November, 2012.

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



Greg Watson
Senior Managing Director



Jodi Porepa
Managing Director

TOR_LAW 80365993

APPENDIX “A” – NOVEMBER 3RD FORECAST

(Please See Attached)

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

	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13	Total
Week Ending	9-Nov	16-Nov	23-Nov	30-Nov	7-Dec	14-Dec	21-Dec	28-Dec	4-Jan	11-Jan	18-Jan	25-Jan	1-Feb	
Cash inflow														
Interest Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 412	\$ -	\$ -	\$ -	\$ -	\$ 412
Total cash inflow	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 412	\$ -	\$ -	\$ -	\$ -	\$ 412
Cash outflow														
Payroll and Benefits	\$ -	\$ 14	\$ -	\$ 14	\$ -	\$ 14	\$ -	\$ 14	\$ -	\$ 14	\$ -	\$ 14	\$ -	\$ 14
Board & Committee Fees	\$ -	\$ -	\$ -	\$ -	\$ 161	\$ -	\$ -	\$ -	\$ 90	\$ 71	\$ -	\$ -	\$ 90	\$ 412
Travel	\$ 11	\$ 11	\$ 11	\$ 10	\$ 11	\$ 11	\$ 11	\$ 11	\$ 10	\$ 11	\$ 11	\$ 11	\$ 11	\$ 144
Rent, Communication & Utilities	\$ 1	\$ 16	\$ 1	\$ -	\$ 1	\$ 16	\$ 1	\$ 1	\$ -	\$ 1	\$ 1	\$ 1	\$ 1	\$ 44
Taxes & Other	\$ 9	\$ 13	\$ 9	\$ 6	\$ 13	\$ 10	\$ 19	\$ 9	\$ -	\$ 10	\$ 10	\$ 13	\$ 9	\$ 132
Total cash outflow	\$ 22	\$ 54	\$ 22	\$ 30	\$ 187	\$ 51	\$ 32	\$ 22	\$ 114	\$ 94	\$ 36	\$ 25	\$ 125	\$ 813
Net Operating Cashflow	\$ (22)	\$ (54)	\$ (22)	\$ (30)	\$ (187)	\$ (51)	\$ (32)	\$ (22)	\$ 299	\$ (94)	\$ (36)	\$ (25)	\$ (125)	\$ (401)
Restructuring Costs														
Professional Fees	\$ 960	\$ 960	\$ 960	\$ 1,415	\$ 960	\$ 960	\$ 960	\$ 960	\$ 1,415	\$ 960	\$ 960	\$ 960	\$ 960	\$ 13,390
Total Restructuring Costs	\$ 960	\$ 960	\$ 960	\$ 1,415	\$ 960	\$ 960	\$ 960	\$ 960	\$ 1,415	\$ 960	\$ 960	\$ 960	\$ 960	\$ 13,390
Net Cash Flow	\$ (982)	\$ (1,014)	\$ (982)	\$ (1,445)	\$ (1,147)	\$ (1,011)	\$ (992)	\$ (982)	\$ (1,116)	\$ (1,054)	\$ (996)	\$ (985)	\$ (1,085)	\$ (13,791)
Opening Cash Balance	\$ 41,996	\$ 41,014	\$ 40,000	\$ 39,018	\$ 37,573	\$ 36,426	\$ 35,415	\$ 34,424	\$ 33,442	\$ 32,326	\$ 31,272	\$ 30,276	\$ 29,291	\$ 41,996
Net Cash Flow	\$ (982)	\$ (1,014)	\$ (982)	\$ (1,445)	\$ (1,147)	\$ (1,011)	\$ (992)	\$ (982)	\$ (1,116)	\$ (1,054)	\$ (996)	\$ (985)	\$ (1,085)	\$ (13,791)
Ending Cash Balance	\$ 41,014	\$ 40,000	\$ 39,018	\$ 37,573	\$ 36,426	\$ 35,415	\$ 34,424	\$ 33,442	\$ 32,326	\$ 31,272	\$ 30,276	\$ 29,291	\$ 28,205	\$ 28,205

Notes

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

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