

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

Sino-Forest Corporation

SECOND REPORT OF THE MONITOR

April 30, 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

**SECOND 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 ("**Sino-Forest**" or 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. ("**FTI Canada**") was appointed as the Monitor of Sino-Forest (the "**Monitor**") in the CCAA proceedings. Pursuant to an Order of this Court made on April 13, 2012, this Court granted an Order extending the Stay Period (as defined in the Initial Order) to June 1, 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**").

Purpose

3. The purpose of this Second Report of the Monitor (the "**Second Report**") is to support the Company's motion and recommend that the Court grant an order (the "**Claims Procedure Order**") approving the proposed claims procedure (the

“**Claims Procedure**”) as set out in the draft Claims Procedure Order appended to the affidavit of W. Judson Martin sworn in connection with the Company’s motion seeking the Claims Procedure Order (the “**Martin Affidavit**”).

4. In preparing this Second Report, the Monitor has relied upon unaudited financial information of the Company, the Company’s books and records, certain financial information prepared by the Company, the Reports of the Independent Committee of the Company’s Board of Directors dated August 10, 2011, November 13, 2011, and January 31, 2012, and discussions with the Company’s management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this Second Report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this Second 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 Canadian Dollars.

PROPOSED CLAIMS PROCEDURE¹

6. Capitalized terms used in this section of the Second Report and not otherwise defined have the meaning given to them in the proposed Claims Procedure Order.
7. The Company is now seeking approval of a Claims Procedure which contemplates the implementation of a process for the calling of and resolution of claims against the Company as well as its Directors and Officers. The proposed Claims Procedure contemplates a broad call for claims against the Company, the Directors and Officers and indemnity claims of the Directors and Officers against the Company as a result of the assertion of claims against any or all of them. The

¹ The description of the proposed Claims Procedure set out in this Second Report is provided for informational purposes only. Reference should be made to the Claims Procedure Order including the schedules thereto, for full details of the Claims Procedure. In the event of a conflict between the summary provided herein and the Claims Procedure Order, the Claims Procedure Order shall prevail.

proposed Claims Procedure Order also specifically contemplates that where a claimant believes it has a claim against one or more of the Company's Subsidiaries that is based in whole or in part on facts, underlying transactions, causes of action or events relating to a purported Claim made against the Company, such claimant must indicate as much on its proof of claim form.

8. A summary of the material terms of the proposed Claims Procedure Order are set out in the below paragraphs.

Publication and Notice

9. Pursuant to paragraph 12 of the Claims Procedure Order:
 - (a) the Monitor shall no later than five (5) Business Days following the making of the Claims Procedure Order, post a copy of the Proof of Claim Document Package on its website at <http://cfcanada.fticonsulting.com/sfc> ("**Monitor's Website**");
 - (b) the Monitor shall no later than five (5) Business Days following the making of the Claims Procedure Order, send on behalf of the Company to the Note Indenture Trustees (or to counsel for the Note Indenture Trustees as appears on the CCAA Service List if applicable) a copy of the Proof of Claim Document Package;
 - (c) the Monitor shall no later than five (5) Business Days following the making of the Claims Procedure Order, send on behalf of the Company to each of the Known Claimants a copy of the Proof of Claim Document Package, provided however that the Monitor is not required to send Proof of Claim Document Packages to Noteholders (the Claims Procedure Order authorizes and directs the Note Indenture Trustees to file aggregated Proofs of Claim on behalf of the Noteholders);
 - (d) the Monitor shall no later than five (5) Business Days following the making of the Claims Procedure Order, cause the Notice to Claimants to

be published in (i) The Globe and Mail newspaper (National Edition) on one such day, and (ii) the Wall Street Journal (Global Edition) on one such day;

- (e) with respect to Restructuring Claims arising from the restructuring, termination, repudiation or disclaimer of any lease, contract, or other agreement or obligation, the Monitor shall send to the counterparty(ies) to such lease, contract, or other agreement or obligation a Proof of Claim Document Package no later than five (5) Business Days following the time the Monitor becomes aware of the restructuring, termination, repudiation or disclaimer of any such lease, contract, or other agreement or obligation;
 - (f) the Monitor shall, provided such request is received by the Monitor prior to the Claims Bar Date, deliver as soon as reasonably possible following receipt of a request therefor a copy of the Proof of Claim Document Package to any Person requesting such material; and
 - (g) the Monitor shall send to any Director or Officer named in a D&O Proof of Claim received by the Claims Bar Date a copy of such D&O Proof of Claim as soon as practicable along with an D&O Indemnity Proof of Claim form, with a copy to counsel for such Directors or Officers.
10. Except as otherwise set out in the Claims Procedure Order or other orders of the Court, neither the Monitor nor the Company is under any obligation to send notice to any Person holding a Claim, a D&O Claim or a D&O Indemnity Claim and all persons (including Known Claimants) shall be bound by any notices published regardless of whether or not they received actual notice, and any steps taken in respect of any Claim, D&O Claim or D&O Indemnity Claim in accordance with the Claims Procedure Order (paragraph 14).

Affected Claims

11. The Claims Procedure contemplates a call for:

- (a) *Prefiling Claims* – rights or claims (including Equity Claims) against the Company relating to the period prior to the Filing Date (paragraph 2(q)(i));
 - (b) *Restructuring Claims* – rights or claims against the Company arising out of the restructuring, termination, repudiation or disclaimer of any lease, contract, or other agreement or obligation on or after the Filing Date (paragraph 2(bbb));
 - (c) *Secured Claims* – rights or claims or a portion thereof that is (i) secured by security validly charging or encumbering property or assets of the Company up to the value of such collateral; and (ii) duly and properly perfected in accordance with relevant legislation as of the Filing Date (paragraph 2(ddd)) (Secured Claims, together with Prefiling Claims and Restructuring Claims, “**Claims**”);
 - (d) *D&O Claims* – rights or claims against any of the Directors or Officers of the Company that relate to any Pre-Filing Claims for which such Directors or Officers are by law liable to pay in their capacity as Directors or Officers or any other rights or claims made against them in their capacity as Directors or Officers that relates to the period prior to the Filing Date (paragraph 2(z)); and
 - (e) *D&O Indemnity Claims* – rights or claims of any Director or Officer against the Company which arose or arise as a result of any person filing a D&O Proof of Claim and in respect of which such Director or Officer is entitled to indemnity from the Company (paragraph 2(aa)).
12. The Claims Procedure also contemplates that where a claimant has or intends to assert a right or claim against one or more of the Subsidiaries that is based in whole or in part on facts, underlying transactions, causes of action or events relating to a Claim against the Company, that the claimant is required to indicate as much on its Proof of Claim (paragraph 22).

13. Certain claims will not be required to be filed pursuant to the Claims Procedure, which are considered “Excluded Claims” under the Claims Procedure Order. Excluded Claims are (paragraph 2(jj)):
- (a) Claims entitled to the benefit of the Administration Charge, the Directors’ Charge or further charges ordered by the Court;
 - (b) Claims of the Subsidiaries against the Company;
 - (c) Claims of the employees of the Company as at the Filing Date in respect of Employee Amounts;
 - (d) Post-Filing Claims; and
 - (e) D&O Claims in respect of (i) through (iv) above.

The Claims Bar Dates

14. Paragraphs 16 through 20 of the proposed Claims Procedure Order provide that Claims, D&O Claims and D&O Indemnity Claims must be filed by the following bar dates:
- (a) Claims Bar Date: All Claims (other than Restructuring Claims) and D&O Claims must be filed on or before June 20, 2012 (the “**Claims Bar Date**”);
 - (b) Restructuring Claims Bar Date: all Restructuring Claims must be filed by the later of the Claims Bar Date and thirty (30) days after a person is deemed to receive a Proof of Claim Document Package; and
 - (c) D&O Indemnity Claims Bar Date: any Director or Officer wishing to assert a D&O Indemnity Claim shall file its claim no later than fifteen (15) Business Days after the date of receipt of a D&O Proof of Claim by such Director or Officer.
15. Paragraphs 17, 18 and 20 of the proposed Claims Procedure Order provide that to the extent that a person with a Claim, D&O Claim or D&O Indemnity Claim does

not file a Proof of Claim, D&O Proof of Claim or D&O Indemnity Proof of Claim prior to the applicable bar dates, such person shall:

- (a) be forever barred from making or enforcing such Claim, D&O Claim or D&O Indemnity Claim as the case may be against the Company and/or the Directors or Officers, as applicable;
- (b) be forever barred from making or enforcing such Claim, D&O Claim or D&O Indemnity Claim against any other person who could claim contribution or indemnity from the Company, and/or the Directors or Officers, as applicable;
- (c) not be entitled to vote at any creditors' meeting or receive any distribution in respect of such Claim, D&O Claim or D&O Indemnity Claim; and
- (d) not be entitled to any further notice in the CCAA Proceedings or participate as a Claimant or creditor in such proceedings (other than in the case of the Directors and Officers).

The Proofs of Claims

16. Pursuant to paragraphs 22 through 26 of the Claims Procedure Order:

- (a) (i) each Person shall include any and all Claims it asserts against the Company in a single Proof of Claim, provided however that where a Person has taken assignment or transfer of a purported Claim after the Filing Date, that Person shall file a separate Proof of Claim for each such assigned or transferred purported Claim, and (ii) each Person that has or intends to assert a right or claim against one or more Subsidiaries which is based in whole or in part on facts, underlying transactions, causes of action or events relating to a purported Claim made against the Company shall so indicate on such Claimant's Proof of Claim;
- (b) each Person shall include any and all D&O Claims it asserts against one or more Directors or Officers in a single D&O Proof of Claim, provided

however that where a Person has taken assignment or transfer of a purported D&O Claim after the Filing Date, that Person shall file a separate D&O Proof of Claim for each such assigned or transferred purported D&O Claim;

- (c) the Note Indenture Trustees are authorized and directed to file one Proof of Claim in respect of each series of Notes for which they are the trustees pursuant to the applicable trust indentures and accordingly, individual Noteholders are not required to file individual Proofs of Claim in respect of Claims relating to the Notes and the Monitor is authorized to disregard any such Proofs of Claim filed by individual Noteholders.

Review and Resolution of Claims

17. The Monitor shall review all of the Proofs of Claim, D&O Proofs of Claim and D&O Indemnity Proofs of Claim filed. At any time, the Monitor may take certain steps to obtain further information, request that revised Proofs of Claim, D&O Proofs of Claim or D&O Indemnity Proofs of Claim be filed and, subject to certain conditions, attempt to resolve or settle issues arising from such the Proofs of Claim, D&O Proofs of Claim or D&O Indemnity Proofs of Claim (paragraphs 27 and 31).
18. The Monitor may, with the consent of the Company or further Order of the Court accept the amount and/or Status of any Claim or D&O Claim (provided that if a Director or Officer disputes all or any portion of a purported D&O Claim, then the disputed portion of such purported D&O Claim may not be accepted without such Directors' or Officer's consent or further order of the Court (paragraph 27(c)). The Monitor may accept the amount and/or Status of any D&O Indemnity Claim (paragraph 31(c)).
19. The Claims Procedure Order also provides that with respect to any Claim, D&O Claim or D&O Indemnity Claim that exceeds \$1 million, the Monitor and the Company shall not accept, admit, settle, resolve, value (for any purpose), revise or reject such Claim, D&O Claim or D&O Indemnity Claim without the consent of

the Ad Hoc Noteholders or Order of the Court (paragraph 35).

20. The process for resolving disputed Claims, D&O Claims and D&O Indemnity Claims is as follows:

- (a) The Monitor may revise or disallow any Claim, D&O Claim or D&O Indemnity Claim by delivering a Notice of Revision or Disallowance (paragraphs 29 and 33);
- (b) In the event that a claimant wishes to dispute the Notice of Revision or Disallowance, such claimant must file a Dispute Notice with the Monitor as soon as possible but in any event such that it is received within fourteen (14) days after the claimant is deemed (pursuant to paragraph 49 of the Claims Procedure Order) to have received the Notice of Revision or Disallowance, failing which the amount and Status of such claimant's Claim, D&O Claim or D&O Indemnity Claim will be as set out in the Notice of Revision or Disallowance (paragraphs 36 and 37);
- (c) Upon receipt of a Dispute Notice, the Monitor shall attempt to resolve the purported Claim, D&O Claim or D&O Indemnity Claim with the claimant or the applicable Directors or Officers, as applicable (paragraphs 38 and 39);
- (d) In the event that the dispute is not resolved, the Monitor may:
 - (i) Refer the dispute to the Court; or
 - (ii) Refer the dispute to a Claims Officer;(paragraph 40)
- (e) The Claims Officer or Claims Officers, if necessary, will be individuals identified by the Monitor in consultation with the Company and the Ad Hoc Noteholders and approved by the Court, or as otherwise designated by the Court (paragraph 2(v));

- (f) The Court or the Claims Officer shall determine any related Claims, D&O Claims and/or D&O Indemnity Claims at the same time and in the same proceeding (paragraph 41).
 - (g) In the event that a dispute is referred to a Claims Officer, the Claims Officer shall determine such dispute and make a determination within thirty (30) days of the closing of submissions (paragraph 42);
 - (h) The determination of a Claims Officer shall be final and binding unless it is appealed to the Court within twenty one (21) days of delivery of the Claims Officer's decision (paragraph 43).
21. Notwithstanding the process set out in above for the resolution of Claims, D&O Claims and D&O Indemnity Claims, the Monitor and the Company (after consultation of the Ad Hoc Noteholders and approval of the Court) may utilize any other process to resolve Claims, D&O Claims or D&O Indemnity Claims to the extent that the Monitor and the Company believe that such other process would be more effective and efficient (paragraph 44).

IMPORTANCE AND URGENCY OF IMPLEMENTING A CLAIMS PROCEDURE

22. The commencement and implementation of the proposed Claims Procedure provides the formal parameters for the resolution of claims. However, as set out in the affidavit of W. Judson Martin sworn March 30, 2012 in support of the initial application (the "**Initial Application Affidavit**"), the Company has approximately U.S.\$1.8 billion of debt outstanding under its four (4) series of Notes and is being faced with several class actions and potential indemnity claims arising from other defendants named in those class actions.
23. There is already a degree of detail known as to the general nature and outline of these allegations and potential claims. As such, the Monitor anticipates that discussions with respect to the resolution of many of these issues may commence well in advance to the Claims Bar Date. It is the Monitor's view that all parties

will be well served in engaging in these discussions at this time.

24. However, it is important that the Company implement a claims process which will, among other things, establish a bar for the filing of claims against the Company as well as its Directors and Officers. This will provide certainty as to the landscape of claims that the Company must address in the context of its CCAA proceedings and allow the Company to determine how such claims may impact its restructuring and any proposed plan of compromise or arrangement (a “**Plan**”).
25. Further, as noted in the Initial Application Affidavit, the Company's business operations in the PRC have been severely impacted in a negative way by the problems facing the Company outside of the PRC, and those business operations will continue to deteriorate unless decisive steps are taken to restructure the Company well in advance of the end of this calendar year. Based upon those facts and given the Company's cash burn position it is the Monitor's view that it is imperative that the Company commence this process now as opposed to waiting until a time later in the CCAA Proceedings.

CONCLUSION

26. The Monitor is aware that the Company may agree to make changes to the proposed Claims Procedure Order based on input from various stakeholders between the date of this Second Report and the return of the motion. To the extent significant and substantive further changes are made, the Monitor may file a further supplemental report prior to the motion.
27. The Monitor is of the view that the proposed Claims Procedure is fair and reasonable in the circumstances. In particular:
 - (a) The proposed Claims Procedure contemplates direct notices to be sent to Known Claimants and publication of notice to potential claimants in two widely distributed newspapers.

- (b) The proposed Claims Bar Date, Restructuring Claims Bar Date and D&O Indemnity Claims Bar Date are reasonable in the circumstances particularly in light of the Company's intended restructuring or sale plan and its financial situation;
 - (c) It is necessary for the Company to implement this Claims Procedure now so that it can determine the full landscape of claims asserted against it within a foreseeable timeframe;
 - (d) The proposed Claims Procedure has been developed by the Company with significant input from the Monitor;
 - (e) The proposed mechanisms for review, dispute and resolution are standard for a claims process within CCAA proceedings generally and can be used in this CCAA Proceeding specifically.
28. For the reasons set out above, the Monitor supports and recommends the Company's request for approval of the Claims Procedure Order.

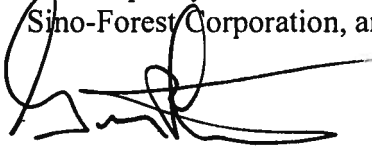
The Monitor respectfully submits to the Court this Second Report.

Dated this 30th day of April, 2012.

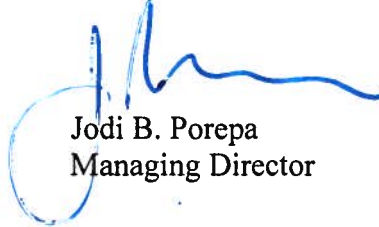
FTI Consulting Canada Inc.

In its capacity as Monitor of

Sino-Forest Corporation, and not in its personal capacity



Greg Watson
Senior Managing Director



Jodi B. Porepa
Managing Director

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GOWLING LAFLEUR HENDERSON LLP
Barristers and Solicitors
1 First Canadian Place
100 King Street West, Suite 1600
Toronto ON M5X 1G5

Derrick Tay (LSUC No. 21152A)

Tel: (416) 369-7330 / Fax: (416) 862-7661

Email: derrick.tay@gowlings.com

Jennifer Stam (LSUC No. 46735J)

Tel: (416) 862-5697 / Fax: (416) 862-7661

Email: jennifer.stam@gowlings.com

Lawyers for the Monitor,
FTI Consulting Canada Inc.