Court of Appeal File No. M41654
Superior Court File No. CV-12-9667-00-CL

COURT OF APPEAL FOR ONTARIO

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

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

Applicant

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

COMPENDIUM OF EVIDENCE OF ERNST & YOUNG LLP SUPPLEMENTAL TO COMPENDIUM OF EVIDENCE OF THE UNDERWRITERS NAMED IN CLASS ACTIONS (Motion for leave to appeal)

August 17, 2012

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

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 PLAN OF COMPROMISE OR ARRANGEMENT OF SINO-FOREST CORPORATION

Applicant

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

AFFIDAVIT

I, Christina Shiels, of the Town of Oakville, in Region of Halton, MAKE OATH AND SAY:

1. I am a law clerk with the law firm of Lenczner Slaght Royce Smith Griffin LLP, the lawyers for Ernst & Young LLP ("E&Y") in *The Trustees of the Labourers' Pension Fund of Central and Eastern Canada et al. Sino-Forest Corporation et al.*, in Court File No. CV-11-431153-00CP. As such, I have knowledge of the matters contained in this affidavit.

2. Attached as **Exhibit "A"** is the Proof of Claim of Ernst & Young LLP against the Applicant, Sino-Forest Corporation, as filed with the Court-Appointed Monitor, FTI Consulting, on June 20, 2012.

3. Attached as **Exhibit "B"** is the Proof of Claim of Ernst & Young LLP against the Directors and Officers of the Applicant, Sino-Forest Corporation, as filed with the Court-Appointed Monitor, FTI Consulting, on June 20, 2012.

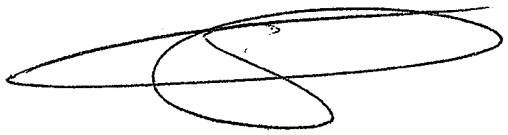
4. I make this affidavit in respect of a motion brought by Sino-Forest Corporation regarding the status of shareholder claims and related indemnity claims under the *Companies Creditors' Arrangement Act* and for no other or improper purpose.

SWORN BEFORE ME at the City of Toronto, in the Province of Ontario on June 21, 2012

Commissioner for Taking Affidavits
(or as may be)

CHRISTINA SHIELS

This is Exhibit "A" referred to in the Affidavit of Christina Shiels sworn June 21, 2012



Commissioner for Taking Affidavits (or as may be)

ORIGINAL 06/20/12.

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

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 PLAN OF COMPROMISE OR ARRANGEMENT OF SINO-FOREST CORPORATION

Applicant

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

Proof of Claim against
Sino-Forest Corporation
of Ernst & Young LLP

Volume 1

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ONTARIO
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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 PLAN OF COMPROMISE OR ARRANGEMENT OF SINO-FOREST CORPORATION

Applicant

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

Proof of Claim against Sino-Forest Corporation of Ernst & Young LLP

Volume 2

PROOF OF CLAIM AGAINST SINO-FOREST CORPORATION

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PROOF OF CLAIM AGAINST SINO-FOREST CORPORATION

1. Original Claimant Identification (the "Claimant")

Legal Name of Claimant: Ernst & Young LLP

Name of Contact: Doris Stamml

Address:

Ernst & Young LLP
222 Bay Street, P.O. Box 251
Ernst & Young Tower, 21st Floor

Title: Chief Legal Counsel

Phone #: 416-943-3039

City: Toronto Prov / State: ON

e-mail: doris.stamml@ca.ey.com

Postal/Zip code: M5K 1J7

2. Assignee, if claim has been assigned

Full Legal Name of Assignee _____

Name of Contact _____

Address _____

Phone # _____

_____

Fax # _____

City _____ Prov / State ___

e-mail _____

Postal/Zip code _____

3a. Amount of Claim

The Applicant was and still is indebted to the Claimant as follows:

Currency	Original Currency Amount	Unsecured Prefiling Claim	Restructuring Claim	Secured Claim
CDN	$7,154,200,000.00, plus all not yet quantified/unknown amounts as set out in Schedule "A1"	☒	☒	☐
USD	$1,805,000,000.00, plus all not yet quantified/unknown amounts as set out in Schedule "A1"	☒	☒	☐
		☐	☐	☐
		☐	☐	☐

3b. Claim against Subsidiaries

If you have or intend to make a 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 claim made against the Applicant above, check the box below, list the Subsidiaries against whom you assert your claim, and provide particulars of your claim against such Subsidiaries.

☒ I/we have a claim against one or more Subsidiary

Name(s) of Subsidiaries:	Currency	Original Currency Amount	Amount of Claim
See Schedule B for a list of all subsidiaries claimed against	CDN and USD	All amounts claimed in Schedule "A1" are also claimed against the entities listed in Schedule B.	All amounts claimed in Schedule "A1" are also claimed against the entities listed in Schedule B

Ernst & Young LLP reserves all rights as against those entities listed on Schedule "B", including for greater certainty all direct and indirect subsidiaries of Sino-Forest Corporation. Ernst & Young LLP has described its current claims against subsidiaries without prejudice to the fact that such claims may be asserted or amended at a later time.

4. Documentation

Provide all particulars of the Claim and supporting documentation, including amount, and description of transaction(s) or agreement(s), or legal breach(es) giving rise to the Claim.

See Schedule "A2" plus all documents appended thereto.

5. Certification

I hereby certify that:

1. I am the Claimant, or authorized representative of the Claimant.
2. I have knowledge of all the circumstances connected with this Claim.
3. Complete documentation in support of this claim is attached.

Name Doris Stamml

Title: Chief Legal Counsel

Dated at Toronto
this 20th day of June, 2012

Signature _____

Witness _____

6. Filing of Claim

This Proof of Claim **must be received by the Monitor by no later than 5:00 p.m. (prevailing Eastern Time) on June 20, 2012,** by registered mail, courier, personal delivery or electronic or digital transmission at the following address:

FTI Consulting Canada Inc.
Court-appointed Monitor of Sino-Forest Corporation
TD Waterhouse Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto, Ontario M5K 1G8

Attention: Jodi Porepa
Telephone: (416) 649-8094
E-mail: sfc@fticonsulting.com

An electronic version of this form is available at http://cfcanada.fticonsulting.com/sfc.

SCHEDULE "A1"
CLAIM OF ERNST & YOUNG LLP AGAINST SFC AND SUBSIDIARIES

1. Breach of contract:

   (a) damages in an amount yet to be quantified as more particularly set out in Schedule "A2"; and

   (b) costs and interest.

2. Negligent misrepresentation:

   (a) damages in an amount yet to be quantified as more particularly set out in Schedule "A2"; and

   (b) costs and interest.

3. Fraudulent misrepresentation:

   (a) damages in an amount yet to be quantified as more particularly set out in Schedule "A2"; and

   (b) costs and interest.

4. Inducing Breach of Contract:

   (c) damages in an amount yet to be quantified as more particularly set out in Schedule "A2"; and

   (d) costs and interest.

5. Reputational Loss:

   (a) damages in an amount yet to be quantified as more particularly set out in Schedule "A2"; and

   (b) costs and interest.

6. Contractual indemnification in respect of any amounts paid or payable by Ernst & Young LLP in respect of:

   (a) The action in Ontario Superior Court of Justice Court File No. CV-11-43115300CP (only as the Court permits):

      (i) damages claimed in the amount of up to CDN $7,149,200,000.00;

      (ii) damages claimed in the amount of up to USD $1,805,000,000.00;

      (iii) any unknown amounts not yet pleaded or quantified (including interest and costs) against Ernst & Young LLP in this proceeding; and

      (iv) any amounts incurred or to be incurred by Ernst & Young LLP with respect to its defence of the above-mentioned proceeding.

   (b) The action in *Quebec Superior Court* File No. 200-06-000132-111 (only as authorized and given representative status):

      (i) unknown and unquantified damages in Canadian dollars;

      (ii) unknown and unquantified damages in U.S. dollars;

      (iii) any unknown amounts not yet pleaded or quantified (including interest and costs) against Ernst & Young LLP in the above-mentioned proceeding; and

(iv) any amounts incurred or to be incurred by Ernst & Young LLP with respect to its defence of the above-mentioned proceeding.

(c) The verified complaint in *Supreme Court of the State of New York*, County of New York – Index No. 650258/2012:

(i) unknown and unquantified damages in Canadian dollars;

(ii) unknown and unquantified damages in U.S. dollars;

(iii) any unknown amounts not yet pleaded or quantified (including interest and costs) against Ernst & Young LLP in the above-mentioned proceeding; and

(iv) any amounts incurred or to be incurred by Ernst & Young LLP with respect to its defence of the above-mentioned proceeding.

(d) Other Proceedings (as defined in Schedule "A2" to this Proof of Claim):

(i) unknown and unquantified damages in Canadian dollars;

(ii) unknown and unquantified damages in U.S. dollars;

(iii) any unknown amounts not yet pleaded or quantified (including interest and costs) against Ernst & Young LLP in the Other Proceedings; and

(iv) any amounts incurred or to be incurred by Ernst & Young LLP with respect to the Other Proceedings.

(e) In respect of claims (a)-(d) above, to the date of this proof of claim, Ernst & Young LLP has incurred legal and related costs of approximately $5,000,000 and continues to incur costs.

7. Contribution and indemnity under the *Negligence Act,* R.S.O 1990, c. N-1 and any other applicable legislation outside of Ontario in respect of the actions and other proceedings listed in 6 (a)-(d) above and for the costs set out in 6 (e) above.

SCHEDULE "A2"

THE CLAIMANT AND BACKGROUND TO THIS CLAIM

1. Ernst & Young LLP ("E&Y") is a firm of chartered accountants carrying on business in Canada as a limited liability partnership. E&Y delivered Auditors' Reports with respect to the consolidated financial statements of Sino-Forest Corporation ("SFC", the "Applicant" or the "Company") for fiscal years ended December 31, 2007-2010 inclusive and with respect to the consolidated financial statements of two of SFC's subsidiaries (Sino-Wood Partners, Limited and Sino-Panel (Asia) Inc.) for fiscal years ended December 31, 2007 and 2008. From time to time, E&Y consented to the incorporation by reference of its Auditors' Reports with respect to the consolidated financial statements of SFC in certain prospectuses and debt offering memoranda of the Company. In addition to audit services, E&Y also provided other professional services to SFC and its direct and indirect subsidiaries (the "SFC Subsidiaries"). Where contextually appropriate, SFC shall refer to SFC and the SFC Subsidiaries unless otherwise noted. E&Y resigned as SFC's auditor effective April 4, 2012.

2. E&Y claims as against SFC and the SFC Subsidiaries for:

(a) Claims against each of SFC and the SFC Subsidiaries for damages relating to:

(i) Breach of contract;

(ii) Negligent misrepresentation;

(iii) Fraudulent misrepresentation;

(iv) Inducing breach of contract (as against the SFC Subsidiaries only);

(v) Injury to Reputation; and

(vi) Vicarious Liability;

(b) Contractual indemnity, pursuant to E&Y's engagement letters, as described further below; and

(c) Contribution and indemnity under the *Negligence Act*, R.S.O 1990, c. N-1 and other applicable legislation outside of Ontario (the *"Negligence Act"*).

3. The relationship between E&Y on the one hand, and SFC, the SFC Subsidiaries and their respective directors and officers on the other, was at all material times at arm's length. E&Y contracted with SFC to provide it with auditing services upon terms established by a series of engagement letters (the "Engagement Letters") for 2007 through and including 2010, attached as Schedule C1.

4. Management of SFC and the SFC Subsidiaries was and is responsible for the preparation and fair presentation of SFC's consolidated financial statements, which SFC prepared and issued, and contracted with E&Y on behalf of SFC and the SFC Subsidiaries to audit. Management was responsible for the preparation of those consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"), and for such internal controls as management determined were necessary to enable the preparation of consolidated financial statements that were free from material misstatement, whether due to fraud or error. The Board of Directors of SFC approved the consolidated financial statements. The consolidated financial statements were accompanied in all cases by representations from management.

5. E&Y's responsibility was to express an opinion on those consolidated financial statements based on its audits conducted in accordance with Canadian generally accepted auditing standards ("GAAS").

6. E&Y had a direct professional relationship with SFC and with each of the SFC Subsidiaries (more particularly described as SFC and, as at December 31, 2010, those entities set out in the Corporate Organization Chart at Schedule "C10").

7. E&Y as auditor of SFC did not have any relationship with the equity or debt holders of SFC in their capacity as security holders of SFC. E&Y was not a shareholder, other equity holder or a holder of funded debt of SFC or any SFC Subsidiary.

8. At all relevant times, E&Y provided services to SFC and the SFC Subsidiaries upon pre-established contractual terms with the expectation of receiving fees for the professional services rendered, dependent in no way on the Company's financial performance.

9. E&Y's Auditors' Reports in respect of the financial statements for the fiscal years ended December 31, 2007 to 2010 were prepared for the purposes set out in the *Business Corporations Act (Canada)*. Although incorporated by reference (as required by applicable securities laws) into prospectuses filed by SFC, E&Y's Auditors' Reports were not prepared for that purpose.

10. E&Y's claims against SFC and the SFC Subsidiaries are:

(a) Creditor claims;

(b) Derived from E&Y's retainers by and/or on behalf of SFC and the SFC Subsidiaries and E&Y's relationship with such parties, all of which are wholly independent and conceptually different from the claims advanced by the plaintiffs on behalf of the Interested Parties (as defined below);

(c) Claims that include the costs of defending and responding to various proceedings, both pre- and post-filing; and

(d) Not equity claims in the sense contemplated by the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36. Equity holders of SFC have not advanced, and could not advance, any claims against the SFC Subsidiaries. Restructuring legislation (and jurisprudence) in the jurisdictions of incorporation of the relevant subsidiaries does not provide for subordination of these claims to the claims of other unsecured creditors.

PROCEEDINGS AGAINST E&Y

11. E&Y has been named as a defendant in various legal proceedings in connection with the services that it provided to SFC. The plaintiffs in these actions, on behalf of current and past holders of SFC's securities (collectively the "Interested Parties"), seek to have the actions certified as class proceedings under the relevant legislation. None of the actions has been certified and leave is required for certain of the relief sought. Current proceedings in which claims are advanced against E&Y are:

(a) an action in the Ontario Superior Court of Justice titled *Trustees of the Labourers' Pension Fund of Central and Eastern Canada et al. v Sino-Forest Corporation et al.* bearing Court File No. CV-11-431153-00CP, in which the plaintiffs seek

damages of approximately $9.2 billion in the aggregate on behalf of resident and non-resident Interested Parties;

(b) an action in the Quebec Superior Court titled *Guining Lui v Sino-Forest Corporation et al.* bearing Court File No. 200-06-000132-111, in which the plaintiffs seek unquantified damages likely on behalf of Quebec resident Interested Parties; and

(c) an action in the Supreme Court of the State of New York titled *David Leapard and IMF Finance SA et al. v. Sino-Forest Corporation et al.* bearing Court Index No. 200-06-000132-111, in which the plaintiffs seek unquantified damages on behalf of Interested Parties who purchased shares over the counter ("OTC") in the United States, and noteholders;

(collectively, the "Class Actions").

12. E&Y is exposed to further proceedings, including those that may be commenced in the future in connection with the services performed for SFC (the "Other Proceedings").

13. The Class Actions include allegations that the financial statements of SFC contain material misstatements, and that E&Y misrepresented that SFC's reporting was in accordance with GAAP and that E&Y had conducted its audits in accordance with GAAS.

14. The claims advanced against E&Y in the Class Actions are in fact and in law distinct and different from the claims advanced as against SFC and its directors and officers, employees and/or agents.

15. On May 22, 2012, following an investigation by Staff of the Ontario Securities Commission (the "OSC"), the OSC released a Statement of Allegations that included allegations that SFC and certain of its former directors and officers engaged in a complex fraudulent scheme to inflate SFC's assets, dishonestly concealing their control over certain related parties, falsified evidence of ownership and dishonestly concealed weaknesses in internal controls within SFC.

16. The OSC Statement of Allegations states that E&Y, as auditors, "were not made aware of Sino-Forest's systematic practice of creating deceitful Purchase Contracts and Sales Contracts, including key attachments to these contracts," and that SFC and certain of its directors and officers "knew or ought to have known that their auditors during the Material Time relied on the validity" of certain allegedly deceitful documents and information. (See paragraphs 19 and 81 of the Statement of Allegations.)

17. To the extent that the allegations of the OSC are proven true and there are misstatements contained in SFC's consolidated financial statements, such misstatements are the result of negligence and/or fraud on the part of SFC and/or the SFC Subsidiaries and/or their respective directors, officers, employees and/or agents (or certain of them) and constitute a breach of contract by them of the express terms of the Engagement Letters or inducing breach of contract, among other wrongs.

E&Y'S CLAIMS

18. E&Y has incurred losses, costs and expenses and is exposed to further and additional losses, costs and expenses as described in this Proof of Claim. E&Y claims as against SFC and the SFC Subsidiaries in respect of:

(a) Claims against SFC for:

(i) Breach of contract (including but not limited to breach of contractual terms including contractual representations);

(ii) Negligent misrepresentation;

(iii) Fraudulent misrepresentation;

(iv) Injury to reputation; and

(v) Vicarious liability;

(b) Claims against the SFC Subsidiaries for the same relief in (a) (i) – (v) above, as well as for inducing breach of contract;

(c) Contractual indemnity; and

(d) Contribution and indemnity under the *Negligence Act* and any other applicable legislation outside of Ontario.

(a) <u>Claims Against SFC</u>

19. E&Y asserts claims for damages and restitution in respect of: (i) breach of contract; (ii) negligent misrepresentation; (iii) fraudulent misrepresentation; (iv) reputational loss; and (v) vicarious liability.

20. E&Y has suffered and will continue to suffer the damages set out below.

21. E&Y performed auditing services for SFC and the SFC Subsidiaries pursuant to contracts – formal engagement letters which, together with E&Y's General Terms and Conditions for Audit and Review Engagements (incorporated by reference into the Engagement Letters), constituted the terms of these engagements.

22. E&Y's retainer, according to its express terms, was to audit and report on the consolidated financial statements of SFC. In accordance with Canadian professional standards, financial statements are to be consolidated when an auditor is reporting on the financial statements of a company having one or more subsidiaries.

23. The Engagement Letters in all years generally reflect the agreement of SFC that, among other things:

(a) The audit would be conducted in accordance with Canadian auditing standards. Those standards require that E&Y comply with ethical requirements and plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement, whether due to fraud or error;

(b) There are inherent limitations in the audit process, including the use of judgement and selective testing of data and the possibility that collusion or forgery may preclude the detection of material error, fraud or illegal acts. Accordingly, there is some risk that a material misstatement of the consolidated financial statements may remain undetected; and

(c) Management and, where appropriate, the Audit Committee, acknowledge and understand that they have responsibility for the preparation and fair presentation of the consolidated financial statements and unaudited interim financial information in accordance with GAAP and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements and unaudited interim financial information that are free from material misstatement, whether due to fraud or error.

24. The Engagement Letters reflect the following, the wording of which did not vary materially from year to year, setting out management's responsibilities in connection with the consolidated financial statements:

> "The preparation and fair representation of the consolidated financial statements and unaudited interim financial information in accordance with Canadian generally accepted accounting principles are the responsibility of the management of the Company. Management is also responsible for establishing and maintaining effective internal controls, for properly recording transactions in the accounting records, for safeguarding assets, and for identifying and ensuring that the Company complies with the laws and regulations applicable to its activities.
>
> The design and implementation of internal controls to prevent and detect fraud are the responsibility of the Company's management, as is an assessment of the risk that the consolidated financial statements may be materially misstated as a result of a fraud. Management of the Company is responsible for apprising us of all known instances of fraud or suspected fraud, illegal or possibly illegal acts and allegations involving financial improprieties received by management or the Audit Committee (regardless of the source or form and including, without limitation, allegations by "whistle-blowers," employees, former employees, analysts, regulators or others), and for providing us full access to information and facts relating to these instances and allegations, and any internal investigations of them, on a timely basis. Allegations of financial improprieties include allegations of manipulation of financial results by management or employees, misappropriation of assets by management or employees, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, intentionally misleading EY, or other allegations of illegal acts or fraud that could

> have a non-trivial effect on the financial statements or otherwise affect the financial reporting of the Company. If the Company limits the information otherwise available to us under this paragraph (based on the Company's claims of solicitor/client privilege or otherwise), the Company will immediately inform us of the fact that certain information is being withheld from us. (...)
>
> Management of the Company is responsible for providing us with and making available complete financial records and related data and copies of all minutes of meetings of shareholders, directors and committees of directors; information relating to any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements; and information regarding all related parties and related party transactions. (...)"

25. E&Y entered into separate engagement letters with SFC in connection with each prospectus and debt offering memoranda which incorporated E&Y's audit report by reference (the "Offering Engagement Letters"). Pursuant to each of the Offering Engagement Letters, SFC undertook that:

> "Management of the Company and the underwriter bear the primary responsibility to ensure the prospectus [or the offering memorandum, as the case may be] contains no misrepresentations."

26. Those Offering Engagement Letters are attached to this Proof of Claim at Schedule "C2".

27. In each year, E&Y's audit team included junior and senior members who spoke Mandarin and/or Cantonese and who read Chinese.

(I) Breach of Contract

28. If the claims in the Class Actions and Other Proceedings are proven, SFC breached its contractual obligations, as set out in the Engagement Letters at Schedule "C1" and outlined above.

29. On May 22, 2012, the OSC publicly alleged that SFC and certain of its directors and officers engaged in a complex fraud meant to inflate the value of SFC's assets. If the OSC's allegations are proven true, SFC would have committed an egregious breach of the express terms of the Engagement Letters.

30. The OSC allegations include the following:

(a) SFC dishonestly concealed its control over certain suppliers, customers and other parties with whom it had significant levels of business transactions and misstated the true economic substance of certain of those transactions in its financial disclosure;

(b) SFC used a dishonest process to create documents to evidence ownership for the vast majority of timber holdings; and

(c) SFC's disclosure of various weaknesses in internal controls was misleading, untrue and incomplete.

31. The OSC stated that SFC failed to disclose the alleged deceitful documentation process to E&Y. In that regard, the OSC observed in the Statement of Allegations:

> "19. During the Material Time, Sino-Forest's auditors were not made aware of Sino-Forest's systematic practice of creating deceitful Purchase Contracts and Sales Contracts, including key attachments to these contracts."

32. The OSC stated that SFC and its executives knew or should have known that E&Y relied upon the allegedly deceitful financial information. In that regard, the OSC stated as follows in the Statement of Allegations:

> "81. Sino-Forest, Overseas Management and Horsley knew or ought to have known that their auditors during the Material Time relied on the validity of the Purchase Contracts and their attached Confirmations as proof of ownership of Sino-Forest's Standing Timber assets."

33. If proven true, the OSC allegations indicate that SFC breached its contractual obligations to E&Y under the Engagement Letters by failing to ensure the accuracy of financial information and failing to ensure that management of SFC and the SFC Subsidiaries maintained adequate internal controls to prevent material misstatements.

34. If proven true, SFC's failure to disclose its allegedly deceitful documentation practices to E&Y would constitute a direct breach of SFC's obligation to disclose known instances of fraud, or suspected fraud, illegal or possibly illegal acts and allegations involving financial improprieties to E&Y.

35. In addition to its common law claims for damages, E&Y is indemnified contractually by SFC and its liability limited in respect of losses, damages, costs and expenses, including legal fees and expenses, incurred in respect of E&Y's Services, as defined in the Engagement Letters. As set out in more detail below, E&Y claims indemnification in respect of the Class Actions and Other Proceedings.

(II) and (III) Negligent and Fraudulent Misrepresentation

36. In performing its audit work in connection with the consolidated financial statements for fiscal years ended December 31, 2007 to 2010, E&Y relied in good faith on (among other things) representations, documents, information and reports provided by SFC and the SFC Subsidiaries.

37. As expressly stated in the 2010 Auditors' Report and the Engagement Letters, management was responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian GAAP, and for such internal controls as management determined were necessary to enable the preparation of consolidated financial statements that were free from material misstatement, whether due to fraud or error. E&Y relied on management of SFC and the SFC Subsidiaries, including management's representations and warranties and the information in the accounts of SFC and the SFC Subsidiaries, in carrying out its work.

38. Examples of representations made by SFC during the 2007 to 2010 audits include:

a) Management Representation Letters;

b) D&O Questionnaires;

c) Compliance with the Code of Conduct and Whistleblower Policy;

d) Legal opinions delivered to E&Y by SFC; and

e) Other direct representations.

(A) Management Representation Letters

39. In the course of each of the audits for the fiscal years ended December 31, 2007 to 2010 inclusive, management of SFC provided E&Y with a letter of representation (collectively the "Management Representation Letters") on behalf of SFC and the SFC Subsidiaries. The Management Representation Letter for fiscal 2007 was signed by Allen Chan, David Horsley, Alvin Lim and Tom Maradin. The Management Representation Letters for fiscal 2008-2010 were signed by Allen Chan, David Horsley and Tom Maradin. Copies of the Management Representation Letters for each year are attached to this Proof of Claim at Schedule "C4".

40. The Management Representation Letters state:

> ...we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Sino-Forest Corporation in accordance with Canadian generally accepted accounting principles.

41. E&Y reasonably relied on the Management Representation Letters in conducting its audit of the consolidated financial statements for the years ended December 31, 2007-2010.

42. The Management Representation Letters varied from year to year, but generally contained the following representations upon which E&Y reasonably relied:

(a) that management of the Company understood that they were responsible for the fair presentation of the consolidated financial statements;

(b) that management of the Company believed that the consolidated financial statements fairly presented, in all material respects, the financial position, results of operations and cash flows of the Company in accordance with GAAP;

(c) that management of the Company assessed the risk that the consolidated financial statements might be materially misstated as a result of fraud as being low and had no knowledge of any fraud or suspected fraud that could have a non-trivial effect on the consolidated financial statements;

(d) that management of the Company had provided E&Y with access to all information relevant to the preparation and audit of the consolidated financial statements, including financial records and related data and all significant contracts and agreements;

(e) that the Company had satisfactory title to all assets appearing in the consolidated balance sheet;

(f) that management of the Company had disclosed all significant intercompany transactions;

(g) that management of the Company, agreed with the findings of specialists in evaluating the valuation of timber assets;

(h) that management of the Company had disclosed to E&Y all related party transactions;

(i) that there were no instances where any officer or employee of the Company had an interest in a company with which the Company did business that would be considered a "conflict of interest"; and

(j) that management of the Company had appropriately consolidated all entities for which SFC directly or indirectly had a controlling financial interest.

43. E&Y also obtained additional management representation letters in connection with each of the prospectus and debt offerings where E&Y's audit reports were incorporated by reference (the "Offering Management Representation Letters"). A sample of the Offering Management Representation Letters are attached to this Proof of Claim at Schedule "C5".

(B) The D&O Questionnaires

44. In each of the 2007-2010 audits, all directors and officers of SFC completed questionnaires in respect of related party and independence matters (the "D&O Questionnaires"). A sample of the D&O Questionnaires are attached to this Proof of Claim at Schedule "C6"

45. E&Y reasonably relied on the D&O Questionnaires in conducting its audit of the consolidated financial statements for each of the fiscal years ended December 31, 2007-2010.

46. The D&O Questionnaires required the directors and officers of SFC to disclose (i) an interest of 5% or more or (ii) a directorship in any company that had transacted with SFC or the SFC Subsidiaries during the year under audit. E&Y relied upon the disclosure by the directors and officers in the D&O Questionnaires.

(C) Company Policies

47. At all material times, SFC maintained a Code of Conduct. E&Y placed reliance upon the directors, officers and employees of SFC and the SFC Subsidiaries compliance with the Code of Conduct when conducting its audit of the consolidated financial statements for each of the fiscal years ended December 31, 2007-2010. A copy of the Code of Conduct, obtained during the 2010 audit, is attached at Schedule "C7".

48. The Code of Conduct states that the members of senior management "are expected to lead according to high standards of ethical conduct, in both words and actions..." The Code of Conduct required the honest and accurate recording and reporting of information, and that any violations or suspected violations of the Code, and any concerns regarding accounting, financial statement disclosure, internal accounting or disclosure controls or auditing matters, be reported.

49. At all material times, SFC maintained a Whistleblower Policy. E&Y placed reliance upon the existence of and compliance with the Whistleblower Policy in conducting its audit of the consolidated financial statements for each of the fiscal years ended December 31, 2007-2010. A copy of the Whistleblower Policy, obtained during the 2010 audit, is attached at Schedule "C8".

(D) The Legal Opinions

50. SFC provided E&Y with certain legal opinions from its outside counsel, Jingtian & Gongcheng, Attorneys at Law in the People's Republic of China, for the purposes of E&Y's audits of the consolidated financial statements of SFC, and with respect to timber title and ownership, including the nature of and appropriate reliance upon official documentation from the

various Forestry Bureaus. E&Y reasonably relied upon the legal opinions in conducting its audit of the consolidated financial statements for each of the fiscal years ended December 31, 2007 to 2010, to the express knowledge of SFC, the SFC Subsidiaries and their respective directors, officers and employees, all as they intended E&Y would do. A copy of the legal opinion received in connection with E&Y's audit of the consolidated financial statement for the fiscal year ended December 31, 2007 is attached at Schedule "C9".

(E) Other Direct Representations

51. In respect of the transactions completed in each of the fiscal years ended December 31, 2007 to 2010, SFC and/or its directors, officers, employees or agents made direct representations to E&Y upon which it reasonably relied. Those representations include, but are not limited to, representations in respect of:

(a) timber assets;

(b) title to the timber assets;

(c) purchases and sales of timber assets, including individual transactions, supported by contracts and set-off documentation, to support the Company's representation that accounts receivable and accounts payable had been settled;

(d) valuation of the timber holdings;

(e) use of the SFC Subsidiaries;

(f) relationships with the authorized intermediaries; and

(g) related party transactions.

52. As described at paragraph 67 herein, attached at Schedule "B" is chart summarizing the representations that were made to E&Y in respect of assets, liabilities, revenues and expenses of SFC and the SFC Subsidiaries, setting out the key client-prepared documents received by E&Y and upon which E&Y relied. Management of SFC coordinated the provision of the representations, information and documents to E&Y. E&Y reasonably relied in good faith on these representations.

53. As expressly stated in the Engagement Letters and the 2010 Auditors' Report, SFC's management was responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for such internal controls as management determined were necessary to enable the preparation of consolidated financial statements that were free from material misstatement, whether due to fraud or error. E&Y relied on SFC management's representations and warranties in carrying out its work.

(II) Reputational Loss

54. Had E&Y been aware of the alleged misconduct of SFC, the SFC Subsidiaries and their respective directors, officers, employees and agents, E&Y would not have opined on, associated itself with or consented to any use of its opinions with respect to the financial statements of SFC and the SFC Subsidiaries. The continued proceedings and events arising out of the financial affairs of SFC have the potential to impact the good reputation of E&Y in its market place, to its detriment.

(III) SFC's Vicarious Liability

55. SFC is vicariously liable for the acts of its directors, officers, employees and agents, the SFC Subsidiaries and their directors, officers, employees and agents.

56. In particular, given the consolidated nature of the financial statements, representations were received from SFC's management and management of the SFC Subsidiaries expressly on the authority of and on behalf of SFC, which is vicariously liable for the accuracy of those representations and the potential and actual losses flowing to E&Y in reliance thereon.

(b) Claims Against the SFC Subsidiaries

57. As stated above, E&Y was engaged to audit the consolidated financial statements of SFC. Consolidated financial statements are produced by aggregating the financial statements of one or more subsidiary companies on a line-by-line basis (i.e., adding together corresponding items of assets, liabilities, revenues and expenses) with the financial statements of the parent company, eliminating intercompany balances and transactions and providing for any non-controlling interest in a subsidiary company. Where the assets, liabilities, revenues and expenses of an entity's subsidiary companies comprise material proportions of the corresponding elements of the consolidated financial statements, auditing the consolidated financial statements of an entity therefore involves obtaining audit evidence and performing audit procedures in respect of the assets, liabilities, revenues and expenses not only of the entity itself, but also of the subsidiaries.

58. In the case of E&Y's audits of the consolidated financial statements of SFC, the bulk of audit evidence obtained by E&Y and a signicant majority of audit procedures performed by E&Y related to the SFC Subsidiaries, because of the corporate structure of the Sino-Forest group of companies:

(a) SFC, the entity that issued the publicly-traded debt and equity, is a holding company whose primary assets are cash, direct or indirect investments in the SFC

Subsidiaries, and intercompany balances due from one or more of the SFC Subsidiaries;

(b) The business of SFC was conducted at the subsidiary level. On a consolidated basis, all assets of SFC other than a portion of the consolidated cash were owned by the SFC Subsidiaries. Attached to this Proof of Claim at Schedule "C10" is a corporate organization chart for SFC as at December 31, 2010. Also attached at Schedules "C11" and "C12" are publicly available corporate search results conducted in respect of the SFC Subsidiaries or certain of them. With respect to the timber assets and the timber related operations reported in the consolidated financial statements of SFC:

(i) The timber assets were all held by a small number of the SFC Subsidiaries;

(ii) The purchase and sale of the timber assets was done by or on behalf of those of the SFC Subsidiaries;

(iii) Those SFC Subsidiaries were the signatories to the purchase and sale contracts;

(iv) The Forestry Bureau Confirmations relied upon by E&Y in the course of its audits were issued to those SFC Subsidiaries; and

(v) The relationships with the authorized intermediaries were through those SFC Subsidiaries; and

(c) SFC itself had only three (3) employees: David Horsley, Tom Maradin and an administrative assistant. All other officers and employees of the Sino-Forest group were employed by various SFC Subsidiaries. Two SFC Subsidiaries, Sino-Wood Partners, Limited ("Sino-Wood") and Sino-Panel (Asia) Inc. ("Sino-Panel") employed the majority of the personnel who conducted and accounted for the business of the SFC Subsidiaries incorporated in Hong Kong and the British Virgin Islands, including those SFC Subsidiaries which owned a significant majority of the timber assets.

59. A significant majority of information and representations provided to E&Y in connection with E&Y's audits of the consolidated financial statements for 2007 to 2010 were provided by or on behalf of various SFC Subsidiaries.

(I) Breach of Contract

60. E&Y was retained, pursuant to the terms of the Engagement Letters, to audit and report on the consolidated financial statements.

61. E&Y entered into direct engagements with Sino-Panel (Asia) Inc. and Sino-Wood Partners, Limited to audit their financial statements each for the years-ended December 31, 2007 and 2008. Attached at Schedule "C3" are copies of the Engagement Letters for Sino-Panel (Asia) Inc. and Sino-Wood Partners, Limited for fiscal year ended December 31, 2007.

62. In the course of completing the audit engagements for SFC and the SFC Subsidiaries, E&Y received directly from and/or on behalf of the SFC Subsidiaries their financial information, and relied upon that information in connection with completing its work under these

engagements, as well as aggregating the financial results with those of other SFC Subsidiaries, and SFC itself, for the purposes of opining on the consolidated financial statements of SFC and the SFC Subsidiaries.

(II) Inducing Breach of Contract

63. The SFC Subsidiaries, and their respective directors, officers, employees and agents, knew or ought to have known that the information being provided to E&Y was provided for the purpose of E&Y's audit of the consolidated financial statements of SFC.

64. The information provided by the SFC Subsidiaries and their directors, officers, employees and agents may have been misleading and deceitful as it is being alleged in the Class Actions that SFC's consolidated financial statements misrepresented the state of SFC's assets and activities. The OSC has made similar allegations.

65. If proven, the alleged deceitful and misleading information provided by the SFC Subsidiaries and their directors, officers, employees and agents would have led SFC to breach its obligations to E&Y pursuant to the Engagement Letters, thereby causing E&Y to incur the damages more particularly described in this Proof of Claim.

(III) and (IV) Negligent and Fraudulent Misrepresentation

66. In performing its audits of the 2007-2010 consolidated financial statements, E&Y reasonably relied in good faith on (among other things) representations, documents, information and reports, as applicable, provided by, *inter alia*, the SFC Subsidiaries and their directors, officers, employees and agents all as described above in this Proof of Claim.

67. In addition, the SFC Subsidiaries are vicariously liable for the actions and omissions of their directors, officers, employees and agents who may have provided E&Y with allegedly deceitful and misleading information.

68. By way of example, attached to this Proof of Claim at Schedule B is a chart summarizing the SFC Subsidiaries that provided key client-prepared documents and/or delivered documents evidencing representations made to E&Y in its audits of the 2007-2010 consolidated financial statements of SFC. In building up the chart, E&Y limited itself to certain types of documents that E&Y considers particularly significant. The chart may therefore be incomplete with respect to other documents that were provided by certain SFC Subsidiaries. The chart illustrates the strong connection between the recorded book value of the timber assets in the SFC Subsidiaries and E&Y's reliance on key client-prepared documents from those SFC Subsidiaries.

69. If the allegations of the OSC are proven, the SFC Subsidiaries made negligent and/or fraudulent misrepresentations to E&Y upon which E&Y relied to its detriment thereby causing E&Y to incur the damages, more particularly described in this Proof of Claim.

(V) Reputational Loss

70. Had E&Y been aware of the alleged misconduct of SFC, the SFC Subsidiaries and their respective directors and officers, E&Y would not have opined on, associated itself with or consented to any use of its opinions with respect to the financial statements of SFC and the SFC Subsidiaries. The continued proceedings and events arising out of the financial affairs of SFC have the potential to impact the good reputation of E&Y in its market place, to its detriment.

(c) **Contractual Indemnity**

(I) Audit Engagement Letters

71. Each of the Engagement Letters for E&Y's audits of the consolidated financial statements of SFC for the Company's 2007 to 2010 fiscal years inclusive provides that E&Y's total aggregate liability shall be limited to the greater of: (i) the total fees paid to E&Y for its services (as defined); and (ii) CDN $1,000,000.

72. Each of the Engagement Letters for E&Y's audits of the consolidated financial statements of SFC for the Company's 2007-2010 fiscal years provides that SFC will re-imburse E&Y for legal fees incurred in certain circumstances.

73. The Engagement Letter for E&Y's audit of the consolidated financial statements of SFC for the Company's 2010 fiscal year includes the following specific indemnification provision:

> To the fullest extent permitted by applicable law and professional regulations, you shall indemnify us, the other EY Firms and the EY Persons against all claims by third parties (including your affiliates) and resulting liabilities, losses, damages, costs and expenses (including reasonable external and internal legal costs) arising out of or relating to the Services or this Agreement. On behalf of yourself and your affiliates, you release us, the other EY Firms and the EY Persons from all claims and causes of action (together, "Claims"), pending or threatened, that you or they may have arising out of the Services or this Agreement to the extent such Claims result from or arise out of any misrepresentation or fraudulent act or omission by you, your employees or agents on your behalf.

74. The Engagement Letters for the year-end audits for fiscal 2007-2010 generally incorporated E&Y's engagements to perform quarterly reviews of the Company's interim financial statements.

(II) Offering Engagement Letters

75. As stated above, E&Y entered into separate Offering Engagement Letters with SFC in connection with each equity and debt offering which incorporated E&Y's audit reports by reference defined above. Each of the Offering Engagement Letters provides that SFC will indemnify E&Y generally, will limit E&Y's liability and will re-imburse E&Y for legal fees in certain circumstances.

76. The Offering Engagement Letters are attached to this Proof of Claim at Schedule "C2".

(III) Claim for Contractual Indemnification

77. E&Y asserts indemnity claims against SFC for its legal fees and other costs incurred to defend the Class Actions and Other Proceedings and, in the event E&Y is found liable to the plaintiffs, any Interested Parties or any other party, for any damages and/or interest award E&Y may be ordered to pay, pursuant to the terms of the above-described engagement letters.

(d) Statutory Claims for Contribution and Indemnity

78. E&Y asserts contribution and indemnity claims in the event E&Y is found liable to the plaintiffs, any Interested Parties or any other party, for any damages and/or interest award E&Y may be condemned to pay, under ss. 1 and 2 of the *Negligence Act* and any applicable legislation outside of Ontario against SFC and the SFC Subsidiaries as joint and several tortfeasors.

E&Y'S DAMAGES

79. As a result of the conduct of SFC, the SFC Subsidiaries and their respective former directors and officers, E&Y has incurred the following damages:

(a) Legal costs and professional costs incurred in defending the multiple proceedings, including the Class Actions and Other Proceedings brought against E&Y, which proceedings are the proximate and foreseeable consequence of the alleged negligent, deceitful and fraudulent practice of SFC, SFC Subsidiaries and their respective directors and officers. To this day, E&Y's legal and related costs total approximately $5,000,000;

(b) Exposure to awards of damages and interest in the multiple proceedings, including the Class Actions and Other Proceedings, brought against E&Y, which proceedings are the proximate and foreseeable consequence of the alleged negligent, deceitful and fraudulent practice of SFC, SFC Subsidiaries and their respective directors and officers; and

(c) Any reputational loss resulting from the Class Actions and the Other Proceedings and events arising out of the financial affairs of SFC which has the potential to impact the good reputation of E&Y in its market place, to its detriment; and

80. As a result of the allegedly negligent, deceitful and fraudulent practices of SFC, the SFC Subsidiaries and their respective directors and officers, which unequivocally would result in a breach of SFC's obligations pursuant to the Engagement Letters and SFC Subsidiaries Letters, and/or an inducement to SFC to breach SFC's contractual obligations to E&Y, E&Y will incur further damages if any awards in favour of the Interested Parties or other parties are ordered.

NATURE AND CLASS OF CLAIMS

81. E&Y asserts this claim as an unsecured creditor.

82. E&Y's claim is distinct from any and all potential and actual claims by the plaintiffs in the Class Actions against SFC. E&Y's claim for contribution and indemnity is not based upon the claims against SFC advanced in the Class Actions, but rather in part upon the Class Actions' claims against E&Y on behalf of the Interested Parties.

83. As any success of the plaintiffs in the Class Actions against E&Y on behalf of the Interested Parties would not necessarily lead to success against SFC and vice-versa, E&Y has a distinct claim against SFC independent of that of the plaintiffs in the Class Actions on behalf of the Interested Parties. The success of E&Y's claims against SFC and the SFC Subsidiaries, and the success of the claims advanced by the Class Action plaintiffs, are not co-dependent. Either could succeed if the other were to fail.

84. The relationship between E&Y on the one hand, and SFC, SFC Subsidiaries and their respective directors and officers on the other, is contractual and at arm's length. The nature of the relationship between a shareholder, who may be in a position to assert an equity claim (in addition to other claims) is fundamentally different from the relationship existing between a corporation and its auditors.

85. The policy rationale for subordinating equity claims to the claims of creditors of the corporation, given the well-established corporate law recognizing the bargain that shareholders have struck and the inherent fact that their fortunes rise or fall with those of the company, does not apply to auditors.

86. Shareholders accept both risk and reward, and benefit directly from any increase in the value of the equity in a company. An auditor is in a fundamentally different position, namely

that of a professional service provider who entered into a contract with the debtor company based upon the expectation of receiving a pre-established payment, independently of the company's financial performance.

87. E&Y is prepared to provide to the Monitor, on a confidential basis, further submissions with respect to the nature and quality, as well as quantity, of its claims.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Ernst & Young LLP

June 20, 2012

Chief Legal Counsel

Court of Appeal File No. M41654
Superior Court File No. CV-12-9667-00-CL

COURT OF APPEAL FOR ONTARIO

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

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

Applicant

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

ADDITIONAL EVIDENCE RELIED UPON

1. Ernst & Young LLP relies upon the evidence contained in the Compendium of Evidence of the Underwriters named in Class Action on the motion seeking leave to appeal served August 16, 2012.

August 17, 2012

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

Court of Appeal File No.: M41654
Court File No. CV-12-9667-00-CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
PROCEEDING COMMENCED AT TORONTO

COMPENDIUM OF EVIDENCE OF ERNST & YOUNG LLP SUPPLEMENTAL TO COMPENDIUM OF EVIDENCE OF THE UNDERWRITERS NAMED IN CLASS ACTIONS

(Motion for leave to appeal)

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