

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

**Sino-Forest Corporation**

**EIGHTH REPORT OF THE MONITOR**

**September 25, 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

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

**INTRODUCTION**

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

- (b) Report on the Company's actual receipts and disbursements for the period from July 21, 2012 to September 14, 2012;
  - (c) Report on the Company's post-filing consolidated cash position and liquidity as detailed in the Company's September 15 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 October 11, 2012.
4. The Monitor's Sixth Report dated August 10, 2012 (the "**Sixth Report**") provided a report on the Sino-Forest business and subsidiaries. The Monitor and FTI Consulting (Hong Kong) Limited continue to work with the Company and its advisors with respect to the Sino-Forest business and the financial status of the Sino-Forest Subsidiaries. The Monitor expects to provide further updates with respect to those activities in the future.
5. In preparing this Eighth Report, the Monitor has relied upon unaudited financial information of Sino-Forest, Sino-Forest's books and records, certain financial information prepared by Sino-Forest, the Reports of the Independent Committee of the Company's Board of Directors dated August 10, 2011 (the "**First IC Report**"), November 13, 2011 (the "**Second IC Report**"), and January 31, 2012 (the "**Final IC Report**" and together, the "**IC Reports**"), and discussions with Sino-Forest's management. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. In addition, the Monitor notes that on January 10, 2012, the Company issued a press release cautioning that the Company's historic financial statements and related audit reports should not be relied upon. Accordingly, the Monitor expresses no opinion or other form of assurance on the information contained in this Eighth Report or relied on in its preparation. Future oriented financial information reported or relied on in preparing this Eighth Report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.

6. Unless otherwise stated, all monetary amounts contained herein are expressed in US Dollars.
7. The term “**Sino-Forest**” refers to the global enterprise as a whole but does not include references to the Greenheart Group. “**Sino-Forest Subsidiaries**” refers to all of the direct and indirect subsidiaries of the Company, but does not include references to the Greenheart Group.
8. Capitalized terms not defined in this Eighth Report are as defined in the Sixth Report.

## **GENERAL BACKGROUND**

### *Sino-Forest Business*

9. Sino-Forest conducts business as a forest plantation operator in the People’s Republic of China (“**PRC**”). Its principal businesses include ownership and management of forest plantation trees, the sale of standing timber and wood logs, and complementary manufacturing of downstream engineered-wood products.
10. The Company is a public holding company whose common shares were listed on the Toronto Stock Exchange (“**TSX**”). Prior to August 26, 2011 (the date of the Cease Trade Order, defined below), the Company had 246,095,926 common shares issued and outstanding and trading under the trading symbol “**TRE**” on the TSX. Effective May 9, 2012, the common shares were delisted from the TSX.
11. On June 2, 2011, Muddy Waters, LLC (“**MW**”), which held a short position on the Company’s shares, issued a report (the “**MW Report**”) alleging, among other things, that Sino-Forest is a “ponzi-scheme” and a “near total fraud”. The MW Report was issued publicly and immediately caught the attention of the media on a world-wide basis.
12. Subsequent to the issuance of the MW Report, the Company devoted extensive time and resources to investigate and address the allegations in the MW Report as well as responding to additional inquiries from, among others, the Ontario Securities Commission (“**OSC**”), the Royal Canadian Mounted Police and the Hong Kong Securities and Futures Commission.

13. For the reasons discussed in the Pre-Filing Report and the Initial Order Affidavit, the Company and the business was placed into a stalemate that could not be resolved without the Court supervised solution offered by the CCAA Proceedings.
14. 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 THE CCAA PROCEEDINGS**

### *Mediation*

15. The Sixth Report set out the material terms of the Mediation Order. As such, a detailed summary of the Mediation is not included herein.
16. Pursuant to the Mediation Order, confidential mediation statements were circulated amongst the Mediation Parties on or before August 27, 2012.
17. The Mediation took place at the offices of Bennett Jones on September 4, 2012 and September 5, 2012. The Honourable Justice Newbould was the Mediator presiding over the two day session. The Mediation was terminated on September 5, 2012 without a successful resolution.
18. The Company, in consultation with the Monitor, is now considering the appropriate next steps to take in the CCAA Proceedings to move forward with the Plan (defined below).

### *Sale Process*

19. As set out in the Fourth Report and the Sixth Report, the Sale Process conducted pursuant to the Sale Process Order was terminated by the Company after no "Qualified Letters of Intent" were received on or before June 28, 2012. The Sixth Report specified that it was the Monitor's view that a confidential summary of the LOIs should be placed in the Data Room to be made available to the Mediation Parties who had signed Mediation Confidentiality Agreements.

20. The Monitor has been informed by the Company and the ad hoc committee of noteholders (the “**AHC**”), that there is some continued interest in purchasing the Company’s assets. The Monitor has not been directly involved, nor has it expressed any views in respect of any ongoing discussions and/or any potential transactions. The Company and the AHC are of the view that disclosure of more details of the bids that were contained in the LOIs that were received may be prejudicial to these discussions at this time.

*Creditors’ Meeting and Plan of Compromise and Reorganization*

21. On August 14, 2012, the Company served its motion seeking a plan filing and meeting order (the “**Meeting Order**”) and filing its plan of compromise and reorganization (the “**Plan**”). The Company filed a form of information circular (the “**Information Circular**”) on August 15, 2012. A revised draft Plan was subsequently filed with the Court on August 27, 2012.
22. On August 31, 2012, the Court granted the Meeting Order which provided for the calling of a creditors’ meeting. Pursuant to the Meeting Order, the Monitor has posted an electronic copy of the Notice to Affected Creditors, the Plan and Information Circular on its website at <http://cfcanada.fticonsulting.com/sfc>.
23. As of the date of this Report, the Mailing Date (as defined in the Meeting Order) has not been set. The outside date for the Mailing Date (originally within 20 days of the date of the Meeting Order) has been extended to be no later than October 3, 2012. As of the date of this Report, the Meeting Date (as defined in the Meeting Order) has not been set.

*Other Matters*

24. In addition to the foregoing, the following events have taken place:
  - (a) *Appeal of Equity Claims Motion.* On August 16, 2012, 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 September 10, 2012, the Company and the AHC served reply materials in opposition to the leave

motion. The Monitor did not serve any materials, but is supportive of the Company's and the AHC's position.

- (b) *Plaintiffs' Motion re Representation.* On August 23, 2012, the Plaintiffs served a motion returnable August 28, 2012 for an Order for representation and declaring that they were entitled to vote on the Plan. Pursuant to an Order of Justice Morawetz dated August 31, 2012, the Plaintiffs' motion was adjourned sine die. Pursuant to a court direction dated September 18, 2012, the date for this motion was set for October 9 and 10, 2012.

## **RECEIPTS AND DISBURSEMENTS FOR THE PERIOD TO SEPTEMBER 14, 2012**

### **Actual Receipts and Disbursements of the Company for the Period July 21, 2012 to September 14, 2012**

25. The Company's actual net cash flow for the period July 21, 2012 to September 14, 2012 (the "**Current Period**") together with an explanation of key variances as compared to the May 23 Forecast (as defined in the Monitor's Third Report) is described below. Actual net cash flows for the Current Period were approximately CAD\$8.6 million higher than forecast and summarized as follows:

<b>\$000 CAD</b>	<b>Forecast</b>	<b>Actual</b>	<b>Difference</b>
Cash inflow			
Interest Income	\$ -	\$ 619	\$ 619
<b>Total cash inflow</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Cash outflow			
Payroll and Benefits	\$ 120	\$ 112	\$ (8)
Board & Committee Fees	\$ 182	\$ 192	\$ 10
Travel	\$ 182	\$ 49	\$ (133)
Rent,Communication & Utilities	\$ 37	\$ 135	\$ 98
Taxes & Other	\$ 87	\$ 98	\$ 11
<b>Total cash outflow</b>	<b>\$ 608</b>	<b>\$ 586</b>	<b>\$ (22)</b>
<b>Net Operating Cashflow</b>	<b>\$ (608)</b>	<b>\$ 33</b>	<b>\$ 641</b>
<b>Restructuring Costs</b>			
Professional Fees	\$ 9,450	\$ 9,959	\$ 509
<b>Total Restructuring Costs</b>	<b>\$ 9,450</b>	<b>\$ 9,959</b>	<b>\$ 509</b>
<b>Net Cash Flow</b>	<b>\$ (10,058)</b>	<b>\$ (9,925)</b>	<b>\$ 133</b>
Opening Cash Balance	\$ 50,099	\$ 58,577	\$ 8,479
Net Cash Balance	\$ (10,058)	\$ (9,925)	\$ 133
Ending Cash Balance	\$ 40,041	\$ 48,652	\$ 8,611

## THE COMPANY'S CASH FLOW FORECAST

### Cash Flow Projections

26. The Company has prepared a revised cash flow forecast for the period of September 15, 2012 to October 12, 2012 (the "**September 15 Forecast**"). The September 15 Forecast shows a negative net cash flow of approximately CAD\$4.6 million and is summarized below:



	\$000 CAD
Cash inflow	
Interest Income	\$ 412
<b>Total cash inflow</b>	<b>\$ 412</b>
Cash outflow	
Payroll and Benefits	\$ 30
Board & Committee Fees	\$ 301
Travel	\$ 105
Rent, Communication & Utilities	\$ 5
Taxes & Other	\$ 49
<b>Total cash outflow</b>	<b>\$ 490</b>
<b>Net Operating Cashflow</b>	<b>\$ (78)</b>
<b>Restructuring Costs</b>	
Professional Fees	\$ 4,555
<b>Total Restructuring Costs</b>	<b>\$ 4,555</b>
<b>Net Cash Flow</b>	<b>\$ (4,633)</b>
Opening Cash Balance	\$ 48,650
Net Cash Balance	\$ (4,633)
Ending Cash Balance	\$ 44,017

27. A copy of the September 15 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**

28. The current Stay Period expires on September 28, 2012. In order to allow the Company sufficient time to continue towards its restructuring goals, the Company is requesting that the stay period be extended to October 11, 2012.
29. As set out above, the Monitor understands the Plaintiffs intend to bring a motion regarding the ongoing applicability of the stay to some or all of the defendants in the Class Actions. In the circumstances, the Monitor is of the view that the Company's request for a short stay extension pending the return of that motion is appropriate. The Monitor intends to file a further report in respect of the motions to be heard on October 9 and 10, 2012 regarding the on-going applicability of the stay.
30. 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) finalizing its Plan; (b) holding the Meeting; and (c) if the Plan is

approved by the Required Majority (as defined in the Plan) and sanctioned by the Court, implementing the Plan.

31. The Monitor believes that the Company is acting in good faith and with due diligence in taking steps to facilitate its restructuring.

## **CONCLUSION**

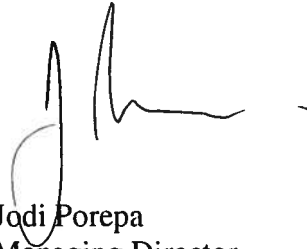
32. For the reasons set out above, the Monitor supports and recommends the Company's request for an extension of the Stay Period to October 11, 2012.

Dated this 25<sup>th</sup> day of September, 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

**APPENDIX “A” - SEPTEMBER 15 FORECAST**

*(Please See Attached)*

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

	Week 1		Week 2		Week 3		Week 4		Total
Week Ending	21-Sep		28-Sep		5-Oct		12-Oct		
Cash inflow									
Interest Income	\$ -	\$	412	\$	-	\$	-	\$	412
<b>Total cashinflow</b>	<b>\$ -</b>	<b>\$</b>	<b>412</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>412</b>
Cash outflow									
Payroll and Benefits	\$ -	\$	30	\$	-	\$	-	\$	30
Board & Committee Fees	\$ -	\$	-	\$	301	\$	-	\$	301
Travel	\$ 26	\$	26	\$	26	\$	26	\$	105
Rent, Communication & Utilities	\$ 1	\$	1	\$	1	\$	1	\$	5
Taxes & Other	\$ 13	\$	9	\$	18	\$	9	\$	49
<b>Total cash outflow</b>	<b>\$ 40</b>	<b>\$</b>	<b>67</b>	<b>\$</b>	<b>346</b>	<b>\$</b>	<b>37</b>	<b>\$</b>	<b>490</b>
<b>Net Operating Cashflow</b>	<b>\$ (40)</b>	<b>\$</b>	<b>346</b>	<b>\$</b>	<b>(346)</b>	<b>\$</b>	<b>(37)</b>	<b>\$</b>	<b>(78)</b>
<b>Restructuring Costs</b>									
Professional Fees	\$ 1,000	\$	1,635	\$	960	\$	960	\$	4,555
<b>Total Restructuring Costs</b>	<b>\$ 1,000</b>	<b>\$</b>	<b>1,635</b>	<b>\$</b>	<b>960</b>	<b>\$</b>	<b>960</b>	<b>\$</b>	<b>4,555</b>
<b>Net Cash Flow</b>	<b>\$ (1,040)</b>	<b>\$</b>	<b>(1,289)</b>	<b>\$</b>	<b>(1,306)</b>	<b>\$</b>	<b>(997)</b>	<b>\$</b>	<b>(4,633)</b>
Opening Cash Balance	\$ 48,650	\$	47,610	\$	46,321	\$	45,014	\$	48,650
Net Cash Balance	\$ (1,040)	\$	(1,289)	\$	(1,306)	\$	(997)	\$	(4,633)
Ending Cash Balance	\$ 47,610	\$	46,321	\$	45,014	\$	44,017	\$	44,017

**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.

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

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**ONTARIO**  
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(Commercial List)  
(PROCEEDING COMMENCED AT TORONTO)

**EIGHTH REPORT OF THE MONITOR**

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