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

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 COMPRISE OR ARRANGEMENT OF SINO-FOREST CORPORATION

Court File No.: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

B E T W E E N :

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN, KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND, JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY J. WEST, PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT SUISSE SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC WORLD MARKETS INC., MERRILL LYNCH CANADA INC., CANACCORD FINANCIAL LTD., MAISON PLACEMENTS CANADA INC., CREDIT SUISSE SECURITIES (USA) LLC and MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED (successor by merger to Banc of America Securities LLC)

Defendants

Proceeding under the *Class Proceedings Act, 1992*

MOTION RECORD OF THE PLAINTIFFS
(Settlement Approval – Horsley Settlement)

July 4, 2014

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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

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

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 COMPRISE OR ARRANGEMENT OF SINO-FOREST CORPORATION

Court File No.: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

B E T W E E N :

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG

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Defendants

Proceeding under the *Class Proceedings Act, 1992*

NOTICE OF MOTION
(Settlement Approval – Horsley Settlement)

TAKE NOTICE that the Ad Hoc Committee of Purchasers of the Applicant's Securities, including the plaintiffs in the action commenced against Sino-Forest Corporation ("Sino-Forest" or the "Applicant") in the Ontario Superior Court of Justice, bearing (Toronto) Court File No. CV-11-431153-00CP (the "Ontario Plaintiffs" and the "Ontario Class Action", respectively) in their own and proposed representative capacities, will make a motion to the Honourable Justice Morawetz on July 24, 2014, at 9:00 a.m., or at such other time and place as the Court may direct, at 330 University Avenue, 8th Floor, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion will be heard orally.

THE MOTION IS FOR an Order:

1. in the form attached hereto as Schedule "A" to this Notice of Motion (the "Horsley Settlement Order")[1]:

    (a) if necessary, validating and abridging the time for service and filing of this motion and motion record, and dispensing with any further service thereof;

    (b) appointing the Ontario Plaintiffs as representatives on behalf of the Securities Claimants;

    (c) declaring that the Horsley Settlement is fair and reasonable in all the circumstances and for the purposes of both proceedings;

    (d) approving the Horsley Settlement and the Horsley Release for all purposes and implementing them in accordance with their terms;

---

1 Unless otherwise defined or the context requires otherwise, all capitalized terms in this affidavit have the meanings attributed to them in the Horsley Settlement Order.

(e) requesting the recognition of the courts and other bodies in Canada or the United States to give effect to the order; and

2. Such further and other relief as counsel may advise and this Honourable Court may deem just.

THE GROUNDS FOR THE MOTION ARE:

1. On July 20, 2011, the Ontario Plaintiffs commenced the Ontario Class Action against Sino-Forest, Horsley and other defendants;

2. Guining Liu brought a similar class proceeding against Sino-Forest, Horsley and other defendants in Quebec (the "Quebec Action");

3. David Leapard and others have brought a proceeding in the United States New York Southern District Court against Sino-Forest, Horsley and other defendants (the "US Action"). The plaintiffs in the Ontario Class Action, Quebec Action and US Action, are referred to collectively as the "Class Action Plaintiffs";

4. The Ontario Plaintiffs allege that the defendants, including Horsley, made misrepresentations in Sino-Forest's public filings, including its financial statements and offering documents;

5. Horsley denies these allegations;

6. On March 30, 2012, Sino-Forest filed for protection from its creditors pursuant to the *Companies' Creditors Arrangement Act* (the "*CCAA*");

7. This Honourable Court approved the Plan containing the framework and providing for the implementation of a Named Third Party Defendant Settlement and a Named Third Party Defendant Release pursuant to section 11.2 of the Plan;

8. The Class Action Plaintiffs, Horsley and the Litigation Trust have reached an agreement and subsequently entered into Minutes of Settlement in order to resolve claims against Horsley relating to Sino-Forest, its affiliates and subsidiaries;

9. The Horsley Settlement provides that Horsley's insurers shall pay $4.2 million (the "Class Settlement Fund") in exchange for, among other things, a comprehensive release of claims against Horsley in respect of Sino-Forest;

10. The Horsley Settlement provides that following the Effective Date, Horsley shall not seek reimbursement from Sino-Forest's Directors & Officers liability insurers for legal fees or disbursements, save and except for legal fees relating to charges that may be laid against him by the Royal Canadian Mounted Police in relation to Sino-Forest;

11. The Ontario Plaintiffs and Horsley wish to effect the Horsley Settlement pursuant to section 11.2 of the Plan;

12. Enforcement Staff of the Ontario Securities Commission ("OSC") have commenced proceedings against Horsley regarding his conduct and involvement with Sino-Forest, including allegations made against Horsley in its Notice of Hearing and Statement of Allegations (the "OSC Proceedings");

13. Any settlement agreement between the Ontario Plaintiffs and Horsley is conditional upon approval by the OSC of a settlement of the OSC Proceedings between Horsley and OSC

Enforcement Staff, including, among other things, a permanent ban on Horsley from acting as a director or officer of a public issuer of securities;

14. The Horsley Settlement is fair, reasonable and in the best interests of Securities Claimants, particularly in light of the inherent risks, costs and delay associated with continued litigation;

15. The Horsley Settlement is fair and reasonable in all of the circumstances of the *CCAA* Proceedings;

16. The Class Action Plaintiffs support the approval of the Horsley Settlement;

17. The *Class Proceedings Act, 1992*, SO 1992 c 6;

18. the *Companies' Creditors Arrangement Act*, RSC 1985, c C-36;

19. The *Rules of Civil Procedure*, RRO 1990, Reg 194; and

20. Such further and other grounds as counsel may advise and this Honourable Court will permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

1. The affidavit of Charles M. Wright, sworn July 4, 2014; and

2. Such further and other evidence as counsel may advise and this Honourable Court may deem just.

July 4, 2014

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Lawyers for the Ad Hoc Committee of Purchasers of the Applicant's Securities, including the Class Action Plaintiffs

TO: SERVICE 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

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

ONTARIO
SUPERIOR COURT OF JUSTICE
Proceeding commenced at Toronto

Proceeding under the *Class Proceedings Act, 1992*

NOTICE OF MOTION

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SCHEDULE "A"

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.	)	●, THE ● DAY
	)	
JUSTICE ●	)	OF ●, 201●

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 COMPRISE OR ARRANGEMENT OF SINO-FOREST CORPORATION

Court File No.: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

BETWEEN:

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN, KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND, JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY J. WEST, PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT SUISSE SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC WORLD MARKETS INC., MERRILL LYNCH CANADA INC., CANACCORD FINANCIAL LTD., MAISON PLACEMENTS CANADA INC., CREDIT SUISSE SECURITIES (USA) LLC and MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED (successor by merger to Banc of America Securities LLC)

Defendants

Proceeding under the *Class Proceedings Act, 1992*

ORDER

THIS MOTION, made by the Ad Hoc Committee of Purchasers of the Applicant's Securities, including the plaintiffs in the action commenced against Sino-Forest Corporation ("Sino-Forest" or the "Applicant") in the Ontario Superior Court of Justice, bearing (Toronto) Court File No. CV-11-431153-00CP (the "Ontario Plaintiffs" and the "Ontario Class Action", respectively) in their own and proposed representative capacities, for an order giving effect to the Horsley Release and the Horsley Settlement, and as provided for in section 11.2 of the Plan of Compromise and Reorganization of the Applicant under the *Companies' Creditors Arrangement Act* ("CCAA") dated December 3, 2012 (the "Plan"), such Plan having been approved by this Honourable Court by Order dated December 10, 2012 (the "Sanction Order"), was heard on ●, 2014 at the Court House, ●, Toronto

WHEREAS the Ontario Plaintiffs, David J. Horsley ("Horsley") and the Litigation Trust entered into Minutes of Settlement dated ●,

AND WHEREAS this Honourable Court issued the Sanction Order approving the Plan containing the framework and providing for the implementation of a Named Third Party Defendant Settlement and a Named Third Party Defendant Release pursuant to Section 11.2 of the Plan;

AND WHEREAS the Ontario Plaintiffs and Horsley wish to effect a settlement pursuant to section 11.2 of the Plan;

AND WHEREAS Enforcement Staff of the Ontario Securities Commission ("OSC") has commenced proceedings against Horsley regarding his conduct and involvement with Sino-

Forest Corporation, including allegations made against Horsley in its Notice of Hearing and Statement of Allegations (the "OSC Proceedings");

AND WHEREAS any settlement agreement between the Ontario Plaintiffs and Horsley is conditional upon approval by the OSC of a settlement of the OSC Proceedings between Horsley and OSC Enforcement Staff, including, among other things, a permanent ban on Horsley from acting as a director or officer of a public issuer of securities;

AND WHEREAS this Honourable Court approved the form of notice to Securities Claimants and others of this Motion, and the plan for distribution of such notice to Securities Claimants and others potentially affected by the relief sought therein (the "Notice Program") by Order dated ● (the "Notice Order");

AND ON READING the materials filed and on hearing the submissions of counsel,

Notice and Definitions

1. **THIS COURT ORDERS** that capitalized terms not otherwise defined in this order shall have the meanings attributed to those terms in **Appendix "A".**

2. **THIS COURT FINDS** that all applicable parties have adhered to and acted in accordance with the Notice Order and that the procedures provided in the Notice Order have provided good and sufficient notice of the hearing of this Motion, and that all Persons shall be and are hereby forever barred from objecting to the Horsley Settlement and the Horsley Release.

Representation

3. **THIS COURT ORDERS** that the Ontario Plaintiffs are hereby recognized and appointed as representatives on behalf of the Securities Claimants in these insolvency proceedings in respect of the Applicant (the "CCAA Proceedings") and in the Ontario Class Action, for the

purposes of and as contemplated by section 11.2 of the Plan, and more particularly the Horsley Settlement and Horsley Release.

4. **THIS COURT ORDERS** that Koskie Minsky LLP, Siskinds LLP and Paliare Roland Rosenberg Rothstein LLP are hereby recognized and appointed as counsel for the Securities Claimants for all purposes in these proceedings and as contemplated by section 11.2 of the Plan, and more particularly the Horsley Settlement and Horsley Release ("CCAA Representative Counsel").

5. **THIS COURT ORDERS** that the steps taken by CCAA Representative Counsel pursuant to the Orders of this Court dated May 8, 2012 (the "Claims Procedure Order") and July 25, 2012 (the "Mediation Order") are hereby approved, authorized and validated as of the date thereof and that CCAA Representative Counsel is and was authorized to negotiate and support the Plan on behalf of the Securities Claimants, to negotiate the Horsley Settlement, to bring this motion before this Honourable Court to approve the Horsley Settlement and the Horsley Release and to take any other necessary steps to effectuate and implement the Horsley Settlement and the Horsley Release, including bringing this Motion and any other necessary motion before the court, and as contemplated by section 11.2 of the Plan.

Compliance with Section 11.2 of the Plan

6. **THIS COURT ORDERS** that Horsley is a Named Third Party Defendant pursuant to the Plan.

7. **THIS COURT ORDERS** that this Order (the "Horsley Settlement Order") is a Named Third Party Defendant Settlement Order for the purpose of and as contemplated by Section 11.2 of the Plan.

8. **THIS COURT ORDERS** that the Horsley Settlement is a Named Third Party Defendant Settlement for the purpose of and as contemplated by Section 11.2 of the Plan.

9. **THIS COURT ORDERS** that the Horsley Release is a Named Third Party Defendant Release for the purpose of and as contemplated by Section 11.2 of the Plan.

Approval of the Settlement & Release

10. **THIS COURT ORDERS** that the Horsley Settlement and the Horsley Release are fair and reasonable in all the circumstances and for the purposes of the proceedings under both the CCAA and the *Class Proceedings Act*, 1992.

11. **THIS COURT ORDERS** that the Horsley Settlement and the Horsley Release be and hereby are approved for all purposes and as contemplated by section 11.2 of the Plan and paragraph 41 of the Sanction Order and shall be implemented in accordance with their terms, this Order, the Plan and the Sanction Order.

12. **THIS COURT ORDERS** that this Order, the Horsley Settlement and the Horsley Release are binding upon each and every Person or entity having a Horsley Claim, including those Persons who are under disability, and any requirements of rules 7.04(1) and 7.08(4) of the *Rules of Civil Procedures*, RRO 1990, Reg. 194 are dispensed.

Release and Discharge

13. **THIS COURT ORDERS** that upon satisfaction of all the conditions specified in section 11.2(b) of the Plan, the Monitor shall deliver to Horsley the Monitor's Horsley Settlement Certificate substantially in the form attached hereto as **Appendix "B"**. The Monitor shall thereafter file the Monitor's Horsley Settlement Certificate with the Court.

14. **THIS COURT ORDERS** that pursuant to the provisions of section 11.2(c) of the Plan, on the Horsley Settlement Date,

    a. any and all Horsley Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled, barred and deemed satisfied and extinguished as against Horsley in accordance with section 11.2(c) of the Plan;

    b. the Horsley Release shall be binding according to its terms on any Person;

    c. section 7.3 of the Plan shall apply to Horsley and the Horsley Claims *mutatis mutandis*;

    d. none of the parties in the Class Actions or any other actions in which the Horsley Claims have been or could have been asserted shall be permitted to claim from any of the other defendants that portion of any damages, restitutionary award or disgorgement of profits that corresponds with the liability of Horsley proven at trial or otherwise, that is subject of the Horsley Settlement ("Horsley's Proportionate Liability");

    e. all Class Actions, including the Ontario Class Action shall be permanently stayed as against Horsley; and

    f. the Ontario Class Action shall be dismissed against Horsley.

15. **THIS COURT ORDERS** that on the Horsley Settlement Date, any and all claims which Horsley may have had against: (i) any other current or former defendant, in the Ontario Class Action, (ii) any other current or former defendant, in any Class Actions in a jurisdiction in which this order has been recognized by a final order of a court of competent jurisdiction and

not subject to further appeal, (iii) any other current or former defendants' insurers, or any affiliates thereof, or (iv) any other Persons who may claim over against the other current or former defendants, or any affiliate thereof, or the other current or former defendants' insurers, or any affiliate thereof, in respect of contribution, indemnity or other claims over which relate to the allegations made in the Class Actions, are hereby fully, finally, irrevocably and forever compromised, released, discharged, cancelled, barred and deemed satisfied and extinguished.

16. **THIS COURT ORDERS** that nothing in this order shall fetter the discretion of any court to determine Horsley's Proportionate Liability at the trial or other disposition of an action for the purposes of paragraph ● above, whether or not Horsley appears at the trial or other disposition and Horsley's Proportionate Liability shall be determined as if Horsley were a party to the action and any determination by the court in respect of Horsley's Proportionate Liability shall only apply in that action to the proportionate liability of the remaining defendants in those proceedings and shall not be binding on Horsley or the Insurers for any purpose whatsoever and shall not constitute a finding against Horsley for any purpose in any other proceeding.

17. **THIS COURT ORDERS** that Horsley shall appear as a witness for the plaintiffs (if requested to do so) and give evidence at the trial if any, of the Ontario Class Action. Horsley shall not seek reimbursement from the Insurers for any fees or expenses associated with this testimony.

Effect of Settlement on Insurers

18. **THIS COURT ORDERS AND DECLARES** that any amounts paid by Chubb Insurance Company of Canada ("Chubb") towards the Horsley Settlement are fair and reasonable in all the circumstances and for all purposes.

19. **THIS COURT ORDERS AND DECLARES** that the payment by Chubb pursuant to the Horsley Settlement does not violate the interests of any party to the Class Actions, any other party who might have a claim against any person or entity potentially covered under the Insurance Policies or the interests of any party listed in Schedule "D" to the Minutes of Settlement;

20. **THIS COURT ORDERS AND DECLARES** that, without prejudice to the Insurers' coverage position(s) in relation to the Litigation Trust Action and their obligations, if any, to any other defendant to the Litigation Trust Action (or to any other action which has been or may be instituted by the Litigation Trust) who is potentially covered under the Sino-Forest Policies, which rights are and shall remain fully reserved, all amounts paid by Chubb towards the Horsley Settlement shall constitute covered Loss (as defined in the Insurance Policies);

21. **THIS COURT ORDERS AND DECLARES** that Chubb's contribution to the Horsley Settlement shall, to the extent of the amount paid, and any other amounts paid by Chubb and, before it, by ACE INA Insurance ("ACE"), on Horsley's behalf for defence of all Claims (as defined in the Insurance Policies) against him, reduce the Limits of Liability under the Chubb Policy and the ACE Policy for all purposes, regardless of any subsequent finding by any court, tribunal, administrative body or arbitrator, in any proceeding or action, that Horsley engaged in conduct that may have triggered any exclusion, term or condition of the Chubb

Policy or the ACE Policy so as to disentitle Horsley to coverage under the Chubb Policy or the ACE Policy.

22. **THIS COURT ORDERS AND DECLARES** that Chubb's contribution to the Horsley Settlement is without prejudice to the coverage positions taken by it, or any of the Insurers, in relation to the Class Actions and to any other matter or Claim (as defined in the Insurance Policies) as previously advised to Sino-Forest and its directors and officers by each of the Insurers and to all rights previously reserved by the Insurers.

23. **THIS COURT ORDERS AND DECLARES** that the Insurers whose policies afford coverage excess to that afforded by the ACE Policy and the Chubb Policy may assert any defence to any claim for coverage, by any Insured, that is not:

    (i) inconsistent with the findings of the Court or with the Horsley Settlement Order, or

    (ii) based upon the ground that ACE and Chubb have not exhausted their respective Limits of Liability under the ACE Policy and the Chubb Policy.

24. **THIS COURT ORDERS AND DECLARES** that ACE and Chubb, in respect of the coverage afforded under Endorsements No. 16 and 2 to the ACE Policy and the Chubb Policy, respectively, may assert any defence to any claim for coverage, by any Insured, that is not inconsistent with the findings of the Court or with the Horsley Settlement Order.

25. **THIS COURT ORDERS AND DECLARES** that save and except for ACE's obligations under Endorsement No. 16 to the ACE Policy, ACE shall be released from any and all claims against it under or in relation to the ACE Policy, including claims relating to or arising from the Class Actions, all commitments in relation to and/or payments made under the ACE

Policy and for reimbursement of defence costs incurred by any person or entity potentially covered by or under the ACE Policy.

26. **THIS COURT ORDERS AND DECLARES** that save and except for Chubb's obligations under Endorsement No. 2 to the Chubb Policy, to the extent of any payment made by Chubb to the date of this Order, including any and all payments in relation to the Horsley Settlement, Chubb shall be released from any and all claims against it under or in relation to the Chubb Policy, including claims relating to or arising from the Class Actions, all commitments in relation to and/or payments made under the Chubb Policy and for reimbursement of defence costs incurred by any person or entity potentially covered by or under the Chubb Policy.

27. **THIS COURT ORDERS AND DECLARES** that all persons and entities provided with notice of this Motion shall be bound by the declarations made in, and the terms of, this Horsley Settlement Order.

28. **THIS COURT ORDERS AND DECLARES** that payment by Chubb pursuant to the Horsley Settlement constitutes "Loss" under the Insurance Policies, which has depleted the insurance limits for all purposes, regardless of whether (in the event that criminal charges are laid against Horsley in the future) any finding is made that Horsley acted dishonestly.

29. **THIS COURT ORDERS** that, subject to paragraph 2.4 of the Plan, nothing in the Horsley Settlement shall prejudice the continued claims by the plaintiffs in the Ontario Class Action, Quebec Class Action, and the US Class Action against the Insurance Policies with respect to the conduct of Sino-Forest or other persons or entities insured by the Insurers.

30. **THIS COURT ORDERS** that the cooperation of Horsley with the plaintiffs in the Ontario Class Action, Quebec Class Action, and the US Class Action pursuant to the Horsley Settlement shall not prejudice or otherwise affect the coverage that would otherwise be provided under the Insurance Policies with respect to the conduct of Sino-Forest or other persons or entities insured by the Insurers.

Use of the Settlement Fund

31. **THIS COURT ORDERS** that the Class Settlement Fund shall be held by the Ontario Plaintiffs in the Settlement Trust until such later date that the Ontario Plaintiffs have a Plan of Allocation approved by this Court whereby those funds will be distributed to Securities Claimants. Any process for allocation and distribution will be established by CCAA Representative Counsel together with U.S. Class Action plaintiffs' counsel and approved by further order of this Court (the "Claims and Distribution Protocol").

32. **THIS COURT ORDERS** that notwithstanding paragraph ● above, the following Securities Claimants shall not be entitled to any allocation or distribution of the Class Settlement Fund: any Person or entity that is a named defendant to any of the Class Actions, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any individual who is a member of the immediate family of the following Persons: Allen T.Y. Chan a.k.a Tak Yuen Chan, W. Judson Martin, Kai Kit Poon, David J. Horsley, William E. Ardell, James P. Boland, James M.E. Hyde, Edmund Mak, Simon Murray, Peter Wang, Garry J. West, Albert Ip, Alfred C.T. Hung, George Ho and Simon Yeung. For greater certainty, the Horsley Release shall apply to the Securities Claimants described above, other than Horsley.

Recognition, Enforcement and Further Assistance

33. **THIS COURT ORDERS** that this Court shall retain an ongoing supervisory role for the purposes of implementing, administering and enforcing the Horsley Settlement and the Horsley Release and matters related to the Settlement Trust including any disputes about the allocation of the Class Settlement Fund from the Settlement Trust. Any disputes arising with respect to the performance or effect of, or any other aspect of, the Horsley Settlement and the Horsley Release shall be determined by this Court, and that, except with leave of this Court first obtained, no Person or party shall commence or continue any proceeding or enforcement process in any other court or tribunal, with respect to the performance or effect of, or any other aspect of the Horsley Settlement and Horsley Release.

34. **THIS COURT ORDERS** that each of the Applicant, the Monitor, CCAA Representative Counsel and Horsley shall be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this order, or any further order as may be required, and for assistance in carrying out the terms of such orders.

____

Morawetz J.

APPENDIX "A"

Definitions of capitalized terms used in this Order

"Ace Policy" means the insurance policy issued by ACE INA Insurance – Policy Number DO024464;

"Causes of Action" has the meaning ascribed to it in the Plan

"CCAA" means the *Companies' Creditors Arrangement Act*, RSC, 1985, c. C-36

"Chubb Policy" means the insurance policy issued by Chubb Insurance Company of Canada – Policy Number 8209-4449;

"Class Actions" has the meaning ascribed to it in the Plan

"**Eligible Third Party Defendant**" has the meaning ascribed to it in the Plan

"Horsley" means David Horsley

"Horsley Claims" means any and all demands, claims, actions, Causes of Action (as defined in the Plan), counterclaims, cross claims, suits, debts, sums of money, accounts, covenants, damages, judgments, orders, including injunctive relief or specific performance and compliance orders, expenses, executions, Encumbrances (as defined in the Plan), and other amounts sought to be recovered on account of any claim, indebtedness, liability, obligation, demand or cause of action of whatever nature that any Person (as defined in the Plan), including any Person (as defined in the Plan) who may have a claim for contribution and/or indemnity against or from them, and including without limitation, all present and former officers or Directors of Sino-Forest, Newco (as defined in the Plan), Newco II (as defined in the Plan), Ernst & Young (as defined in the Plan), BDO Ltd., the Underwriters (as defined in the Plan), Poyry (Beijing) Consulting Company Limited (and its affiliates), the Noteholders (as defined in the Plan), any past, present or future holder of any direct or indirect equity interest in the SFC Companies (as defined in the Plan), any past, present or future direct or indirect security holder of the SFC Companies (as defined in the Plan), any indirect or direct security holder of Newco (as defined in the Plan) or Newco II (as defined in the Plan), the Trustees (as defined in the Plan), the Transfer Agent (as defined in the Plan), the Monitor (as defined in the Plan), and each and every present and former affiliate, partner, director, officer, associate, employee, servant, agent, contractor, insurer, heir and/or assign of each of the foregoing who may or could (at any time, past, present or future) be entitled to assert against Horsley, his family, heirs or assigns, whether known or unknown, matured or unmatured, direct or derivative, foreseen or unforeseen, suspected or unsuspected, contingent, existing or hereafter arising, based on whole or in part on any act or omission, transaction, conduct, dealing or other occurrence existing or taking place on, prior to or after the date of this Release, relating to or arising out of or in connection with the SFC Companies (as defined by the Plan), the SFC Business (as defined by the Plan), Horsley's conduct or performance as a director or officer of Sino-Forest, Horsley's trading of shares in relation to Sino-Forest, Horsley's compensation from Sino-Forest, and any and all other acts and omissions of Horsley relating to the SFC Companies (as defined by the Plan) or the SFC Business (as defined by the Plan), including without limitation any claim arising out of:

1. Horsley's conduct as a director or officer of Sino-Forest, including but not limited to his conduct as the Chief Financial Officer of Sino-Forest, any statutory or common law duties he may have owed as a director or officer of Sino-Forest, any share offering, debt offering or other offering of securities, any statement in any of Sino-Forest's public disclosure or other oral statement relating to Sino-Forest, including without limitation any document released to the public or filed on SEDAR;

2. All claims or Causes of Action (as defined by the Plan) advanced or which could have been advanced in any or all of the Class Actions (as defined by the Plan), including any and all claims of fraud;

3. All claims or Causes of Action (as defined by the Plan) advanced or which could have been advanced in any or all actions commenced in all jurisdictions as of the date of this Release;

4. All Noteholder Claims (as defined by the Plan), Litigation Trust Claims (as defined by the Plan), or any claim by or on behalf of the SFC Companies (as defined by the Plan);

5. All claims or Causes of Action (as defined by the Plan) advanced or which could have been advanced by BDO Ltd.(and its affiliates), Ernst & Young (as defined by the Plan), the Underwriters (as defined by the Plan), Poyry (Beijing) Consulting Company Limited (and its affiliates), all present and former directors, officers or employees of Sino-Forest, Aird & Berlis LLP, and any and all consultants or counsel to Sino-Forest or its Independent Committee for contribution, indemnity, damages, equitable relief or other monetary recovery;

6. All claims or Causes of Action (as defined by the Plan) advanced or which could have been advanced in Court File No. CV-13-481761.

For greater certainty, Horsley Claims do not include any proceeding commenced or remedy sought by the Ontario Securities Commission or the Attorney General.

"Class Settlement Fund" has the meaning ascribed to it in the Horsley Settlement

"Horsley Release" means the Named Third Party Defendant Release described at section 11.2(c) of the Plan as applied to the Horsley Claims

"Horsley Settlement" means the settlement as reflected in the Minutes of Settlement executed on ●, between Horsley and the plaintiffs in Ontario Superior Court Action No. CV-11-431153-00CP, Quebec Superior Court No. 200-06-000132-111, and United States New York Southern District Court, Case Number 1:12-cv-01726 (AT) and the Litigation Trust

"Horsley Settlement Date" means the date that the Monitor's Horsley Settlement Certificate is delivered to Horsley

"Insurance Policies" has the meaning ascribed to it in the Plan

"Insurers" means each of the entities who issued the Insurance Policies

"Litigation Trust" means Cosimo Borrelli, in his capacity as the trustee for the SFC Litigation Trust, and the SFC Litigation Trust

"The Litigation Trust Action" means the action bearing Court File No. CV-13-481761

"Monitor's Horsley Settlement Certificate" is the Monitor's Named Third Party Certificate contemplated at section 11.2(b) of the Plan, applicable and with respect to the Horsley Settlement

"Monitor's Named Third Party Settlement Certificate" has the meaning ascribed to it in the Plan

"Named Third Party Defendant" has the meaning ascribed to it in the Plan

"Named Third Party Defendant Settlement" has the meaning ascribed to it in the Plan

"Named Third Party Defendant Settlement Order" has the meaning ascribed to it in the Plan

"Named Third Party Defendant Release" has the meaning ascribed to it in the Plan

"Person" has the meaning ascribed to it in the Plan

"Quebec Class Action" means the action styled Guining Liu v Sino-Forest Corporation, et al, Province of Quebec Superior Court, File No. 200-06-000132-11

"Securities" means common shares, notes or other securities defined in the *Securities Act*, RSO 1990, c. S.5, as amended

"Securities Claimants" means all Person and entities, wherever they may reside, who acquired any Securities of Sino-Forest Corporation including Securities acquired in the primary, secondary, and over-the-counter markets.

"Settlement Trust" has the meaning ascribed to it in the Horsley Settlement

"US Class Action" means the action styled David Leapard, et al v. Allen TY Chan, et al., United States New York Southern District Court, Case Number 1:12-cv-01726 (AT)

APPENDIX "B"
MONITOR'S HORSLEY SETTLEMENT CERTIFICATE

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

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 COMPRISE OR ARRANGEMENT OF SINO-FOREST CORPORATION

Court File No.: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

B E T W E E N:

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN, KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND, JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY J. WEST, PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT SUISSE SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC WORLD MARKETS INC., MERRILL LYNCH CANADA INC., CANACCORD FINANCIAL LTD., MAISON PLACEMENTS CANADA INC., CREDIT SUISSE SECURITIES (USA) LLC and MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED (successor by merger to Banc of America Securities LLC)

Defendants

All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Order of the Court dated ● (the "Horsley Settlement Approval Order") which, among other things, approved the Horsley Settlement and Horsley Release.

Pursuant to section 11.2 of the Plan and paragraph ● of the Horsley Settlement Approval Order, FTI Consulting Canada Inc. (the "Monitor") in its capacity as Court-appointed Monitor of SFC delivers to Horsley this certificate and hereby certifies that:

1. Each of the parties to the Horsley Settlement has confirmed that all conditions precedent thereto have been satisfied or waived;

2. All settlement funds have been paid and received; and

3. Immediately upon the delivery of this Monitor's Horsley Settlement Certificate, the Horsley Release will be in full force and effect in accordance with the Plan.

DATED at Toronto this ___ day of _______, 2014

FTI CONSULTING CANADA INC. solely in its capacity as Monitor of Sino-Forest Corporation and not in its personal capacity

____

Name:
Title:

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

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 COMPRISE OR ARRANGEMENT OF SINO-FOREST CORPORATION

Court File No.: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

BETWEEN:

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN, KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND, JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY J. WEST, PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT SUISSE SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC WORLD MARKETS INC., MERRILL LYNCH CANADA INC., CANACCORD FINANCIAL LTD., MAISON PLACEMENTS CANADA INC., CREDIT SUISSE SECURITIES (USA) LLC and MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED (successor by merger to Banc of America Securities LLC)

Defendants

Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF CHARLES M. WRIGHT
(Sworn July 4, 2014)

I, CHARLES M. WRIGHT, of the City of London, in the Province of Ontario AFFIRM:

1. I am a partner at Siskinds LLP, who, along with Koskie Minsky LLP (together, "Class Counsel"), are counsel to the plaintiffs (the "Class Plaintiffs") in the above-captioned class proceeding (the "Ontario Action").

2. For the purposes of the above-captioned proceeding under the CCAA (the "CCAA Proceedings"), Class Counsel have retained Paliare Roland Rosenberg Rothstein LLP ("Paliare Roland") to represent the Ad Hoc Committee of Purchasers of the Applicant's Securities, including the Class Plaintiffs (together, the "Ontario Plaintiffs").

3. Siskinds Desmeules, sencrl, an affiliate of Siskinds LLP, is counsel to the plaintiffs in a parallel class proceeding in the Province of Quebec Superior Court styled as *Guining Liu v Sino-Forest Corporation, et al.,* File No. 200-06-000132-111 (the "Quebec Action").

4. Cohen Milstein Sellers & Toll PLLC ("Cohen Milstein") is counsel to the plaintiffs in a parallel class proceeding in the District Court of the Southern District of New York styled as *David Leapard, et al v Allen TY Chan, et al*, Case Number 1:12-cv-01726 (AT) (the "US Action").

5. I have knowledge of the matters deposed to below. Where I make statements in this affidavit that are not within my personal knowledge, I have indicated the source of my information and believe such information to be true.

NATURE OF THIS MOTION

6. The Ontario Plaintiffs and David J. Horsley ("Horsley"), among others, have entered into Minutes of Settlement in order to resolve all causes of action, claims and/or demands, on all counts howsoever arising and in all jurisdictions, made against Horsley, including the Class Actions (as defined in the Plan) (the "Horsley Settlement"). The Horsley Settlement is marked and attached hereto as **Exhibit "A"**. Appended as Schedule "C" to the Horsley Settlement is the form of a draft settlement approval order (the "Settlement Order") that will be sought for approval of the Horsley Settlement.

7. Unless otherwise defined or the context requires otherwise, all capitalized terms in this affidavit have the meanings attributed to them in the Settlement Order.

8. I affirm this affidavit in support of the motion brought by the Ontario Plaintiffs for approval of the Horsley Settlement.

OVERVIEW OF THE SETTLEMENT

Horsley's Role with Sino

9. Horsley was Sino's Chief Financial Officer ("CFO") from October 2005 until his resignation in April 2012. As Sino's CFO, Horsley signed and certified the company's interim and annual MD&A and financial statements, as well as certain primary market offering documents.

Key Terms of the Horsley Settlement

10. As discussed below, the Horsley Settlement will resolve both the class action claims against Horsley, as well as the claim commenced against Horsley by Sino's Litigation Trust (as defined in the Plan).

11. Subject to the terms of the Horsley Settlement, Horsley's insurers have agreed to pay CDN $4,200,000 (the "Class Settlement Fund") into an interest bearing trust account with a Canadian Schedule 1 bank in Ontario (the "Settlement Trust") to be administered in accordance with orders of the court.

12. The Horsley Settlement is conditional on, among other things, the issuance of the Settlement Order and a recognition order from the United States Bankruptcy Court granting recognition and enforcement of the Settlement Order in the United States (the "US Recognition Order").

13. The Horsley Settlement will become effective ("Effective Date") when:

(a) the Settlement Order has been obtained and either (i) all appeal rights have expired; or (ii) the applicable final appellate court has upheld the Settlement Order; and

(b) the US Recognition Order has been obtained and either (i) all appeal rights have expired; or (ii) the applicable final appellate court has upheld the US Recognition Order.

14. The Class Settlement Fund will be paid into the Settlement Trust within fifteen (15) days following the Effective Date. Upon payment of the Class Settlement Fund, the Ontario Action and the Quebec Action will be dismissed against Horsley, and the representative plaintiffs in the

US Action shall cause the US Action to be dismissed against Horsley. Following the Effective Date,

(a) no further proceedings shall be commenced by anyone against Horsley in respect of any Causes of Action (as defined in the Plan), other than as necessary to complete the Horsley Settlement;

(b) The plaintiffs in the Ontario Action, Quebec Action, and US Action agree not to claim from the non-settling defendants in any of the actions that portion of damages that corresponds to the proportionate share of liability of Horsley; and

(c) the plaintiffs in the Ontario Action, Quebec Action, and US Action and their counsel agree not to cooperate with any other party in advancing claims against Horsley. However, such plaintiffs reserve all rights with respect to the prosecution of the claims remaining against the non-settling defendants.

15. Save and except for legal fees and disbursements that may be incurred by Horsley or on his behalf in the future in relation to any criminal charges that may be laid against him by the Royal Canadian Mounted Police in relation to Sino-Forest, Horsley will not seek reimbursement from any insurers for legal fees and disbursements after the Effective Date.

16. Horsley will provide documents and cooperation to the Class Plaintiffs in the continued prosecution of the Ontario Action, and, if requested, shall appear as a witness at the trial of the Ontario Action and give complete and truthful answers to proper questions concerning any relevant matter.

17. In addition to settling the claims in the class actions, the Horsley Settlement also seeks to resolve the claims advanced against Horsley by Sino's Litigation Trust. In settlement of the Litigation Trust claims, Horsley and his insurers will make a payment of $1.4 million, of which $600,000 will be paid personally by Horsley.

18. As discussed further below, certain Securities Claimants have an interest in the Litigation Trust, and accordingly will benefit from the $1.4 million payment in that settlement.

Key Factors and Rationale Supporting the Horsley Settlement

19. As discussed in detail later in this affidavit, there are several factors supporting Class Counsel's recommendation of the Horsley Settlement. A summary of the key factors follows.

20. First, the funds available under Sino's Directors & Officers liability insurance policies are quickly dwindling as they are being used to fund the defense of several defendants in this litigation. The Horsley Settlement will likely preserve millions of dollars in insurance proceeds that would otherwise be spent on Horsley's defense. Those funds will now potentially be available for recovery from Sino and the remaining individual defendants.

21. Second, although losses to Securities Claimants run into the billions of dollars, the legal and practical impediments to recovery from Horsley weigh strongly in favour of our recommendation of the Horsley Settlement. As discussed in detail at paragraphs 91- 105, Class Counsel's view is that the recovery from Horsley in this settlement is consistent with his several liability for primary market share purchaser claims, and may potentially far exceed his liability limit under Part XXIII.1 of the Ontario *Securities Act* (the "*OSA*").

22. Third, as detailed below, certain Securities Claimants have an interest in the $1.4 million being paid in settlement of the Litigation Trust claims against Horsley, of which Horsley will personally contribute $600,000. Class Counsel have reviewed a statutory declaration concerning the combined net worth of Horsley and his spouse, and in our view, a payment of $600,000 represents a significant contribution in light of his assets and is commensurate with his alleged conduct.

23. Finally, the approval of the Horsley Settlement is a condition of Horsley's proposed settlement of the OSC Proceedings (defined below). In the absence of a settlement, it is possible that Horsley would be subject to a significant fine that would not benefit Securities Claimants and which would impinge on his ability to satisfy any judgment in the class actions.

BACKGROUND OF THE ACTION

24. The Ontario Action was commenced on July 20, 2011 against Sino-Forest Corporation ("Sino") and other defendants. Sino's shares were publicly traded at all material times on the Toronto Stock Exchange ("TSX"), on the Berlin exchange, on the over-the-counter market in the United States and on the Tradegate market. Sino shares also traded on alternative trading venues in Canada and elsewhere including, without limitation, AlphaToronto and PureTrading.

25. Sino also issued and had various notes outstanding. These notes were offered to investors by way of offering memoranda, and were underwritten by various financial institutions who are defendants in the Ontario Action. In addition to those primary market offerings, these notes traded in the secondary market.

26. On June 2, 2011, Muddy Waters Research ("Muddy Waters") released a research report alleging fraud against Sino and alleging that it "massively exaggerates its assets". The release of this report was immediately followed by a dramatic decline in Sino's share price.

27. On June 1, 2011, the day prior to the publication of the Muddy Waters report, Sino's common shares closed at $18.21. After the Muddy Waters report became public, Sino shares fell to $14.46 on the TSX (a decline of 20.6%), at which point trading was halted. When trading resumed the next day, Sino's shares fell to a close of $5.23 (a decline of 71.3% from June 1).

28. Sino’s notes also fell in value following the Muddy Waters report. On May 9, 2012 an auction was held to settle the credit derivative trades for Sino-Forest credit default swaps (“CDS”). CDS are essentially an insurance contract for debt instruments, and the price set in that auction represents the market’s view of the value of the notes as of May 9, 2012. The CDS auction price was 29% of the notes’ face values.

29. On August 26, 2011, the Ontario Securities Commission (the “OSC”) issued a temporary cease-trade order in respect of Sino’s securities. The recitals to the cease-trade order reflect that Sino appeared to the OSC to have engaged in significant non-arm’s length transactions which may have been contrary to Ontario securities laws and the public interest, that Sino and certain of its officers and directors appeared to have misrepresented some of Sino's revenue and exaggerated some of its timber holdings, and that Sino and certain of its officers and directors appeared to be engaging or participating in acts, practices or a course of conduct related to Sino's securities which they (or any of them) knew or ought reasonably to know would perpetuate a fraud.

30. On January 10, 2012, Sino issued a press release stating, among other things, that its historical financial statements and related auditors reports should not be relied upon.

31. On March 30, 2012, Sino filed for protection from its creditors under the CCAA and obtained a stay of proceedings against it, its subsidiaries and directors and officers, including the Ontario Action.

32. On May 9, 2012, Sino's shares were delisted from the TSX. The delisting was imposed due to Sino's failure to meet the continued listing requirements of the TSX as a result of the CCAA Proceedings (discussed below), and for failure to file on a timely basis certain of its

interim financial statements and the audited financial statements for the year ended December 31, 2011. Sino has not filed audited financial statements for any period subsequent to 2010. Ernst & Young resigned as Sino's auditors effective April 4, 2012. No new auditors were appointed.

CLASS ACTIONS AGAINST HORSLEY RELATING TO SINO

33. On July 20, 2011, the Ontario Action was commenced under the *Class Proceedings Act, 1992* (the “CPA”) against Sino, Horsley, and other defendants on behalf of persons that had purchased Sino securities in the period from March 19, 2007 to June 2, 2011. In this action, the plaintiffs allege that Sino misstated its financial statements, overstated the value of its assets, and concealed material information about its business and operations from investors in its public filings. As a result, Sino’s securities allegedly traded at artificially inflated prices for many years.

34. Before commencing the Ontario Action, Class Counsel conducted an investigation into the Muddy Waters allegations with the assistance of the Dacheng law firm, one of China’s largest law firms (“Dacheng”). Dacheng was retained on the day after the Muddy Waters report was issued. Class Counsel’s investigation into the Muddy Waters allegations continued since that time, and has been aided not only by Dacheng, but also by Hong-Kong based investigators specializing in financial fraud; two separate Toronto-based firms that specialize in forensic accounting, generally accepted accounting principles and generally accepted auditing standards; a lawyer qualified to practice in the Republic of Suriname, where Sino purported to own, through an affiliate, certain timber assets; and a financial economist who specializes in the treatment of damages in securities class actions.

35. On June 9, 2011, Siskinds Desmeules ("Desmeules"), a Quebec city law firm affiliated with Siskinds, commenced the Quebec Action against Sino, Horsley, and certain other defendants in the Quebec Superior Court.

36. There were also two other proposed class proceedings commenced in Ontario relating to Sino. In December 2011, there was a motion to determine which of the three actions in Ontario should be permitted to proceed and which should be stayed. By Order dated January 6, 2012, the Honourable Justice Perell granted carriage to the Class Plaintiffs, and appointed Siskinds and Koskie Minsky to prosecute the Ontario Action on behalf of the proposed class.

37. On January 27, 2012, the Washington, DC-based law firm of Cohen Milstein Sellers & Toll PLLC ("Cohen Milstein") commenced the US Action against Sino, Horsley, and other defendants in the New York Supreme Court. The US Action was transferred from the New York state court to the federal District Court for the Southern District of New York in March 2012.

38. By way of Order of the United States District Court Southern District of New York dated January 4, 2013, David Leapard, IMF Finance SA and Myong Hyoon Yoo were appointed as the lead plaintiffs and Cohen Milstein as lead counsel to represent the interests of the proposed class.

39. Class Counsel, Desmeules, and Cohen Milstein have been working together in a coordinated manner in all three of the proceedings.

40. On April 18, 2012, the Class Plaintiffs filed a Fresh as Amended Statement of Claim, a copy of which is attached hereto as **Exhibit "B"**. In March 2014, the Class Plaintiffs served on the defendants a proposed Second Fresh as Amended Statement of Claim. The motion to amend the statement of claim is scheduled to be heard along with the motions for certification and leave

under Part XXIII.1 of the Ontario *Securities Act*. Attached and marked as **Exhibit "C"** is a copy of the proposed Second Fresh as Amended Statement of Claim.

PLAINTIFFS' MOTIONS FOR CERTIFICATION AND LEAVE

41. In March and April 2012, the Class Plaintiffs brought (a) a motion for certification of the Ontario Action as a class action under the CPA; and (b) a motion for leave to proceed with statutory claims under Part XXIII.1 of the *OSA*.

42. The Class Plaintiffs filed voluminous motion records in support of their motions, comprising evidence from their investigations and expert reports. The motion records included:

(a) an affidavit of Steven Chandler, a senior law enforcement official from Hong Kong who was involved in investigating Sino in China;

(b) an affidavit of Alan Mak, an expert in forensic accounting;

(c) an affidavit of Dennis Deng, a lawyer qualified to practice in the People's Republic of China, and a partner in the Dacheng law firm; and

(d) an affidavit of Carol-Ann Tjon-Pian-Gi, a lawyer qualified to practice in the Republic of Suriname.

43. The certification and leave motions were scheduled for November 21 to 30, 2012, but were not heard at that time due to Sino's insolvency.

SINO'S INSOLVENCY

44. On March 30, 2012, Sino commenced the CCAA Proceedings and obtained an order for an interim stay of proceedings against the company, its subsidiaries, and its directors and officers. Pursuant to an order on May 8, 2012, the stay of proceedings was extended to all other defendants in the action, including Horsley.

45. From the outset, it was apparent to counsel to the Ontario Plaintiffs that the CCAA Proceedings presented a material risk to the Ontario Plaintiffs; namely, that in order to effect a restructuring that generated as much value as possible for Sino's creditors, there could be a plan of arrangement that had the effect of imposing an unfavourable settlement on the Ontario Plaintiffs.

46. Consequently, Class Counsel immediately entered into negotiations with other stakeholders in the CCAA Proceedings, and took a number of steps to vigorously represent the interests of the purchasers of Sino's securities. The following were among Class Counsel's main objectives:

(a) Reserving the Ontario Plaintiffs' rights to object to various features of the CCAA Proceedings, so as to generate and/or preserve momentum for the Ontario Plaintiffs' claims and positions;

(b) Ensuring that a Claims Process was established that identified the universe of stakeholders having an interest in the CCAA Proceedings while ensuring the recognition of the totality of the representative claim advanced by the Ontario Plaintiffs;

(c) Establishing a process for the mediation in the CCAA Proceeding through which the positions of the various stakeholders would be defined; and

(d) Obtaining access to information that would permit Class Counsel to make informed recommendations to the Ontario Plaintiffs and the court in connection with the terms of any Plan.

47. To further these objectives, Class Counsel took a number of steps in the CCAA Proceedings, including the following:

(a) Bringing or appearing in response to the following motions:

(i) March 30, 2012 – Attending at the initial application regarding *CCAA* protection and sales process for Sino and its subsidiaries, including a stay of proceedings against Sino, its subsidiaries and directors and officers;

(ii) April 13, 2012 – Attending at the Company's motion regarding stay extension;

(iii) April 20, 2012 – Bringing a motion regarding advice and direction on the *CCAA* stay and its impact on the pending motions in the Ontario Action;

(iv) April 20, 2012 – Attending at the Company's motion regarding expansion of the powers of the Monitor;

(v) May 8, 2012 – Attending and participating actively in the motion regarding a third party stay;

(vi) May 8, 2012 – Bringing a motion regarding Pöyry settlement leave;

(vii) May 14, 2012 – Attending and participating in a motion regarding Claims Procedure Order, including granting of leave to the Ontario Plaintiffs to file a Claim in respect of the substance of the matters set out in the Ontario Action on behalf of the proposed Class and the same leave to the plaintiffs in the Quebec Action;

(viii) May 14, 2012 – Attending a motion brought by Contrarian, one of Sino's noteholders;

(ix) May 17, 2012 – Bringing a motion in the Ontario Action regarding a third-party funding agreement;

(x) May 17, 2012 – Bringing a motion in the Ontario Action regarding Pöyry settlement approval;

(xi) May 31, 2012 – Attending at the Company's motion regarding stay extension;

(xii) June 26, 2012 – Attending at the Company's motion regarding the status of Shareholder Claims and Related Indemnity Claims under the *CCAA*;

(xiii) July 25, 2012 – Precipitating and attending at a motion regarding mediation in the *CCAA* proceedings, which included an order that the Ontario Plaintiffs were a party to the mediation;

(xiv) July 27, 2012 – Attending at the Company's motion regarding the status of Shareholder Claims and Related Indemnity Claims under the *CCAA*;

(xv) July 30, 2012 – Bringing a motion regarding document production and a data room;

(xvi) August 31, 2012 – Attending at the Company's motion regarding plan filing and meeting Order;

(xvii) August 31, 2012 – Attending at the Company's motion regarding adjournment of Ad Hoc Committee's motion (regarding appointment of Representative Plaintiff and leave to vote on Plan of Compromise);

(xviii) September 28, 2012 – Attending at the Company's motion regarding stay extension;

(xix) October 9, 2012 – Attending and participating in the Company's motion regarding adjournment of the Ad Hoc Committee's motion (regarding lifting of the stay against the Third Parties);

(xx) October 9, 2012 – Attending at the Company's motion regarding stay extension;

(xxi) October 28, 2012 – Bringing a motion to limit the scope of stay to exclude the Third Party Defendants and others;

(xxii) October 29, 2012 – Attending at the Company's motion regarding revised noteholder noticing process;

(xxiii) November 13, 2012 – Attending an appeal regarding Equity Claims decision; and

(xxiv) November 23, 2012 – Attending at the Company's motion regarding stay extension;

(xxv) December 7, 2012 – Attending and participating in the motion to sanction the Plan;

(b) almost from the inception of the CCAA Proceedings, engaging in extensive and protracted negotiations with the Ad Hoc Noteholder Group and with Sino with respect to the terms of the Plan of Reorganization;

(c) bringing a motion early in the proceeding seeking various relief challenging the framework of the CCAA Proceedings, such as the appointment of a receiver and providing for representation on behalf of the Class Members, and reserving all rights with respect to those issues throughout the CCAA Proceedings;

(d) supporting a motion for an order increasing the powers of the Monitor to administer Sino which took away powers from entrenched management and the

then-existing board, protecting the assets of the company for all stakeholders and ensuring greater transparency and balance in the proceeding;

(e) negotiating the claims procedure in the CCAA Proceedings and obtaining the right to file a representative claim so as to protect the interests of the putative Class;

(f) obtaining a data room of confidential non-public documents from Sino, which related principally to the audits of Sino's financial statements so as to permit the Ontario Plaintiffs to negotiate with other stakeholders at the Mediation and respond to any plan of arrangement in an informed manner;

(g) examining all applicable insurance policies and indemnity agreements and assessed the capacity to pay of various defendants, including Horsley;

(h) compelling the attendance of Sino's CEO at a cross-examination and testing his evidence in the CCAA Proceedings;

(i) engaging in multiple formal and informal, group and individual mediation and negotiation sessions with other stakeholders regarding the Class Members' claims, including a court-ordered, 2-day Mediation in September presided over by the Honourable Justice Newbould; and

(j) bringing a motion, in response to the form of the restructuring plan initially filed with the court, which the Ontario Plaintiffs deemed to be contrary to their interests, challenging various features of the Plan, and seeking the right to vote on the Plan, and expressly reserving all of the Ontario Plaintiffs' rights in connection with that motion pending the presentation of the plan for sanction by the court, to ensure that the plan was in the best interests of the Class Members.

SETTLEMENT WITH PÖYRY (BEIJING)

48. The Ontario Plaintiffs engaged in settlement discussions with Pöyry (Beijing) Consulting Company Limited ("Pöyry (Beijing)"), a defendant in these proceedings, starting in January

2012. Following arm's-length negotiations, the Ontario Plaintiffs entered into a settlement with Pöyry (Beijing) in March 2012.

49. On September 25, 2012, the Ontario Action was certified as a class proceeding as against Pöyry (Beijing) for the purposes of settlement and the settlement was approved between the class and Pöyry (Beijing).

COURT-ORDERED MEDIATION

50. On July 25, 2012, this Court ordered the various constituencies in the CCAA Proceedings to attend a mediation. On September 4 and 5, 2012, the Ontario Plaintiffs attended an all-parties mediation, which included Horsley. The mediation was conducted with the assistance of the Honourable Justice Newbould, acting as mediator. Extensive mediation briefs were filed by all parties. The briefs and the mediation itself set forth the position of the parties, including Horsley. The mediation did not result in a settlement with any of the parties, including Horsley, at that time.

51. It is Class Counsels' opinion that, given the defendants' negotiating stance as the mediation, the Ontario Plaintiffs could not have negotiated a significant all-party settlement at that mediation.

52. Following the mediation, settlement discussions continued with the defendants. However, those settlement discussions did not come close to bridging the significant difference between the position of the parties.

SETTLEMENT WITH ERNST & YOUNG

53. In November 2012, the Ontario Plaintiffs engaged in a further mediation with Ernst & Young, which resulted in the Ernst & Young Settlement and the Ernst & Young Release (all as defined in the Plan). The Ernst & Young Settlement was conditional upon obtaining orders in the CCAA proceedings and in the United States Bankruptcy Court resolving all claims against Ernst & Young in relation to Sino.

54. The framework of the Ernst & Young Settlement is contained at Article 11.1 of the Plan and was the template for a similar framework for Named Third Party Defendants contained at Article 11.2 of the Plan (discussed below).

55. Pursuant to a motion brought by the Ontario Plaintiffs, the Ernst & Young Settlement was approved by this Court on March 20, 2013. The Ontario Plaintiffs then brought a motion for approval of the method of distribution of the Ernst & Young Settlement funds to Securities Claimants and claims filing procedure. The motion was granted on December 27, 2013.

56. In connection with both of these hearings, extensive notice was given to Securities Claimants of these proceedings. To date, over 47,000 claims have been filed in connection with the Ernst & Young Settlement.

SETTLEMENT FRAMEWORK IN ARTICLE 11.2 OF THE PLAN

57. Article 11.2 of the Plan provides the Ontario Plaintiffs with the ability to complete further settlements within the context of the CCAA proceedings, subject to further court approval.

58. Article 11.2 contains a framework by which an Eligible Third Party Defendant may become a named Third Party Defendant for the purpose of entering into a Named Third Party Defendant Settlement and Obtaining a Named Third Party Defendant Release.

59. The Horsley Settlement contemplates that the settlement will be effected through Article 11.2 of the Plan. The parties have obtained the necessary consents requires pursuant to Article 11.2(a) of the Plan to add Horsley as a Named Third Party Defendant. Attached and marked as **Exhibit "D"** is a letter dated January 21, 2013, from Jennifer Stam, counsel to the Monitor, to the service list advising that Horsley had become a Named Third Party Defendant.

60. In order for the Horsley Settlement to be a Named Third Party Defendant Settlement pursuant to the Plan, it must be acceptable to the Monitor and the Litigation Trustee. The Litigation Trustee is a party to the settlement. Attached and marked as **Exhibit "E"** is an email chain containing an email dated May 21, 2014 from Derrick Tay to Rob Staley advising that the Monitor consents to the Horsley Settlement being a Named Third Party Defendant Settlement.

61. In order to effect a Named Third Party Defendant Settlement through Article 11.2 of the Plan, the settlement must be approved by the court and the court must issue a Named Third Party Defendant Settlement Order. The proposed draft Settlement Order, appended as Schedule "C" to the Minutes of Settlement, is such an order.

OSC STATEMENT OF ALLEGATIONS AGAINST HORSLEY.

62. On May 22, 2012, the OSC issued a Statement of Allegations against Sino-Forest and certain of its senior executives, including Horsley (the "OSC Proceeding"). The Statement of Allegations clearly distinguishes the conduct of Horsley from the conduct of the rest of the respondent senior executives ("Overseas Management").

63. While the Statement of Allegations alleges fraud against Overseas Management, the allegations against Horsley are consistent with negligence only, and not fraud.

64. Attached and marked as **Exhibit "F"** are the OSC Statement of Allegations.

65. Pursuant to paragraph 29(c) of the Minutes of Settlement, the Horsley Settlement is conditional upon the OSC approving a settlement of the OSC Proceeding as against Horsley.

66. I am advised by Peter Wardle and believe that the proposed settlement of the OSC Proceeding against Horsley is conditional upon approval of the Horsley Settlement.

LITIGATION TRUST CLAIM AGAINST HORSLEY

67. In July 2013, the Litigation Trust issued a statement of claim against Horsley and other senior executives of Sino. As with the OSC Proceeding, the Litigation Trust claim clearly distinguishes the conduct of Horsley from the conduct of the other defendants.

68. In our view, the allegations against Horsley in the Litigation Trust are generally consistent with our understanding of his role with respect to Sino and our rationale in recommending the Horsley Settlement. The Litigation Trust claim against Horsley is attached and marked as **Exhibit "G"**.

Certain Securities Claimants' Interest in the Litigation Trust

69. Pursuant to Article 4.11 of the Plan, the Litigation Trust Interests (as defined in the Plan) in the Litigation Trust are allocated as follows:

(a) the Affected Creditors (as defined in the Plan) shall be collectively entitled to 75% of such Litigation Trust Interests; and

(b) the Noteholder Class Action Claimants (as defined in the Plan) shall be collectively entitled to 25% of such Litigation Trust Interests.

70. Accordingly, 25% of the $1.4 million being paid in settlement of the Litigation Trust claims will be to the benefit of certain Securities Claimants that acquired Sino notes, a factor which was considered by Class Counsel in settlement negotiations.

SETTLEMENT WITH HORSLEY

71. The negotiations leading to the Horsley Settlement were conducted on an adversarial, arm's-length basis.

72. Following the failed court-ordered mediation in September 2012, Class Counsel continued settlement discussions with counsel to Horsley. An agreement in principle was reached in January 2014; however, it soon became apparent that any resolution of the class action claims against Horsley would require a simultaneous resolution of the Litigation Trust claims against him. This was due to a number of practical considerations, including i) any settlement within the Plan's Article 11.2 framework required consent of the Litigation Trust; and ii) Horsley sought to resolve all outstanding litigation against him.

73. Class Counsel, Horsley's counsel (and insurers), and counsel to the Litigation Trust continued to negotiate a resolution of all claims over the next several months, finally entering into the Minutes of Settlement in late May 2014.

THE ONTARIO PLAINTIFFS SUPPORT THE SETTLEMENT

74. The Ontario Plaintiffs are:

(a) The trustees of the Labourers' Pension Fund of Central and Eastern Canada ("Labourers Fund"). The Labourers Fund is a multi-employer pension plan providing benefits for employees working in the construction industry. The trustees of the Labourers Fund manage more than $2.5 billion of assets. During the period from March 19, 2007 to June 2, 2011 the Labourers Fund purchased Sino common shares. Most of those shares were purchased in the secondary market over the TSX. The Labourers Fund also purchased Sino common shares pursuant to a prospectus that Sino issued. As at the day before the issuance of the Muddy Waters report, the Labourers Fund held a total of approximately 128,700 Sino shares. The Labourers Fund is a long-standing client of Koskie Minsky LLP;

(b) The trustees of the International Union of Operating Engineers ("OE Fund"). The OE Fund is a multi-employer pension plan providing pension benefits for operating engineers in Ontario. The trustees of the OE Fund manage approximately $1.5 billion of assets. During the period from March 19, 2007 to June 2, 2011, the OE Fund purchased Sino common shares over the TSX and held approximately 324,100 such shares at the day before the issuance of the Muddy Waters report. The OE Fund is a long-standing client of Koskie Minsky LLP;

(c) Sjunde AP-Fonden ("AP7"), the Swedish National Pension Fund. AP7 manages billions of dollars in assets. During the period from March 19, 2007 to June 2,

2011, AP7 purchased common shares over the TSX and held 139,398 shares as at the day before the issuance of the Muddy Waters report;

(d) David Grant is an individual resident in Calgary, Alberta. During the period from March 19, 2007 to June 2, 2011, he purchased 100 of the Sino 6.25% Guaranteed Senior Notes due 2017 pursuant to an offering memorandum. Mr. Grant continued to hold these notes as at the day before the issuance of the Muddy Waters report; and

(e) Robert Wong is an individual residing in Kincardine, Ontario. Mr. Wong purchased hundreds of thousands Sino shares from 2002 (when he first became a Sino shareholder) through June 2011. During the period from March 19, 2007 to June 2, 2011, he purchased Sino common shares in the secondary market over the TSX and 30,000 shares pursuant to a prospectus that Sino issued. Mr. Wong continued to hold 508,700 Sino common shares at the day before the issuance of the Muddy Waters report.

75. Collectively, the Ontario Plaintiffs owned in excess of 1.1 million common shares at the day before the issuance of the Muddy Waters report, and those shares had a market value immediately prior to the issuance of the Muddy Waters report of over $20 million.

76. I am advised by Jonathan Ptak of Koskie Minsky that the trustees of the Labourers Fund and the OE Fund support the Horsley Settlement and have instructed Class Counsel to seek approval of it. I am advised by Serge Kalloghlian of Siskinds LLP that Robert Wong, David Grant, and AP7 also support the settlement and have instructed Class Counsel to seek approval of it.

77. In addition, I am advised by Daniel Bach of Siskinds LLP that the proposed settlement with Horsley is supported by Davis. Davis was the second-largest shareholder of Sino, holding approximately 12.6% of Sino's outstanding common shares prior to the issuance of the Muddy Waters report.

78. Class Counsel has been retained by Davis. Mr. Bach advises me that, since the commencement of the class actions, he has had numerous and extensive discussions with responsible officials at Davis with respect to the progress generally of the class action and the CCAA Proceeding, including the terms and rationale for the Horsley Settlement.

FACTORS CONSIDERED IN ASSESSING THE FAIRNESS AND REASONABLENESS OF THE SETTLEMENT

Experience of Class Counsel

79. Siskinds LLP and Koskie Minsky LLP both have extensive experience litigating and resolving complex class action litigation similar to this case. In addition, Kessler Topaz Meltzer and Check LLP, counsel to AP7, are one of the leading U.S. class action firms with particular expertise in securities class actions.

80. Siskinds acted for the plaintiffs in the first action certified as a class proceeding under the *CPA, Bendall v McGhan Medical Corp (1993), 14 OR (3d) 734 (Gen Div).* Since that time, Siskinds has been lead or co-lead counsel to the plaintiffs in well over 100 class proceedings and has successfully resolved over 60 such proceedings, in areas such as securities, competition (price-fixing), product liability (particularly with respect to pharmaceuticals and medical products), the environment and consumer claims.

81. To the date of this affidavit, Siskinds has had approximately 20 securities class actions and 2 derivative proceeding settlements approved by courts, including most recently the

SunOpta, CV Technologies, Bear Lake Gold, PetroKazakhstan, Gildan Activewear, Canadian Superior Energy, Redline Communications, Gammon Gold, and *Arctic Glacier* securities class action settlements.

82. Koskie Minsky has prosecuted class actions at all levels of court in Ontario as well as before the Supreme Court of Canada, and has been responsible for shaping class actions law through leading cases including *Cloud v The Attorney General of Canada, Pearson v Inco Ltd, Caputo v Imperial Tobacco,* and *Markson v MBNA Canada Bank*. Koskie Minsky has prosecuted actions for securities fraud, pension fund and investment claims, intellectual property violations, environmental damage and residential school abuse, among others.

83. Koskie Minsky has acted for shareholders in securities class actions, including *Lawrence v Atlas Cold Storage Holdings Inc, Toevs v Yorkton, Frohlinger v Nortel Networks Corp*, *Millwright Regional Council of Ontario Pension Trust Fund (Trustees of) v. Celestica Inc, Bayens v. Kinross Gold Corporation,* and *Coffin v Atlantic Power Corporation*.

84. Paliare Roland has appeared as counsel in many CCAA restructuring proceedings, and has acted for a variety of stakeholders in those proceedings, including stakeholders acting in representative capacities. Past engagements include, among others, advising and appearing on behalf of a number of institutional and other investors including various dissident noteholders in connection with the restructuring of Canada's non-bank asset backed commercial paper market, advising and appearing on behalf of the Superintendent of Financial Services in his capacity as administrator of Ontario's Pension Benefits Guarantee Fund in connection with the restructuring of Nortel Networks Corporation and its global subsidiaries, advising and appearing on behalf of the United Steelworkers in connection with the Stelco restructuring, as well as in connection with the restructuring of a variety of other steel mills, pulp mills, and manufacturing facilities

across Ontario, and advising and appearing on behalf of the Air Line Pilots Association in connection with the restructuring of Air Canada. Paliare Roland also appeared as counsel to the committee of non-unionized Quebec employees in the restructuring of Fraser Papers, and, most recently, as counsel to a committee of former employees in the Cinram restructuring.

85. As a result of Class Counsel's involvement in other cases, we have gained considerable experience in the settlement mechanics and imperatives, damages methodologies, and risks associated with this type of litigation.

86. Class Counsel recommend the approval of the Horsley Settlement. In our view, its terms, including the consideration available to Securities Claimants, are fair and reasonable in the circumstances. The Horsley Settlement will deliver an immediate benefit to Securities Claimants on claims that faced risks.

87. I explain below our rationale for recommending to the Ontario Plaintiffs, and to this Court, the compromise of the claims advanced against Horsley in this action.

Information Supporting Settlement

88. In assessing our clients' position and the proposed settlement, we had access to and considered the following sources of information:

(a) all of Sino's public disclosure documents and other publicly available information with respect to Sino;

(b) the available trading data for Sino's securities;

(c) non-public documents uploaded by Sino into the data-room established in the CCAA Proceedings for purposes of the global mediation, which included the

documents listed at Schedule “A” to the July 30, 2012 Order of Justice Morawetz, which is marked and attached hereto as **Exhibit “H”**;

(d) Horsley’s responsive insurance policies;

(e) a statutory declaration from Horsley confirming the net worth of Horsley and his spouse;

(f) Sino’s Management Information Circulars, which contain information regarding the amount of compensation received by Horsley from Sino;

(g) the input and opinions of our accounting experts, insolvency law experts, and insurance coverage experts;

(h) the input and opinion of Frank C. Torchio, the President of Forensic Economics, Inc., who has consulted or given independent damage opinions in securities fraud lawsuits for over 20 years.

(i) the Statement of Allegations issued against Sino, Horsley and others by the OSC, dated May 22, 2012;

(j) the mediation briefs provided by the parties, including Horsley, at the global mediation in September, 2012;

(k) input from experienced U.S. securities counsel, Kessler Topaz Meltzer & Check, LLP, and discussions with US Plaintiffs’ Counsel; and

(l) the Litigation Trust claim against Horsley and others.

89. In our view, Class Counsel had more than adequate information available from which to make an appropriate recommendation concerning the resolution of the claims as against Horsley.

90. It has always been Class Counsel’s view that the claims against Horsley had merit. However, a number of factors in this case presented a significant risk to the ultimate success and recovery from Horsley. These risks weighed in favour of settlement with Horsley. It is Class

Counsel's view that the Horsley Settlement is fair and reasonable and in the best interests of Securities Claimants. Class Counsel's assessment of the Horsley Settlement and our recommendation of it rest primarily on the following factors, in addition to the general risks of proceeding with complex litigation.

Actual Damages Far Exceed Recoverable Damages

91. The Ontario Action asserts the following claims against Horsley:

(a) statutory liability in respect of primary market share purchaser claims pursuant to s. 130 of the *OSA*;

(b) statutory liability in respect of secondary market share purchaser and note purchaser claims pursuant to Part XXIII.1 of the *OSA*;

(c) oppression pursuant to s. 241 of the *Canada Business Corporations Act,* R.S.C., 1985, c. C-44; and

(d) common law and equitable claims for negligent misrepresentation, negligence *simpliciter*, conspiracy, and unjust enrichment.

92. These claims, if entirely successful, could result in an award for significant damages against all defendants. I have reviewed various expert reports by Mr. Torchio regarding damages in this action. Mr. Torchio is the president of Forensic Economics, Inc., and has consulted or given independent opinions on damages in securities fraud lawsuits for over 20 years. In this course of this litigation, Mr. Torchio provided his opinion that total estimated damages to Securities Claimants run into the billions of dollars.

93. We were guided by the advice of Mr. Torchio, but were also cognizant that it is common for defendants to produce opinions that make different assumptions and put forth lower damages figures. Indeed, in the course of settlement discussions in this case, certain defendants insisted that far more conservative damages figures would be appropriate.

94. It is also important to recognize that Mr. Torchio opines on total estimated damages. His opinions are based in large part on trading models and various assumptions, the results of which could vary from the actual trading patterns of Securities Claimants.

95. Further, the damages alleged are for all losses suffered, including those attributable to Sino, the other individual defendants, and third party defendants.

96. Moreover, the actual damages to be paid may only be for claims filed. For a variety of reasons, less than 100% of class members generally file claims. Although claims rates vary from case to case, it is never the case in a matter of this nature that all class members file claims. Therefore, actual payable damages could be some portion of Mr. Torchio's figures if the matter proceeded to trial and the defendants succeeded in establishing that damages should be based only on claims filed.

97. Finally, and most significantly, irrespective of the scale of actual damages, the legal and practical impediments to recovery – namely the statutory liability limit under Part XXIII.1, Horsley's capacity to pay, and the quickly dwindling Directors and Officers insurance policies – weigh strongly in our recommendation of the Horsley Settlement. In essence, while damages alleged are in the billions of dollars, recovery from Horsley may be less than the settlement amount if the plaintiffs were successful at trial.

Statutory claims on behalf of primary market share and note purchasers

98. The Ontario Action advances claims against Horsley under s 130 of the *OSA*. According to Mr. Torchio, the damages for these claims are limited in the aggregate to approximately $78.5 million. For the reasons stated above, actual damages may be lower.

99. It is very likely that if Horsley was found liable, responsibility would also be borne by Sino, the other officers and directors, BDO Limited, and, notably, the Underwriters. Based on our review of the information available to us, including the allegations against Horsley in the OSC Proceeding and Litigation Trust claim, it is Class Counsel's view that the settlement amount reflects Horsley's several liability under the s 130 claims.

100. It should be noted that the Ontario Action advances claims pursuant to s 130.1 of the *OSA* against Sino for misrepresentations in the offering memoranda issued during the class period. However, s. 130.1 does not provide for a statutory right of action relating to the offering memoranda is respect of any other defendant, including Horsley, a fact that Class Counsel have taken into account in recommending the Horsley Settlement.

Part XXIII.1 Liability Limits

101. The Ontario Action asserts statutory secondary market misrepresentation claims against Horsley pursuant to Part XXIII.1 of the *OSA*. Part XXIII.1 imposes limits on the amount recoverable from certain defendants. In the case of an officer or director of a responsible issuer, such as Horsley, the limit is the greater of $25,000 and 50% of the individual's compensation from the responsible issuer (i.e. Sino) and its affiliates for the 12 month-period immediately preceding the day on which the misrepresentation was made.

102. According to our estimates based on publicly available information, Horsley received approximately $10.3 million in aggregate compensation from Sino in the years 2006 to 2010 (information not available for 2011), and approximately $1.1 million in 2006. The liability limit provisions under Part XXIII.1 have not yet been interpreted by any court, and depending on the interpretation that is ultimately adopted, based on our estimates, it is possible that Horsley's

liability limit could range as low as approximately $600,000 - $700,000 for the secondary market claims.

103. The only exception to this recovery under Part XXIII.1 would be for the plaintiffs to prove that Horsley made the alleged misrepresentations knowingly. This could be a difficult standard to meet, one which Horsley denies and which Horsley will assert requires proof of fraud. Class Counsel has found no evidence of conduct that would support a finding of fraud by Horsley.

104. Class Counsel's view that establishing knowledge will be challenging is bolstered by the OSC Statement of Allegations, which makes allegations consistent with negligence and no allegations amounting to knowledge, intentional misrepresentations, or fraud.

Oppression, Unjust Enrichment, and Common Law Claims

105. The Ontario Action also asserts claims against Horsley in oppression, unjust enrichment, negligence, and negligent misrepresentation. Each of these claims presents their own procedural and substantive challenges, including the potential for significant individual issues following the common issues trial.

Horsley's Insurance and Capacity to Pay

106. Class Counsel has been provided with Sino's Directors & Officers insurance policies that are responsive to the claims against Horsley. The insurance policies provided coverage of $60 million in aggregate, and are responsive to the claims against Sino and all other individual defendants named in the class actions, as well as certain respondents in the OSC Proceedings. Accordingly, the insurance proceeds available to the plaintiffs as a potential source of recovery are quickly dwindling due to the many sets of defence lawyers being paid out of the policies,

including Bennett Jones LLP; Miller Thomson LLP; Osler, Hoskin & Harcourt LLP; Davis LLP; McMillan LLP; and Wardle Daley Bernstein Bieber LLP (Horsley's counsel).

107. Class Counsel has been monitoring the depletion of the funds available under Sino's Directors & Officers insurance policies. We are advised by Robert Staley, counsel to Sino, and believe the following amounts of insurance were available under the policies on the following dates:

(a) August 23, 2012 – approximately $52 million;

(b) March 4, 2013 – approximately $47.5 million;

(c) September 4, 2013 – approximately $45 million;

(d) February 13, 2014 – approximately $42 million.

108. Attached and marked as **Exhibit "I"** is a letter dated July 3, 2014 from Mary Margaret Fox, counsel to Chubb and ACE. Among other things, the letter indicates that as of July 3, 2014, $7,002,379.82 remains payable under the Chubb policy. Accordingly, I believe that, as of the date of this affidavit, there is approximately $37 million of aggregate insurance funds remaining under Sino's Directors & Officers insurance policies. The letter also addresses the rationale for paragraphs 18-30 of the Settlement Order.

109. One of our goals in entering the Horsley Settlement was to preserve to the greatest extent possible the amount of insurance proceeds available as potential recovery to Securities Claimants. Accordingly, the Horsley Settlement prohibits Horsley from claiming any legal fees or disbursements from the insurance policies after the Effective Date, save and except for any criminal charges that may be laid against him.

110. In the absence of a settlement, Horsley's counsel would be involved in continued cross examinations in the Ontario Action, the certification and leave motions in the Ontario Action, (scheduled for January 2015), and a lengthy trial in the OSC Proceedings (presently scheduled to begin September 2014). It is estimated that Horsley's legal costs to defend the OSC Proceedings and the Class Actions would exceed $2 million which would otherwise draw on Sino's Directors & Officers liability insurance.

111. The Horsley Settlement will therefore likely preserve millions of dollars of insurance proceeds that would otherwise not be available for recovery from Sino and the remaining individual defendants.

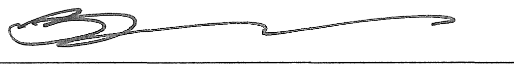
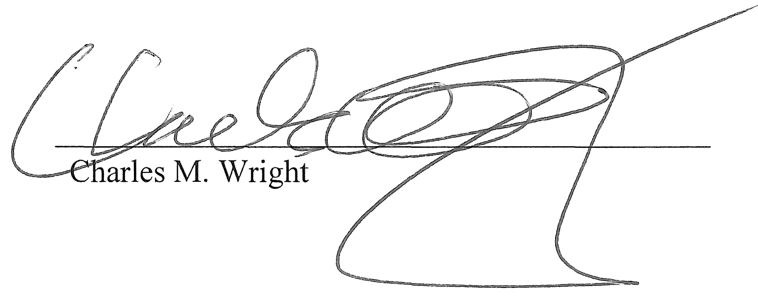
112. Moreover, in the absence of a settlement with the OSC (which is conditional upon approval of the Horsley Settlement), Horsley may have been subject to a fine. We have been provided with a statutory declaration from Horsley concerning the combined net worth of him and his spouse, and it is our view that a significant fine imposed on Horsley in the OSC Proceeding could impinge on his ability to make any personal contribution to a settlement.

Settlement with Litigation Trust

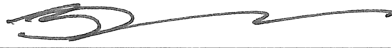
113. As indicated, Noteholder Class Action Claimants are entitled to 25% of the $1.4 million being paid in Horsley's settlement of the Litigation Trust claim against him. Of this amount, Horsley is making a personal contribution of $600,000. Having reviewed the statutory declaration concerning the combined net worth of Horsley and his spouse, it is Class Counsel's view that a payment of $600,000 by Horsley is a significant contribution relative to the net assets that the plaintiffs could reasonably expect to collect on, particularly if a trial had occurred in the OSC Proceeding and a significant fine had been levied against him.

CONCLUSION

114. In light of all the above considerations, it is Class Counsel's opinion that the Horsley Settlement is fair and reasonable to Securities Claimants. Class Counsel recommend that the Court approve the settlement.

SWORN before me at the City of ~~Toronto,~~ London in the Province of Ontario, this 4th day of July, 2014.	)))	
	)))))))	
A Commissioner, etc. LSUC # 59642T	))	Charles M. Wright

This is Exhibit "A" mentioned and referred to in the Affidavit of Charles M. Wright, sworn before me at the City of London, in the County of Middlesex, this 4th day of July, 2014.



A Commissioner, etc.

IN THE MATTER OF
SINO-FOREST CORPORATION

B E T W E E N:

The Trustees of the Labourers' Pension Fund of Central and Eastern Canada, The Trustees of the International Union of Operating Engineers Local 793 Pension Plan for Operating Engineers in Ontario, Sjunde AP-Fonden, David Grant, Robert Wong, Guining Liu, David Leapard, IMF Finance SA, and any other proposed representative plaintiffs in Ontario Superior Court Action No. CV-11-431153-00CP ("Ontario Action"), Quebec Superior Court No. 200-06-000132-111, ("Quebec Action") and District Court of the Southern District of New York No: 1:12-cv-01726 (AT) ("US Action") (collectively, the "Class Actions")

In their personal and representative capacities (the "Class Action Plaintiffs")

-and-

COSIMO BORRELLI, in his capacity as the trustee for the SFC LITIGATION TRUST, and the SFC LITIGATION TRUST (collectively, the "Litigation Trust")

and

David J. Horsley
("Horsley", and together with the Litigation Trust and the Class Action Plaintiffs, the "Parties")

MINUTES OF SETTLEMENT

Part I – Settlement of Claims Against Horsley

1. These Minutes of Settlement represent the agreement amongst the Parties reached on March 10, 2014 (the "Settlement"), to resolve in accordance with the terms more particularly set out herein any actions, causes of action, claims and/or demands, howsoever arising and in all jurisdictions, made against Horsley or which could have been made against Horsley based upon, arising out of, in relation to, in connection with or in any way related to Sino-Forest Corporation and its affiliates and subsidiaries (collectively "Sino-Forest"), whether or not captured by the "Class" or the "Class Period", as variously defined, including the actions (the "Actions") listed on Schedule "A" hereto (all, collectively, the "Claims").

2. Subject to the conditions herein, the terms of the Settlement are binding on the Parties.

3. These Minutes of Settlement are and shall remain confidential, and none of the Parties shall publicly disclose or include in any court filing, in any jurisdiction, the terms hereof without the prior written consent of the other Parties, except for the purpose of having the Settlement approved and/or to enforce the terms of these Minutes of Settlement if required. Following the filing of these Minutes of Settlement with the Court, these Minutes of Settlement shall cease to be confidential.

4. Horsley makes no admissions of liability and waives no defences available to him with respect to the Claims or otherwise.

Part II - Approval of the Settlement and Notice Program

5. It is the intention of the Parties that this Settlement shall be approved by Order issued in the Ontario Superior Court of Justice (Toronto), Court File No. CV-12-9667-00CL (the "Court" and the "Sino-Forest CCAA Proceeding", respectively) and implemented through the Plan of Compromise and Reorganization of Sino-Forest dated December 3, 2012 under the *Companies' Creditors Arrangement Act* ("CCAA") (the "Plan").

6. The Class Action Plaintiffs and the Litigation Trust hereby consent to this Settlement being a Named Third Party Defendant Settlement under the Plan.

7. The Class Action Plaintiffs will bring a motion to the Court, supported by Horsley, for an order approving a notice program regarding the hearing to approve the Settlement (the "Notice Program") as follows:

   (a) Notice to the Service List in the Sino-Forest CCAA Proceeding, in the manner agreed upon to constitute notice for purposes of the Sino-Forest CCAA Proceeding, including notice to each of the Insurers defined in Schedule "B" herein (or to their counsel);

   (b) Direct mailing of a notice to all individuals and entities (i) that have provided their contact information to counsel to the Class Action Plaintiffs and (ii) that have submitted claim forms in connection with the Actions; and

   (c) Notice to all persons and entities potentially afforded coverage by or under the Policies (as defined in Schedule "B" to these Minutes of Settlement) in

accordance with a process agreed upon in writing by the Parties and the Insurers but subject (in the event of disagreement) to the Court's determination as to the scope of notice required to be provided.

8. Regardless of their obligations under paragraph 7 above, the Parties shall abide by the Notice Program ordered by the Court and the failure to obtain an Order on the terms set out in paragraph 7 herein shall not be a basis to terminate the Settlement.

9. The costs of the Notice Program will be paid by the Chubb Insurance Company of Canada ("Chubb") within fifteen (15) days of the costs being incurred irrespective of whether this Settlement is approved by the Court. If the Settlement is approved as described herein, the amounts paid by Chubb in relation to the Notice Program will be a credit to the contribution Chubb is required to make to the Class Settlement Fund (as set out in paragraph 15 herein) and Chubb's obligation to make the payments described in paragraph 15 will be reduced accordingly. If the settlement is not approved, these costs will be non-refundable to Chubb but nevertheless will constitute covered Loss as defined under the Chubb Policy (as defined in Schedule "B" herein) for all purposes.

10. Following the approval of the Notice Program, the Class Action Plaintiffs shall bring a motion to the Court seeking an order in the form attached hereto as Schedule "C" (the "Settlement Order"), which reflects the terms and agreement set out in these Minutes of Settlement. The Class Action Plaintiffs shall be free to file these Minutes of Settlement with the Court in support of such motion and any related motion for approval of the Minutes of Settlement before the United States Bankruptcy Court.

11. The Litigation Trust shall support the Class Action Plaintiffs' motion for approval of the Settlement and agrees to take whatever reasonable steps are necessary so that paragraph 5 herein is given effect.

12. The Parties shall use all reasonable efforts to obtain and/or satisfy any court approval, order, waiver, certificate, document or agreement, to provide necessary notice to affected individuals, and to fulfill any other condition reasonably necessary for the implementation of a full and final release under the Plan, including but not limited to:

(a) Obtaining any requirements necessary to constitute this Settlement as a Named Third Party Defendant Settlement and to obtain a Named Third Party Defendant Release in favour of Horsley under the Plan;

(b) Obtaining the consent of FTI Consulting Canada Inc., in its capacity as Court-appointed Monitor of Sino-Forest, to have this Settlement approved by the Court as a Named Third Party Defendant Settlement with a Named Third Party Defendant Release and a Named Third Party Defendant Settlement Order under the Plan; and

(c) Obtaining all court approvals and/or orders necessary for the implementation of this Settlement in the Settlement Order, including notification as required by the Rules of Civil Procedure and/or by the Notice Program.

13. Forthwith following the date of the Settlement Order, Horsley will obtain a recognition order from the United States Bankruptcy Court granting recognition and enforcement of the Settlement Order in the United States (the "U.S. Recognition Order").

Part III- Implementation of the Settlement

14. The Settlement will become effective (the "Effective Date") when:

(a) The Settlement Order has been obtained and either (i) all appeal rights have expired or (ii) the applicable final appellate court has upheld the Settlement Order; and

(b) The U.S. Recognition Order has been obtained and either (i) all appeal rights have expired or (ii) the applicable final appellate court has upheld the U.S. Recognition Order.

15. A settlement amount of CDN $4,200,000 (the "Class Settlement Fund") shall be paid to the Class Action Plaintiffs by Chubb into an interest bearing trust account with a Canadian Schedule 1 bank in Ontario (the "Settlement Trust") within fifteen (15) days following the Effective Date.

16. A settlement amount of CDN $1,400,000 (the "Litigation Trust Settlement Fund") shall be paid to the Litigation Trust by Chubb and Horsley within fifteen (15) days following the Effective Date. Chubb's contribution to the Litigation Trust Settlement Fund shall be $800,000 and Horsley's contribution shall be $600,000.

17. Upon payment of the Litigation Trust Settlement Fund, the Litigation Trust (i) shall dismiss as against Horsley on consent and without costs the action commenced against Horsley by the Litigation Trust in the Ontario Superior Court of Justice, Court File No. CV-13-481761, and (ii) shall execute a covenant not to sue Horsley (in a form satisfactory to Horsley's counsel, acting reasonably) in connection with any Causes of Action (as defined by the Plan) that the Litigation Trust may have against Horsley.

18. Upon payment of the Class Settlement Fund:

    (a) the Ontario Action and the Quebec Action shall be dismissed as against Horsley but without prejudice to the Class Action Plaintiffs' right to proceed with the Ontario Action and the Quebec Action against the other named Defendants in accordance with paragraph 20(b), below; and

    (b) David Leapard, Myong Hyon Yoo, and IMF Finance SA shall cause the US Action to be dismissed as against Horsley.

19. The Class Settlement Fund and the Litigation Trust Settlement Fund (collectively, the "Settlement Funds") represent the full monetary contribution or payment of any kind to be made by Horsley (and by Chubb in respect of the Claims against Horsley) in settlement of the Claims and all Causes of Action (as defined in the Plan) against Horsley, inclusive of damages, costs, interest, legal fees, taxes (inclusive of any GST, HST, or any other taxes which may be payable in respect of the Settlement), any payments to Claims Funding International, all costs associated with the distribution of the Class Settlement Fund, all costs of the Notice Program, all costs associated with the administration of the Settlement and any other monetary costs or amounts associated with the Settlement or otherwise.

20. Following the Effective Date:

(a) no further proceedings shall be commenced or continued by the Class Action Plaintiffs, the Litigation Trust or by anyone else (or their respective counsel) against Horsley in respect of any Causes of Action (as defined in the Plan), other than as necessary to complete the Settlement;

(b) the Class Action Plaintiffs and the Litigation Trust agree not to claim from the non-settling defendants in the Actions that portion of any damages that corresponds to the proportionate share of liability of Horsley, proven at trial or otherwise, such that Horsley is not further exposed to the Claims, by any person or entity; and

(c) the Class Action Plaintiffs and the Litigation Trust and each of their respective counsel agree not to cooperate with any other party in the Actions or any other proceeding in advancing claims against Horsley. However, irrespective of this provision, (i) Class Action Plaintiffs reserve all rights with respect to the prosecution of the claims remaining against the non-settling defendants, and (ii) the Litigation Trust reserves all rights with respect to the prosecution of its claims against any other person or entity.

21. Save and except for legal fees and disbursements which may be incurred by Horsley or on his behalf in the future in relation to any criminal charges which may be laid against him by the Royal Canadian Mounted Police in relation to Sino-Forest, Horsley will not seek reimbursement from any of the Insurers under any of the Policies (as defined in Schedule "B" to these Minutes of Settlement) for any legal fees and disbursements incurred by him, or on his behalf, after the Effective Date.

22. Within thirty (30) days of the Effective Date, or at a time mutually agreed upon by Horsley and the Class Action Plaintiffs, Horsley shall attend for an interview by counsel to the Class Action Plaintiffs for a maximum of three (3) days each consisting of eight (8) hours of interview time (the "Interview"). The Interview will be conducted under oath and will be video-recorded and transcribed by a court reporter. Subject to paragraphs 25 and 26 below, Horsley shall answer any proper and relevant question put to him (to the best of his knowledge, information or belief) relating to the allegations in the Actions including, without limitation, Horsley's knowledge of: any audits of Sino-Forest's

financial statements conducted by BDO Limited or Ernst & Young LLP, the underwriting of any Sino-Forest securities by Credit Suisse Securities (Canada), Inc., TD Securities Inc., Dundee Securities Corporation, RBC Dominion Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., Canaccord Financial Ltd., Maison Placements Canada Inc., Credit Suisse Securities (USA) LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated (Successor by merger to Bank of America Securities LLC) (collectively, the "Underwriters"), Sino-Forest's business model, actual or purported timber holdings, actual or purported assets, actual or purported revenues, taxes, anything related in any way to any matter discussed in any report of the Independent Committee of Sino-Forest, anything related in any way to any allegation made by the Ontario Securities Commission (the "OSC") relating to Sino-Forest, BDO Limited, the Underwriters, and other Defendants to the Actions.

23. At least fourteen (14) days prior to the Interview, Horsley shall use his best efforts to collect all non-privileged documents in his possession or control (the "Documents") that are relevant to any matter in issue in the Class Actions and to provide copies of all such Documents to the Class Action Plaintiffs.

24. Within ninety (90) days of the Effective Date, or at a time mutually agreed upon by Horsley and the Litigation Trust, Horsley shall attend for an interview by counsel to the Litigation Trust for a maximum of three (3) days each consisting of eight (8) hours of interview time (the "Litigation Trust Interview"). At the discretion of the Litigation Trust, the Litigation Trust Interview may be conducted under oath and may be video-recorded and transcribed by a court reporter. Subject to paragraphs 25 and 26 below, Horsley shall answer any proper and relevant question put to him (to the best of his knowledge, information or belief) relating to the causes of action that have been transferred to the Litigation Trust pursuant to the Plan.

25. The Class Action Plaintiffs and the Litigation Trust acknowledge that Horsley has acquired certain information and documents relating to Sino-Forest and the other Defendants in the Actions solely as a result of the disclosure provided by the OSC (the "Restricted Information") in the regulatory proceeding that the OSC has commenced in relation to Sino-Forest and to which Horsley is a respondent (the "OSC Proceeding").

The Class Action Plaintiffs and the Litigation Trust acknowledge that Horsley cannot share or divulge this Restricted Information as a result of confidentiality provisions and restrictions in the *Securities Act*, unless and until the Restricted Information is publicly produced in the OSC Proceeding or such restrictions are waived by the OSC as described below. Accordingly, the Class Action Plaintiffs and the Litigation Trust acknowledge and agree that, unless and until the Restricted Information has been made public by OSC Staff in the OSC Proceeding or otherwise, or such restrictions have otherwise been waived as described below, Horsley shall not be required to answer questions seeking the Restricted Information at his Interview and/or his Litigation Trust Interview and he shall not be required to produce any Document that he received as part of the OSC's disclosure in the OSC Proceeding. Furthermore, the Class Action Plaintiffs and the Litigation Trust acknowledge and agree that (i) in participating in the Interview and/or the Litigation Trust Interview Horsley is not required to divulge any Restricted Information and (ii) his failure/refusal to produce, share or divulge Restricted Information shall not constitute a breach of these Minutes of Settlement. However, if at any time, whether before or after the Interview and/or the Litigation Trust Interview, the OSC confirms to Horsley in writing that he is free to disclose Restricted Information to the Class Action Plaintiffs and/or the Litigation Trust, then Horsley shall be required to provide to the Class Action Plaintiffs and/or the Litigation Trust, promptly after receiving such confirmation, answers to any questions that Horsley refused to answer on the basis that answering such questions would require Horsley to disclose Restricted Information. Furthermore, in the event that Horsley refuses to answer any questions on the basis that doing so would require him to disclose Restricted Information, the Class Action Plaintiffs and/or the Litigation Trust shall be free to request from the OSC its position as to whether the refused questions in fact call for the disclosure of Restricted Information, and if the OSC confirms in writing to Horsley that the refused questions do not in fact call for the disclosure of Restricted Information, then Horsley shall be obliged to answer such questions, promptly after the OSC gives to him such confirmation in writing. Any additional answers provided by Horsley pursuant to this paragraph shall be provided in writing. Horsley shall, upon request of the Class Action Plaintiffs or the Litigaiton Trust, swear to the truth of the answers provided.

26. Notwithstanding paragraphs 22, 24 and 25 above, Horsley does not and shall not be required to waive any applicable privileges including, without limitation, litigation privilege, common interest privilege and/or solicitor client privilege, including privileges that may belong to Sino-Forest.

27. Horsley shall appear as a witness at the trial(s) of the Ontario Class Action, if requested to do so by the Class Action Plaintiffs, and give complete and truthful answers to proper questions concerning any relevant matter, subject to the terms of paragraph 25 and 26 herein and any privileges that may apply.

28. Horsley shall appear as a witness at the trial(s) of any actions commenced by the Litigation Trust, if requested to do so by the Litigation Trust, and give complete and truthful answers to proper questions concerning any relevant matter, subject to the terms of paragraph 25 and 26 herein and any privileges that may apply. If any such trial occurs outside of Ontario, the Litigation Trust shall be responsible for Horsley's reasonable travel expenses.

Part IV – Conditions to Implementation of the Terms of Settlement

29. The implementation of this Settlement is conditional upon:

    (a) Court approval of the Settlement with no right to opt-out as a "Named Third Party Defendant Settlement" under the Plan in the form set out in Schedule "C" herein;

    (b) Court approval of a release, in a form reasonably satisfactory to counsel for Horsley and to the Insurers under the Policies, which bars and releases Horsley from all liability from any and all Causes of Action (as defined in the Plan), and which constitutes a "Named Third Party Defendant Release" under the Plan; and

    (c) the OSC approving a settlement of the OSC Proceeding as against Horsley.

30. These Minutes of Settlement may be executed by the Parties or their counsel in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Signatures by facsimile or email shall be effective as original signatures.

Date: May 15, 2014

Siskinds LLP
Lawyers for the Plaintiffs

Date: May 15, 2014

Koskie Minsky LLP
Lawyers for the Plaintiffs

Date: May 15, 2014

Paliare Roland Rosenberg Rothstein LLP
Lawyers for the Plaintiffs

Date: May 15, 2014

Siskinds Desmeules sencrl
Lawyers for the Plaintiffs

Date: May 15, 2014

Cohen Milstein Sellers & Toll LLP
Lawyers for the Plaintiffs

Date: May 13, 2013

Wardle Daley Berstein Bieber LLP
Lawyers for David Horsley

Date:

Bennett Jones LLP
Lawyers for the Litigation Trust

Date:

____
Siskinds LLP
Lawyers for the Plaintiffs

Date:

____
Koskie Minsky LLP
Lawyers for the Plaintiffs

Date:

____
Paliare Roland Rosenberg Rothstein LLP
Lawyers for the Plaintiffs

Date:

____
Siskinds Desmeules sencrl
Lawyers for the Plaintiffs

Date:

____
Cohen Milstein Sellers & Toll LLP
Lawyers for the Plaintiffs

Date:

____
Wardle Daley Berstein Bieber LLP
Lawyers for David Horsley

Date: May 23, 2014

Bennett Jones LLP per [signature]
____
Bennett Jones LLP
Lawyers for the Litigation Trust

Schedule "A"

1. The Trustees of the Labourers' Pension Fund of Central and Eastern Canada, et al. v. Sino-Forest Corporation, et al, Ontario Superior Court of Justice, Court File No. CV-11-431153-00CP
2. Guining Liu v Sino-Forest Corporation, et al, Province of Quebec Superior Court, File No. 200-06-000132-11
3. David Leapard, et al v. Allen TY Chan, et al., United States New York Southern District Court, Case Number 1:12-cv-01726 (AT)
4. Haigh v. Sino-Forest Corporation et al, the Court of Queen's Bench in Regina, Saskatchewan, Q.B. No. 2288 of 2011
5. Cosimo Borrelli, in his capacity as the trustee for the SFC Litigation Trust v. George Ho et al, Ontario Superior Court of Justice, Court File CV-13-481761

Schedule "B"

Insurers

ACE-INA Insurance Company ("ACE")

Chubb Insurance Company of Canada ("Chubb")

Lloyd's of London ("Lloyd's Underwriters")

Travelers Guarantee Company of Canada ("Travelers")

Policies

ACE Policy No. DO024464 (the "ACE Policy")

Chubb Policy No. 8209-449 (the "Chubb Policy")

Lloyd's Underwriters Policy No. XTFF0373 (the "Lloyd's Underwriters Policy")

Travelers Policy No. 101811008 (the "Travelers Policy")

Schedule "C"

Draft Settlement Order

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.	)	●, THE ● DAY
	)	
JUSTICE ●	)	OF ●, 201●

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 COMPRISE OR ARRANGEMENT OF SINO-FOREST CORPORATION

Court File No.: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

BETWEEN:

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN, KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND, JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY J. WEST, PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT SUISSE SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC WORLD MARKETS INC., MERRILL LYNCH CANADA INC., CANACCORD FINANCIAL LTD., MAISON PLACEMENTS CANADA INC., CREDIT SUISSE SECURITIES (USA) LLC and MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED (successor by merger to Banc of America Securities LLC)

Defendants

Proceeding under the *Class Proceedings Act, 1992*

ORDER

THIS MOTION, made by the Ad Hoc Committee of Purchasers of the Applicant's Securities, including the plaintiffs in the action commenced against Sino-Forest Corporation ("Sino-Forest" or the "Applicant") in the Ontario Superior Court of Justice, bearing (Toronto) Court File No. CV-11-431153-00CP (the "Ontario Plaintiffs" and the "Ontario Class Action", respectively) in their own and proposed representative capacities, for an order giving effect to the Horsley Release and the Horsley Settlement, and as provided for in section 11.2 of the Plan of Compromise and Reorganization of the Applicant under the *Companies' Creditors Arrangement Act* ("CCAA") dated December 3, 2012 (the "Plan"), such Plan having been approved by this Honourable Court by Order dated December 10, 2012 (the "Sanction Order"), was heard on ●, 2014 at the Court House, ●, Toronto

WHEREAS the Ontario Plaintiffs, David J. Horsley ("Horsley") and the Litigation Trust entered into Minutes of Settlement dated ●,

AND WHEREAS this Honourable Court issued the Sanction Order approving the Plan containing the framework and providing for the implementation of a Named Third Party Defendant Settlement and a Named Third Party Defendant Release pursuant to Section 11.2 of the Plan;

AND WHEREAS the Ontario Plaintiffs and Horsley wish to effect a settlement pursuant to section 11.2 of the Plan;

AND WHEREAS Enforcement Staff of the Ontario Securities Commission ("OSC") has commenced proceedings against Horsley regarding his conduct and involvement with Sino-

Forest Corporation, including allegations made against Horsley in its Notice of Hearing and Statement of Allegations (the "OSC Proceedings");

AND WHEREAS any settlement agreement between the Ontario Plaintiffs and Horsley is conditional upon approval by the OSC of a settlement of the OSC Proceedings between Horsley and OSC Enforcement Staff, including, among other things, a permanent ban on Horsley from acting as a director or officer of a public issuer of securities;

AND WHEREAS this Honourable Court approved the form of notice to Securities Claimants and others of this Motion, and the plan for distribution of such notice to Securities Claimants and others potentially affected by the relief sought therein (the "Notice Program") by Order dated ● (the "Notice Order");

AND ON READING the materials filed and on hearing the submissions of counsel,

Notice and Definitions

1. **THIS COURT ORDERS** that capitalized terms not otherwise defined in this order shall have the meanings attributed to those terms in **Appendix "A".**

2. **THIS COURT FINDS** that all applicable parties have adhered to and acted in accordance with the Notice Order and that the procedures provided in the Notice Order have provided good and sufficient notice of the hearing of this Motion, and that all Persons shall be and are hereby forever barred from objecting to the Horsley Settlement and the Horsley Release.

Representation

3. **THIS COURT ORDERS** that the Ontario Plaintiffs are hereby recognized and appointed as representatives on behalf of the Securities Claimants in these insolvency proceedings in respect of the Applicant (the "CCAA Proceedings") and in the Ontario Class Action, for the

purposes of and as contemplated by section 11.2 of the Plan, and more particularly the Horsley Settlement and Horsley Release.

4. **THIS COURT ORDERS** that Koskie Minsky LLP, Siskinds LLP and Paliare Roland Rosenberg Rothstein LLP are hereby recognized and appointed as counsel for the Securities Claimants for all purposes in these proceedings and as contemplated by section 11.2 of the Plan, and more particularly the Horsley Settlement and Horsley Release ("CCAA Representative Counsel").

5. **THIS COURT ORDERS** that the steps taken by CCAA Representative Counsel pursuant to the Orders of this Court dated May 8, 2012 (the "Claims Procedure Order") and July 25, 2012 (the "Mediation Order") are hereby approved, authorized and validated as of the date thereof and that CCAA Representative Counsel is and was authorized to negotiate and support the Plan on behalf of the Securities Claimants, to negotiate the Horsley Settlement, to bring this motion before this Honourable Court to approve the Horsley Settlement and the Horsley Release and to take any other necessary steps to effectuate and implement the Horsley Settlement and the Horsley Release, including bringing this Motion and any other necessary motion before the court, and as contemplated by section 11.2 of the Plan.

Compliance with Section 11.2 of the Plan

6. **THIS COURT ORDERS** that Horsley is a Named Third Party Defendant pursuant to the Plan.

7. **THIS COURT ORDERS** that this Order (the "Horsley Settlement Order") is a Named Third Party Defendant Settlement Order for the purpose of and as contemplated by Section 11.2 of the Plan.

8. **THIS COURT ORDERS** that the Horsley Settlement is a Named Third Party Defendant Settlement for the purpose of and as contemplated by Section 11.2 of the Plan.

9. **THIS COURT ORDERS** that the Horsley Release is a Named Third Party Defendant Release for the purpose of and as contemplated by Section 11.2 of the Plan.

Approval of the Settlement & Release

10. **THIS COURT ORDERS** that the Horsley Settlement and the Horsley Release are fair and reasonable in all the circumstances and for the purposes of the proceedings under both the CCAA and the *Class Proceedings Act*, 1992.

11. **THIS COURT ORDERS** that the Horsley Settlement and the Horsley Release be and hereby are approved for all purposes and as contemplated by section 11.2 of the Plan and paragraph 41 of the Sanction Order and shall be implemented in accordance with their terms, this Order, the Plan and the Sanction Order.

12. **THIS COURT ORDERS** that this Order, the Horsley Settlement and the Horsley Release are binding upon each and every Person or entity having a Horsley Claim, including those Persons who are under disability, and any requirements of rules 7.04(1) and 7.08(4) of the *Rules of Civil Procedures*, RRO 1990, Reg. 194 are dispensed.

Release and Discharge

13. **THIS COURT ORDERS** that upon satisfaction of all the conditions specified in section 11.2(b) of the Plan, the Monitor shall deliver to Horsley the Monitor's Horsley Settlement Certificate substantially in the form attached hereto as **Appendix "B"**. The Monitor shall thereafter file the Monitor's Horsley Settlement Certificate with the Court.

14. **THIS COURT ORDERS** that pursuant to the provisions of section 11.2(c) of the Plan, on the Horsley Settlement Date,

    a. any and all Horsley Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled, barred and deemed satisfied and extinguished as against Horsley in accordance with section 11.2(c) of the Plan;

    b. the Horsley Release shall be binding according to its terms on any Person;

    c. section 7.3 of the Plan shall apply to Horsley and the Horsley Claims *mutatis mutandis*;

    d. none of the parties in the Class Actions or any other actions in which the Horsley Claims have been or could have been asserted shall be permitted to claim from any of the other defendants that portion of any damages, restitutionary award or disgorgement of profits that corresponds with the liability of Horsley proven at trial or otherwise, that is subject of the Horsley Settlement ("Horsley's Proportionate Liability");

    e. all Class Actions, including the Ontario Class Action shall be permanently stayed as against Horsley; and

    f. the Ontario Class Action shall be dismissed against Horsley.

15. **THIS COURT ORDERS** that on the Horsley Settlement Date, any and all claims which Horsley may have had against: (i) any other current or former defendant, in the Ontario Class Action, (ii) any other current or former defendant, in any Class Actions in a jurisdiction in which this order has been recognized by a final order of a court of competent jurisdiction and

not subject to further appeal, (iii) any other current or former defendants' insurers, or any affiliates thereof, or (iv) any other Persons who may claim over against the other current or former defendants, or any affiliate thereof, or the other current or former defendants' insurers, or any affiliate thereof, in respect of contribution, indemnity or other claims over which relate to the allegations made in the Class Actions, are hereby fully, finally, irrevocably and forever compromised, released, discharged, cancelled, barred and deemed satisfied and extinguished.

16. **THIS COURT ORDERS** that nothing in this order shall fetter the discretion of any court to determine Horsley's Proportionate Liability at the trial or other disposition of an action for the purposes of paragraph ● above, whether or not Horsley appears at the trial or other disposition and Horsley's Proportionate Liability shall be determined as if Horsley were a party to the action and any determination by the court in respect of Horsley's Proportionate Liability shall only apply in that action to the proportionate liability of the remaining defendants in those proceedings and shall not be binding on Horsley or the Insurers for any purpose whatsoever and shall not constitute a finding against Horsley for any purpose in any other proceeding.

17. **THIS COURT ORDERS** that Horsley shall appear as a witness for the plaintiffs (if requested to do so) and give evidence at the trial if any, of the Ontario Class Action. Horsley shall not seek reimbursement from the Insurers for any fees or expenses associated with this testimony.

Effect of Settlement on Insurers

18. **THIS COURT ORDERS AND DECLARES** that any amounts paid by Chubb Insurance Company of Canada ("Chubb") towards the Horsley Settlement are fair and reasonable in all the circumstances and for all purposes.

19. **THIS COURT ORDERS AND DECLARES** that the payment by Chubb pursuant to the Horsley Settlement does not violate the interests of any party to the Class Actions, any other party who might have a claim against any person or entity potentially covered under the Insurance Policies or the interests of any party listed in Schedule "D" to the Minutes of Settlement;

20. **THIS COURT ORDERS AND DECLARES** that, without prejudice to the Insurers' coverage position(s) in relation to the Litigation Trust Action and their obligations, if any, to any other defendant to the Litigation Trust Action (or to any other action which has been or may be instituted by the Litigation Trust) who is potentially covered under the Sino-Forest Policies, which rights are and shall remain fully reserved, all amounts paid by Chubb towards the Horsley Settlement shall constitute covered Loss (as defined in the Insurance Policies);

21. **THIS COURT ORDERS AND DECLARES** that Chubb's contribution to the Horsley Settlement shall, to the extent of the amount paid, and any other amounts paid by Chubb and, before it, by ACE INA Insurance ("ACE"), on Horsley's behalf for defence of all Claims (as defined in the Insurance Policies) against him, reduce the Limits of Liability under the Chubb Policy and the ACE Policy for all purposes, regardless of any subsequent finding by any court, tribunal, administrative body or arbitrator, in any proceeding or action, that Horsley engaged in conduct that may have triggered any exclusion, term or condition of the Chubb

Policy or the ACE Policy so as to disentitle Horsley to coverage under the Chubb Policy or the ACE Policy.

22. **THIS COURT ORDERS AND DECLARES** that Chubb's contribution to the Horsley Settlement is without prejudice to the coverage positions taken by it, or any of the Insurers, in relation to the Class Actions and to any other matter or Claim (as defined in the Insurance Policies) as previously advised to Sino-Forest and its directors and officers by each of the Insurers and to all rights previously reserved by the Insurers.

23. **THIS COURT ORDERS AND DECLARES** that the Insurers whose policies afford coverage excess to that afforded by the ACE Policy and the Chubb Policy may assert any defence to any claim for coverage, by any Insured, that is not:

    (i) inconsistent with the findings of the Court or with the Horsley Settlement Order, or

    (ii) based upon the ground that ACE and Chubb have not exhausted their respective Limits of Liability under the ACE Policy and the Chubb Policy.

24. **THIS COURT ORDERS AND DECLARES** that ACE and Chubb, in respect of the coverage afforded under Endorsements No. 16 and 2 to the ACE Policy and the Chubb Policy, respectively, may assert any defence to any claim for coverage, by any Insured, that is not inconsistent with the findings of the Court or with the Horsley Settlement Order.

25. **THIS COURT ORDERS AND DECLARES** that save and except for ACE's obligations under Endorsement No. 16 to the ACE Policy, ACE shall be released from any and all claims against it under or in relation to the ACE Policy, including claims relating to or arising from the Class Actions, all commitments in relation to and/or payments made under the ACE

Policy and for reimbursement of defence costs incurred by any person or entity potentially covered by or under the ACE Policy.

26. **THIS COURT ORDERS AND DECLARES** that save and except for Chubb's obligations under Endorsement No. 2 to the Chubb Policy, to the extent of any payment made by Chubb to the date of this Order, including any and all payments in relation to the Horsley Settlement, Chubb shall be released from any and all claims against it under or in relation to the Chubb Policy, including claims relating to or arising from the Class Actions, all commitments in relation to and/or payments made under the Chubb Policy and for reimbursement of defence costs incurred by any person or entity potentially covered by or under the Chubb Policy.

27. **THIS COURT ORDERS AND DECLARES** that all persons and entities provided with notice of this Motion shall be bound by the declarations made in, and the terms of, this Horsley Settlement Order.

28. **THIS COURT ORDERS AND DECLARES** that payment by Chubb pursuant to the Horsley Settlement constitutes "Loss" under the Insurance Policies, which has depleted the insurance limits for all purposes, regardless of whether (in the event that criminal charges are laid against Horsley in the future) any finding is made that Horsley acted dishonestly.

29. **THIS COURT ORDERS** that, subject to paragraph 2.4 of the Plan, nothing in the Horsley Settlement shall prejudice the continued claims by the plaintiffs in the Ontario Class Action, Quebec Class Action, and the US Class Action against the Insurance Policies with respect to the conduct of Sino-Forest or other persons or entities insured by the Insurers.

30. **THIS COURT ORDERS** that the cooperation of Horsley with the plaintiffs in the Ontario Class Action, Quebec Class Action, and the US Class Action pursuant to the Horsley Settlement shall not prejudice or otherwise affect the coverage that would otherwise be provided under the Insurance Policies with respect to the conduct of Sino-Forest or other persons or entities insured by the Insurers.

Use of the Settlement Fund

31. **THIS COURT ORDERS** that the Class Settlement Fund shall be held by the Ontario Plaintiffs in the Settlement Trust until such later date that the Ontario Plaintiffs have a Plan of Allocation approved by this Court whereby those funds will be distributed to Securities Claimants. Any process for allocation and distribution will be established by CCAA Representative Counsel together with U.S. Class Action plaintiffs' counsel and approved by further order of this Court (the "Claims and Distribution Protocol").

32. **THIS COURT ORDERS** that notwithstanding paragraph ● above, the following Securities Claimants shall not be entitled to any allocation or distribution of the Class Settlement Fund: any Person or entity that is a named defendant to any of the Class Actions, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any individual who is a member of the immediate family of the following Persons: Allen T.Y. Chan a.k.a Tak Yuen Chan, W. Judson Martin, Kai Kit Poon, David J. Horsley, William E. Ardell, James P. Boland, James M.E. Hyde, Edmund Mak, Simon Murray, Peter Wang, Garry J. West, Albert Ip, Alfred C.T. Hung, George Ho and Simon Yeung. For greater certainty, the Horsley Release shall apply to the Securities Claimants described above, other than Horsley.

Recognition, Enforcement and Further Assistance

33. **THIS COURT ORDERS** that this Court shall retain an ongoing supervisory role for the purposes of implementing, administering and enforcing the Horsley Settlement and the Horsley Release and matters related to the Settlement Trust including any disputes about the allocation of the Class Settlement Fund from the Settlement Trust. Any disputes arising with respect to the performance or effect of, or any other aspect of, the Horsley Settlement and the Horsley Release shall be determined by this Court, and that, except with leave of this Court first obtained, no Person or party shall commence or continue any proceeding or enforcement process in any other court or tribunal, with respect to the performance or effect of, or any other aspect of the Horsley Settlement and Horsley Release.

34. **THIS COURT ORDERS** that each of the Applicant, the Monitor, CCAA Representative Counsel and Horsley shall be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this order, or any further order as may be required, and for assistance in carrying out the terms of such orders.

____

Morawetz J.

APPENDIX "A"

Definitions of capitalized terms used in this Order

"Ace Policy" means the insurance policy issued by ACE INA Insurance – Policy Number DO024464;

"Causes of Action" has the meaning ascribed to it in the Plan

"CCAA" means the *Companies' Creditors Arrangement Act*, RSC, 1985, c. C-36

"Chubb Policy" means the insurance policy issued by Chubb Insurance Company of Canada – Policy Number 8209-4449;

"Class Actions" has the meaning ascribed to it in the Plan

"**Eligible Third Party Defendant**" has the meaning ascribed to it in the Plan

"Horsley" means David Horsley

"Horsley Claims" means any and all demands, claims, actions, Causes of Action (as defined in the Plan), counterclaims, cross claims, suits, debts, sums of money, accounts, covenants, damages, judgments, orders, including injunctive relief or specific performance and compliance orders, expenses, executions, Encumbrances (as defined in the Plan), and other amounts sought to be recovered on account of any claim, indebtedness, liability, obligation, demand or cause of action of whatever nature that any Person (as defined in the Plan), including any Person (as defined in the Plan) who may have a claim for contribution and/or indemnity against or from them, and including without limitation, all present and former officers or Directors of Sino-Forest, Newco (as defined in the Plan), Newco II (as defined in the Plan), Ernst & Young (as defined in the Plan), BDO Ltd., the Underwriters (as defined in the Plan), Poyry (Beijing) Consulting Company Limited (and its affiliates), the Noteholders (as defined in the Plan), any past, present or future holder of any direct or indirect equity interest in the SFC Companies (as defined in the Plan), any past, present or future direct or indirect security holder of the SFC Companies (as defined in the Plan), any indirect or direct security holder of Newco (as defined in the Plan) or Newco II (as defined in the Plan), the Trustees (as defined in the Plan), the Transfer Agent (as defined in the Plan), the Monitor (as defined in the Plan), and each and every present and former affiliate, partner, director, officer, associate, employee, servant, agent, contractor, insurer, heir and/or assign of each of the foregoing who may or could (at any time, past, present or future) be entitled to assert against Horsley, his family, heirs or assigns, whether known or unknown, matured or unmatured, direct or derivative, foreseen or unforeseen, suspected or unsuspected, contingent, existing or hereafter arising, based on whole or in part on any act or omission, transaction, conduct, dealing or other occurrence existing or taking place on, prior to or after the date of this Release, relating to or arising out of or in connection with the SFC Companies (as defined by the Plan), the SFC Business (as defined by the Plan), Horsley's conduct or performance as a director or officer of Sino-Forest, Horsley's trading of shares in relation to Sino-Forest, Horsley's compensation from Sino-Forest, and any and all other acts and omissions of Horsley relating to the SFC Companies (as defined by the Plan) or the SFC Business (as defined by the Plan), including without limitation any claim arising out of:

1. Horsley's conduct as a director or officer of Sino-Forest, including but not limited to his conduct as the Chief Financial Officer of Sino-Forest, any statutory or common law duties he may have owed as a director or officer of Sino-Forest, any share offering, debt offering or other offering of securities, any statement in any of Sino-Forest's public disclosure or other oral statement relating to Sino-Forest, including without limitation any document released to the public or filed on SEDAR;

2. All claims or Causes of Action (as defined by the Plan) advanced or which could have been advanced in any or all of the Class Actions (as defined by the Plan), including any and all claims of fraud;

3. All claims or Causes of Action (as defined by the Plan) advanced or which could have been advanced in any or all actions commenced in all jurisdictions as of the date of this Release;

4. All Noteholder Claims (as defined by the Plan), Litigation Trust Claims (as defined by the Plan), or any claim by or on behalf of the SFC Companies (as defined by the Plan);

5. All claims or Causes of Action (as defined by the Plan) advanced or which could have been advanced by BDO Ltd.(and its affiliates), Ernst & Young (as defined by the Plan), the Underwriters (as defined by the Plan), Poyry (Beijing) Consulting Company Limited (and its affiliates), all present and former directors, officers or employees of Sino-Forest, Aird & Berlis LLP, and any and all consultants or counsel to Sino-Forest or its Independent Committee for contribution, indemnity, damages, equitable relief or other monetary recovery;

6. All claims or Causes of Action (as defined by the Plan) advanced or which could have been advanced in Court File No. CV-13-481761.

For greater certainty, Horsley Claims do not include any proceeding commenced or remedy sought by the Ontario Securities Commission or the Attorney General.

"Class Settlement Fund" has the meaning ascribed to it in the Horsley Settlement

"Horsley Release" means the Named Third Party Defendant Release described at section 11.2(c) of the Plan as applied to the Horsley Claims

"Horsley Settlement" means the settlement as reflected in the Minutes of Settlement executed on ●, between Horsley and the plaintiffs in Ontario Superior Court Action No. CV-11-431153-00CP, Quebec Superior Court No. 200-06-000132-111, and United States New York Southern District Court, Case Number 1:12-cv-01726 (AT) and the Litigation Trust

"Horsley Settlement Date" means the date that the Monitor's Horsley Settlement Certificate is delivered to Horsley

"Insurance Policies" has the meaning ascribed to it in the Plan

"Insurers" means each of the entities who issued the Insurance Policies

"Litigation Trust" means Cosimo Borrelli, in his capacity as the trustee for the SFC Litigation Trust, and the SFC Litigation Trust

"The Litigation Trust Action" means the action bearing Court File No. CV-13-481761

"Monitor's Horsley Settlement Certificate" is the Monitor's Named Third Party Certificate contemplated at section 11.2(b) of the Plan, applicable and with respect to the Horsley Settlement

"Monitor's Named Third Party Settlement Certificate" has the meaning ascribed to it in the Plan

"Named Third Party Defendant" has the meaning ascribed to it in the Plan

"Named Third Party Defendant Settlement" has the meaning ascribed to it in the Plan

"Named Third Party Defendant Settlement Order" has the meaning ascribed to it in the Plan

"Named Third Party Defendant Release" has the meaning ascribed to it in the Plan

"Person" has the meaning ascribed to it in the Plan

"Quebec Class Action" means the action styled Guining Liu v Sino-Forest Corporation, et al, Province of Quebec Superior Court, File No. 200-06-000132-11

"Securities" means common shares, notes or other securities defined in the *Securities Act*, RSO 1990, c. S.5, as amended

"Securities Claimants" means all Person and entities, wherever they may reside, who acquired any Securities of Sino-Forest Corporation including Securities acquired in the primary, secondary, and over-the-counter markets.

"Settlement Trust" has the meaning ascribed to it in the Horsley Settlement

"US Class Action" means the action styled David Leapard, et al v. Allen TY Chan, et al., United States New York Southern District Court, Case Number 1:12-cv-01726 (AT)

APPENDIX "B"
MONITOR'S HORSLEY SETTLEMENT CERTIFICATE

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

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 COMPRISE OR ARRANGEMENT OF SINO-FOREST CORPORATION

Court File No.: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

BETWEEN:

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN, KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND, JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY J. WEST, PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT SUISSE SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC WORLD MARKETS INC., MERRILL LYNCH CANADA INC., CANACCORD FINANCIAL LTD., MAISON PLACEMENTS CANADA INC., CREDIT SUISSE SECURITIES (USA) LLC and MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED (successor by merger to Banc of America Securities LLC)

Defendants

All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Order of the Court dated ● (the "Horsley Settlement Approval Order") which, among other things, approved the Horsley Settlement and Horsley Release.

Pursuant to section 11.2 of the Plan and paragraph ● of the Horsley Settlement Approval Order, FTI Consulting Canada Inc. (the "Monitor") in its capacity as Court-appointed Monitor of SFC delivers to Horsley this certificate and hereby certifies that:

1. Each of the parties to the Horsley Settlement has confirmed that all conditions precedent thereto have been satisfied or waived;

2. All settlement funds have been paid and received; and

3. Immediately upon the delivery of this Monitor's Horsley Settlement Certificate, the Horsley Release will be in full force and effect in accordance with the Plan.

DATED at Toronto this ___ day of _______, 2014

FTI CONSULTING CANADA INC. solely in its capacity as Monitor of Sino-Forest Corporation and not in its personal capacity

____

Name:
Title:

This is Exhibit "B" mentioned and referred to in the Affidavit of Charles M. Wright, sworn before me at the City of London, in the County of Middlesex, this 4th day of July, 2014.

A Commissioner, etc.

Court File No.: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

B E T W E E N :

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG

Plaintiffs

\- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN, KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND, JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY J. WEST, PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT SUISSE SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC WORLD MARKETS INC., MERRILL LYNCH CANADA INC., CANACCORD FINANCIAL LTD., MAISON PLACEMENTS CANADA INC., CREDIT SUISSE SECURITIES (USA) LLC and MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED (successor by merger to Banc of America Securities LLC)

Defendants

Proceeding under the *Class Proceedings Act, 1992*

FRESH AS AMENDED STATEMENT OF CLAIM

(NOTICE OF ACTION ISSUED JULY 20, 2011)

AMENDED THIS April 18/12 PURSUANT TO
MODIFIÉ CE CONFORMÉMENT À
☐ RULE/LA RÈGLE 26.02 ( )
☒ THE ORDER OF Mr. J. Perell
L'ORDONNANCE DU
DATED / FAIT LE March 26 2012

REGISTRAR GREFFIER
SUPERIOR COURT OF JUSTICE COUR SUPÉRIEURE DE JUSTICE

S. Chandradat
Registrar

TO: **Sino-Forest Corporation**
1208-90 Burnhamthorpe Rd W
Mississauga, ON L5B 3C3

AND TO: **David Horsley**
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
Mississauga, ON L5B 3C3

AND TO: **Allen Chan**
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
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AND TO: **William Ardell**
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
Mississauga, ON L5B 3C3

AND TO: **James Bowland**
Sino-Forest Corporation
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AND TO: **James Hyde**
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
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AND TO: **Edmund Mak**
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
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AND TO: **W. Judson Martin**
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
Mississauga, ON L5B 3C3

AND TO: **Simon Murray**
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
Mississauga, ON L5B 3C3

AND TO: **Kai Kit Poon**
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
Mississauga, ON L5B 3C3

AND TO: **Peter Wang**
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
Mississauga, ON L5B 3C3

AND TO: **Garry West**
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
Mississauga, ON L5B 3C3

AND TO: **Ernst & Young LLP**
222 Bay Street
Toronto, ON M5K 1J7

AND TO: **BDO Limited**
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong, China

AND TO: **Pöyry (Beijing) Consulting Company Limited**
2208-2210 Cloud 9 Plaza
No. 1118 West Yan'an Road
Shanghai 200052
PR CHINA

AND TO: **Credit Suisse Securities (Canada), Inc.**
1 First Canadian Place
100 King Street West, Suite 2900
Toronto, Ontario M5X 1C9

AND TO: **TD Securities Inc.**
66 Wellington Street West
P.O. Box 1, TD Bank Tower
Toronto, Ontario M5K 1A2

AND TO: **Dundee Securities Corporation**
1 Adelaide Street East
Toronto, ON M5C 2V9

AND TO: **RBC Dominion Securities Inc.**
155 Wellington Street West, 17th Floor
Toronto, Ontario M5V 3K7

AND TO: **Scotia Capital Inc.**
40 King Street West, Scotia Plaza
P.O. Box 4085, Station A
Toronto, Ontario M5W 2X6

AND TO: **CIBC World Markets Inc.**
161 Bay Street, Brookfield Place
P.O. Box 500
Toronto, Ontario M5J 2S8

AND TO: **Merrill Lynch Canada Inc.**
BCE Place, Wellington Tower
181 Bay Street, 4th and 5th Floors
Toronto, Ontario M5J 2V8

AND TO: **Canaccord Financial Ltd.**
161 Bay Street, Suite 2900
P.O. Box 516
Toronto, Ontario M5J 2S1

AND TO: **Maison Placements Canada Inc.**
130 Adelaide Street West, Suite 906
Toronto, Ontario M5H 3P5

AND TO: **Credit Suisse Securities (USA) LLC**
Eleven Madison Avenue
New York, NY 10010

AND TO: **Merrill Lynch, Pierce, Fenner & Smith Incorporated**
100 N. Tryon St., Ste. 220
Charlotte, NC 28255

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I. DEFINED TERMS

1. In this Statement of Claim, in addition to the terms that are defined elsewhere herein, the following terms have the following meanings:

(a) "**AI**" means Authorized Intermediary;

(b) "**AIF**" means Annual Information Form;

(c) “**Ardell**” means the defendant William E. Ardell;

(d) “**Banc of America**” means the defendant Merrill Lynch, Pierce, Fenner & Smith Incorporated;

(e) “**BDO**” means the defendant BDO Limited;

(f) “**Bowland**” means the defendant James P. Bowland;

(g) “**BVI**” means British Virgin Islands;

(h) “**Canaccord**” means the defendant Canaccord Financial Ltd.;

(i) “***CBCA***” means the *Canada Business Corporations Act*, RSC 1985, c. C-44, as amended;

(j) “**Chan**” means the defendant Allen T.Y. Chan also known as “Tak Yuen Chan”;

(k) “**CIBC**” means the defendant CIBC World Markets Inc.;

(l) “***CJA***” means the Ontario *Courts of Justice Act*, RSO 1990, c C-43, as amended;

(m) “**Class**” and “**Class Members**” all persons and entities, wherever they may reside who acquired **Sino**’s **Securities** during the **Class Period** by distribution in Canada or on the Toronto Stock Exchange or other secondary market in Canada, which includes securities acquired over-the-counter, and all persons and entities who acquired **Sino**’s **Securities** during the **Class Period** who are resident of Canada or were resident of Canada at the time of acquisition and who acquired **Sino**’s **Securities** outside of Canada, except the **Excluded Persons**;

(n) “**Class Period**” means the period from and including March 19, 2007 to and including June 2, 2011;

(o) “**Code**” means **Sino**’s Code of Business Conduct;

(p) “***CPA***” means the Ontario *Class Proceedings Act, 1992*, SO 1992, c 6, as amended;

(q) “**Credit Suisse**” means the defendant Credit Suisse Securities (Canada), Inc.;

(r) “**Credit Suisse USA**” means the defendant Credit Suisse Securities (USA) LLC;

(s) “**Defendants**” means **Sino**, the **Individual Defendants**, **Pöyry**, **BDO**, **E&Y** and the **Underwriters**;

(t) “**December 2009 Offering Memorandum**” means Sino’s Final Offering Memorandum, dated December 10, 2009, relating to the distribution of Sino’s 4.25% Convertible Senior Notes due 2016 which **Sino** filed on **SEDAR** on December 11, 2009;

(u) “**December 2009 Prospectus**” means **Sino**’s Final Short Form Prospectus, dated December 10, 2009, which **Sino** filed on **SEDAR** on December 11, 2009;

(v) “**Dundee**” means the defendant Dundee Securities Corporation;

(w) “**E&Y**” means the defendant, Ernst and Young LLP;

(x) “**Excluded Persons**” means the **Defendants**, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any individual who is a member of the immediate family of an **Individual Defendant;**

(y) “**Final Report**” means the report of the IC, as that term is defined in paragraph 10 hereof;

(z) “**GAAP**” means Canadian generally accepted accounting principles;

(aa) “**GAAS**” means Canadian generally accepted auditing standards;

(bb) “**Horsley**” means the defendant David J. Horsley;

(cc) “**Hyde**” means the defendant James M.E. Hyde;

(dd) “**Impugned Documents**” mean the 2005 Annual Consolidated Financial Statements (filed on **SEDAR** on March 31, 2006), Q1 2006 Financial Statements

(filed on **SEDAR** on May 11, 2006), the 2006 Annual Consolidated Financial Statements (filed on **SEDAR** on March 19, 2007), 2006 **AIF** (filed on **SEDAR** on March 30, 2007), 2006 Annual **MD&A** (filed on **SEDAR** on March 19, 2007), Management Information Circular dated April 27, 2007 (filed on **SEDAR** on May 4, 2007), Q1 2007 **MD&A** (filed on **SEDAR** on May 14, 2007), Q1 2007 Financial Statements (filed on **SEDAR** on May 14, 2007), **June 2007 Prospectus**, Q2 2007 **MD&A** (filed on **SEDAR** on August 13, 2007), Q2 2007 Financial Statements (filed on **SEDAR** on August 13, 2007), Q3 2007 **MD&A** (filed on **SEDAR** on November 12, 2007), Q3 2007 Financial Statements (filed on **SEDAR** on November 12, 2007), 2007 Annual Consolidated Financial Statements (filed on **SEDAR** on March 18, 2008), 2007 **AIF** (filed on **SEDAR** on March 28, 2008), 2007 Annual **MD&A** (filed on **SEDAR** on March 18, 2008), Amended 2007 Annual **MD&A** (filed on **SEDAR** on March 28, 2008), Management Information Circular dated April 28, 2008 (filed on **SEDAR** on May 6, 2008), Q1 2008 **MD&A** (filed on **SEDAR** on May 13, 2008), Q1 2008 Financial Statements (filed on **SEDAR** on May 13, 2008), **July 2008 Offering Memorandum**, Q2 2008 **MD&A** (filed on **SEDAR** on August 12, 2008), Q2 2008 Financial Statements (filed on **SEDAR** on August 12, 2008), Q3 2008 **MD&A** (filed on **SEDAR** on November 13, 2008), Q3 2008 Financial Statements (filed on **SEDAR** on November 13, 2008), 2008 Annual Consolidated Financial Statements (filed on **SEDAR** on March 16, 2009), 2008 Annual **MD&A** (filed on **SEDAR** on March 16, 2009), Amended 2008 Annual **MD&A** (filed on **SEDAR** on March 17, 2009), 2008 **AIF** (filed on **SEDAR** on March 31, 2009), Management Information Circular dated April 28, 2009 (filed on **SEDAR** on May 4, 2009), Q1 2009 **MD&A** (filed on **SEDAR** on May 11, 2009), Q1 2009 Financial Statements (filed on **SEDAR** on May 11, 2009), **June 2009 Prospectus**, **June 2009 Offering Memorandum**, Q2 2009 **MD&A** (filed on **SEDAR** on August 10, 2009), Q2 2009 Financial Statements (filed on **SEDAR** on August 10, 2009), Q3 2009 **MD&A** (filed on **SEDAR** on November 12, 2009), Q3 2009 Financial Statements (filed on **SEDAR** on November 12, 2009), **December 2009 Prospectus**, **December 2009 Offering Memorandum**, 2009

Annual **MD&A** (filed on **SEDAR** on March 16, 2010), 2009 Audited Annual Financial Statements (filed on **SEDAR** on March 16, 2010), 2009 **AIF** (filed on **SEDAR** on March 31, 2010), Management Information Circular dated May 4, 2010 (filed on **SEDAR** on May 11, 2010), Q1 2010 **MD&A** (filed on **SEDAR** on May 12, 2010), Q1 2010 Financial Statements (filed on **SEDAR** on May 12, 2010), Q2 2010 **MD&A** (filed on **SEDAR** on August 10, 2010), Q2 2010 Financial Statements (filed on **SEDAR** on August 10, 2010), **October 2010 Offering Memorandum**, Q3 2010 **MD&A** (filed on **SEDAR** on November 10, 2010), Q3 2010 Financial Statements (filed on **SEDAR** on November 10, 2010), 2010 Annual **MD&A** (March 15, 2011), 2010 Audited Annual Financial Statements (filed on **SEDAR** on March 15, 2011), 2010 **AIF** (filed on **SEDAR** on March 31, 2011), and Management Information Circular dated May 2, 2011 (filed on **SEDAR** on May 10, 2011);

(ee) "**Individual Defendants**" means **Chan**, **Martin**, **Poon**, **Horsley**, **Ardell**, **Bowland**, **Hyde**, **Mak**, **Murray**, **Wang**, and **West**, collectively;

(ff) "**July 2008 Offering Memorandum**" means the Final Offering Memorandum dated July 17, 2008, relating to the distribution of Sino's 5% Convertible Senior Notes due 2013 which **Sino** filed on **SEDAR** as a schedule to a material change report on July 25, 2008;

(gg) "**June 2007 Prospectus**" means **Sino**'s Short Form Prospectus, dated June 5, 2007, which **Sino** filed on **SEDAR** on June 5, 2007;

(hh) "**June 2009 Offering Memorandum**" means **Sino**'s Exchange Offer Memorandum dated June 24, 2009, relating to an offer to exchange Sino's Guaranteed Senior Notes due 2011 for new 10.25% Guaranteed Senior Notes due 2014 which **Sino** filed on **SEDAR** as a schedule to a material change report on June 25, 2009;

(ii) "**June 2009 Prospectus**" means **Sino**'s Final Short Form Prospectus, dated June 1, 2009, which Sino filed on **SEDAR** on June 1, 2009;

(jj) "**Maison**" means the defendant Maison Placements Canada Inc.;

(kk) "**Martin**" means the defendant W. Judson Martin;

(ll) "**Mak**" means the defendant Edmund Mak;

(mm) "**MD&A**" means Management's Discussion and Analysis;

(nn) "**Merrill**" means the defendant Merrill Lynch Canada Inc.;

(oo) "**Muddy Waters**" means Muddy Waters LLC;

(pp) "**Murray**" means the defendant Simon Murray;

(qq) "**October 2010 Offering Memorandum**" means the Final Offering Memorandum dated October 14, 2010, relating to the distribution of Sino's 6.25% Guaranteed Senior Notes due 2017;

(rr) "**Offering**" or "**Offerings**" means the primary distributions in Canada of Sino's **Securities** that occurred during the **Class Period** including the public offerings of Sino's common shares pursuant to the **June 2007**, **June 2009** and **December 2009 Prospectuses**, as well as the offerings of Sino's notes pursuant to **the July 2008**, **June 2009**, **December 2009**, and **October 2010 Offering Memoranda**, collectively;

(ss) "***OSA***" means the *Securities Act*, RSO 1990 c S.5, as amended;

(tt) "**OSC**" means the Ontario Securities Commission;

(uu) "**Plaintiffs**" means the plaintiffs, the Trustees of the Labourers' Pension Fund of Central and Eastern Canada ("**Labourers**"), the Trustees of the International Union of Operating Engineers Local 793 Pension Plan for Operating Engineers in Ontario ("**Operating Engineers**"), Sjunde AP-Fonden ("**AP7**"), David C. Grant ("**Grant**"), and Robert Wong ("**Wong**"), collectively;

(vv) "**Poon**" means the defendant Kai Kit Poon;

(ww) “**Pöyry**” means the defendant, Pöyry (Beijing) Consulting Company Limited;

(xx) “**PRC**” means the People’s Republic of China;

(yy) “**Representation**” means the statement that Sino’s financial statements complied with **GAAP**;

(zz) “**RBC**” means the defendant RBC Dominion Securities Inc.;

(aaa) “**Scotia**” means the defendant Scotia Capital Inc.;

(bbb) “**Second Report**” means the Second Interim Report of the IC, as that term is defined in paragraph 10 hereof;

(ccc) “**Securities**” means Sino’s common shares, notes or other securities, as defined in the ***OSA***;

(ddd) “**Securities Legislation**” means, collectively, the ***OSA***, the *Securities Act*, RSA 2000, c S-4, as amended; the *Securities Act*, RSBC 1996, c 418, as amended; the *Securities Act*, CCSM c S50, as amended; the *Securities Act*, SNB 2004, c S-5.5, as amended; the *Securities Act*, RSNL 1990, c S-13, as amended; the *Securities Act*, SNWT 2008, c 10, as amended; the *Securities Act*, RSNS 1989, c 418, as amended; the *Securities Act*, S Nu 2008, c 12, as amended; the *Securities Act*, RSPEI 1988, c S-3.1, as amended; the *Securities Act*, RSQ c V-1.1, as amended; the *Securities Act*, *1988*, SS 1988-89, c S-42.2, as amended; and the *Securities Act*, SY 2007, c 16, as amended;

(eee) “**SEDAR**” means the system for electronic document analysis and retrieval of the Canadian Securities Administrators;

(fff) “**Sino**” means, as the context requires, either the defendant Sino-Forest Corporation, or Sino-Forest Corporation and its affiliates and subsidiaries, collectively;

(ggg) **“TD**” means the defendant TD Securities Inc.;

(hhh) “**TSX**” means the Toronto Stock Exchange;

(iii) “**Underwriters**” means **Banc of America**, **Canaccord**, **CIBC**, **Credit Suisse**, **Credit Suisse USA**, **Dundee,** **Maison**, **Merrill**, **RBC**, **Scotia**, and **TD**, collectively;

(jjj) “**Wang**” means the defendant Peter Wang;

(kkk) “**West**” means the defendant Garry J. West; and

(lll) “**WFOE**” means wholly foreign owned enterprise or an enterprise established in China in accordance with the relevant PRC laws, with capital provided solely by foreign investors.

II. CLAIM

2. The Plaintiffs claim:

(a) An order certifying this action as a class proceeding and appointing the Plaintiffs as representative plaintiffs for the Class, or such other class as may be certified by the Court;

(b) A declaration that the Impugned Documents contained, either explicitly or implicitly, the Representation, and that, when made, the Representation was a misrepresentation, both at law and within the meaning of the Securities Legislation;

(c) A declaration that the Impugned Documents contained one or more of the other misrepresentations alleged herein, and that, when made, those other misrepresentations constituted misrepresentations, both at law and within the meaning of the Securities Legislation;

(d) A declaration that Sino is vicariously liable for the acts and/or omissions of the Individual Defendants and of its other officers, directors and employees;

(e) A declaration that the Underwriters, E&Y, BDO and Pöyry are each vicariously liable for the acts and/or omissions of their respective officers, directors, partners and employees;

(f) On behalf of all of the Class Members who purchased Sino's Securities in the secondary market during the Class Period, and as against all of the Defendants other than the Underwriters, general damages in the sum of $6.5 billion;

(g) On behalf of all of the Class Members who purchased Sino common shares in the distribution to which the June 2007 Prospectus related, and as against Sino, Chan, Poon, Horsley, Martin, Mak, Murray, Hyde, Pöyry, BDO, Dundee, CIBC, Merrill and Credit Suisse general damages in the sum of $175,835,000;

(h) On behalf of all of the Class Members who purchased Sino common shares in the distribution to which the June 2009 Prospectus related, and as against Sino, Chan,

Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, Pöyry, E&Y, Dundee, Merrill, Credit Suisse, Scotia and TD, general damages in the sum of $330,000,000;

(i) On behalf of all of the Class Members who purchased Sino common shares in the distribution to which the December 2009 Prospectus related, and as against Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, Pöyry, BDO, E&Y, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD, general damages in the sum of $319,200,000;

(j) On behalf of all the Class Members who purchased Sino's 5% Convertible Senior Notes due 2013 pursuant to the July 2008 Offering Memorandum, and as against Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, Pöyry, BDO, E&Y and Credit Suisse USA, general damages in the sum of US$345 million;

(k) On behalf of all the Class Members who purchased Sino's 10.25% Guaranteed Senior Notes due 2014 pursuant to the June 2009 Offering Memorandum, and as against Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, Pöyry, BDO, E&Y and Credit Suisse USA, general damages in the sum of US$400 million;

(l) On behalf of all the Class Members who purchased Sino's 4.25% Convertible Senior Notes due 2016 pursuant to the December 2009 Offering Memorandum, and as against Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, Pöyry, BDO, E&Y, Credit Suisse USA and TD, general damages in the sum of US460 million;

(m) On behalf of all the Class Members who purchased Sino's 6.25% Guaranteed Senior Notes due 2017 pursuant to the October 2010 Offering Memorandum, and as against Sino, Chan, Poon, Horsley, Wang, Mak, Murray, Hyde, Ardell, Pöyry, E&Y, Credit Suisse USA and Banc of America, general damages in the sum of US$600 million;

(n) On behalf of all of the Class Members, and as against Sino, Chan, Poon and Horsley, punitive damages, in respect of the conspiracy pled below, in the sum of $50 million;

(o) A declaration that Sino, Chan, Poon, Horsley, Martin, Mak, Murray and the Underwriters were unjustly enriched;

(p) A constructive trust, accounting or such other equitable remedy as may be available as against Sino, Chan, Poon, Horsley, Martin, Mak, Murray and the Underwriters;

(q) A declaration that the acts and omissions of Sino have effected a result, the business or affairs of Sino have been carried on or conducted in a manner, or the powers of the directors of Sino have been exercised in a manner, that is oppressive or unfairly prejudicial to or that unfairly disregards the interests of the Plaintiffs and the Class Members, pursuant to s. 241 of the *CBCA*;

(r) An order directing a reference or giving such other directions as may be necessary to determine the issues, if any, not determined at the trial of the common issues;

(s) Prejudgment and post judgment interest;

(t) Costs of this action on a substantial indemnity basis or in an amount that provides full indemnity plus, pursuant to s 26(9) of the *CPA*, the costs of notice and of administering the plan of distribution of the recovery in this action plus applicable taxes; and

(u) Such further and other relief as to this Honourable Court may seem just.

III. OVERVIEW

3. From the time of its establishment in 1994, Sino has claimed to be a legitimate business operating in the commercial forestry industry in the PRC and elsewhere. Throughout that period, Sino has also claimed to have experienced breathtaking growth.

4. Beguiled by Sino's reported results, and by Sino's constant refrain that China constituted an extraordinary growth opportunity, investors drove Sino's stock price dramatically higher, as appears from the following chart:

5. The Defendants profited handsomely from the market's appetite for Sino's securities. Certain of the Individual Defendants sold Sino shares at lofty prices, and thereby reaped millions of dollars of gains. Sino's senior management also used Sino's illusory success to justify their lavish salaries, bonuses and other perks. For certain of the Individual Defendants, these outsized gains were not enough. Sino stock options granted to Chan, Horsley and other insiders were backdated or otherwise mispriced, prior to and during the Class Period, in violation of the TSX Rules, GAAP and the Securities Legislation.

6. Sino itself raised in excess of $2.7 billion[1] in the capital markets during this period. Meanwhile, the Underwriters were paid lucrative underwriting commissions, and BDO, E&Y and Pöyry garnered millions of dollars in fees to bless Sino's reported results and assets. To their great detriment, the Class Members relied upon these supposed gatekeepers.

7. As a reporting issuer in Ontario and elsewhere, Sino was required at all material times to comply with GAAP. Indeed, Sino, BDO and E&Y, Sino's auditors during the Class Period and previously, repeatedly misrepresented that Sino's financial statements complied with GAAP. This was false.

8. On June 2, 2011, Muddy Waters, a short seller and research firm with extensive PRC experience, issued its first research report in relation to Sino, and unveiled the scale of the deception that had been worked upon the Class Members. Muddy Waters' initial report effectively revealed, among other things, that Sino had materially misstated its financial results, had falsely claimed to have acquired trees that it did not own, had reported sales that had not been made, or that had been made in a manner that did not permit Sino to book those sales as revenue under GAAP, and had concealed numerous related party transactions. These revelations had a catastrophic effect on Sino's stock price.

9. On June 1, 2011, prior to the publication of Muddy Waters' report, Sino's common shares closed at $18.21. After the Muddy Waters report became public, Sino shares fell to $14.46 on the TSX (a decline of 20.6%), at which point trading was halted. When trading resumed the next day, Sino's shares fell to a close of $5.23 (a decline of 71.3% from June 1).

10. On June 3, 2011, Sino announced that, in response to the allegations of Muddy Waters, its board had formed a committee, which Sino then falsely characterized as "independent" (the

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1 Dollar figures are in Canadian dollars (unless otherwise indicated) and are rounded for convenience.

"**Independent Committee**" or "**IC**"), to examine and review the allegations contained in the Muddy Waters' report of June 2, 2011. The initial members of the IC were the Defendants Ardell, Bowland and Hyde. The IC subsequently retained legal, accounting and other advisers to assist it in the fulfillment of its mandate.

11. On August 26, 2011, the OSC issued a cease-trade order in respect of Sino's securities, alleging that Sino appeared to have engaged in significant non-arm's length transactions which may have been contrary to Ontario securities laws and the public interest, that Sino and certain of its officers and directors appeared to have misrepresented some of Sino's revenue and/or exaggerated some of its timber holdings, and that Sino and certain of its officers and directors, including Chan, appeared to be engaging or participating in acts, practices or a course of conduct related to Sino's securities which they (or any of them) knew or ought reasonably know would perpetuate a fraud.

12. On November 13, 2011, the IC released the Second Report. Therein, the IC revealed, *inter alia*, that: (1) Sino's management had failed to cooperate in numerous important respects with the IC's investigation; (2) "there is a risk" that certain of Sino's operations "taken as a whole" were in violation of PRC law; (3) Sino adopted processes that "avoid[] Chinese foreign exchange controls which must be complied with in a normal cross-border sale and purchase transaction, and [which] could present an obstacle to future repatriation of sales proceeds, and could have tax implications as well"; (4) the IC "has not been able to verify that any relevant income taxes and VAT have been paid by or on behalf of the BVIs in China"; (5) Sino lacked proof of title to the vast majority of its purported holdings of standing timber; (6) Sino's "transaction volumes with a number of AI and Suppliers do not match the revenue reported by such Suppliers in their SAIC filing"; (7) "[n]one of the BVI timber purchase contracts have as

attachments either (i) Plantation Rights Certificates from either the Counterparty or original owner or (ii) villager resolutions, both of which are contemplated as attachments by the standard form of BVI timber purchase contract employed by the Company; and (8) "[t]here are indications in emails and in interviews with Suppliers that gifts or cash payments are made to forestry bureaus and forestry bureau officials."

13. On January 31, 2012, the IC released its Final Report. Therein, the IC effectively revealed that, despite having conducted an investigation over nearly eight months, and despite the expenditure of US$50 million on that investigation, it had failed to refute, or even to provide plausible answers to, key allegations made by Muddy Waters:

> This Final Report of the IC sets out the activities undertaken by the IC since mid-November, the findings from such activities and the IC's conclusions regarding its examination and review. The IC's activities during this period have been limited as a result of Canadian and Chinese holidays (Christmas, New Year and Chinese New Year) and the extensive involvement of IC members in the Company's Restructuring and Audit Committees, both of which are advised by different advisors than those retained by the IC. The IC believes that, notwithstanding there remain issues which have not been fully answered, the work of the IC is now at the point of diminishing returns because much of the information which it is seeking lies with non-compellable third parties, may not exist or is apparently not retrievable from the records of the Company.
>
> [...]
>
> Given the circumstances described above, the IC understands that, with the delivery of this Final Report, its review and examination activities are terminated. The IC does not expect to undertake further work other than assisting with responses to regulators and the RCMP as required and engaging in such further specific activities as the IC may deem advisable or the Board may instruct. The IC has asked the IC Advisors to remain available to assist and advise the IC upon its instructions

14. Sino failed to meet the standards required of a public company in Canada. Aided by its auditors and the Underwriters, Sino raised billions of dollars from investors on the false premise that they were investing in a well managed, ethical and GAAP-compliant corporation. They

were not. Accordingly, this action is brought to recover the Class Members' losses from those who caused them: the Defendants.

IV. THE PARTIES

A. *The Plaintiffs*

15. Labourers are the trustees of the Labourers' Pension Fund of Central and Eastern Canada, a multi-employer pension plan providing benefits for employees working in the construction industry. The fund is a union-negotiated, collectively-bargained defined benefit pension plan established on February 23, 1972 and currently has approximately $2 billion in assets, over 39,000 members and over 13,000 pensioners and beneficiaries and approximately 2,000 participating employers. A board of trustees representing members of the plan governs the fund. The plan is registered under the *Pension Benefits Act*, RSO 1990, c P.8 and the *Income Tax Act*, RSC 1985, 5th Supp, c,1. Labourers purchased Sino's common shares over the TSX during the Class Period and continued to hold shares at the end of the Class Period. In addition, Labourers purchased Sino common shares offered by the December 2009 Prospectus and in the distribution to which that Prospectus related.

16. Operating Engineers are the trustees of the International Union of Operating Engineers Local 793 Pension Plan for Operating Engineers in Ontario, a multi-employer pension plan providing pension benefits for operating engineers in Ontario. The pension plan is a union-negotiated, collectively-bargained defined benefit pension plan established on November 1, 1973 and currently has approximately $1.5 billion in assets, over 9,000 members and pensioners and beneficiaries. The fund is governed by a board of trustees representing members of the plan. The plan is registered under the *Pension Benefits Act*, RSO 1990, c P.8 and the *Income Tax Act*, RSC 1985, 5th Supp, c.1. Operating Engineers purchased Sino's common shares over the TSX during the Class Period, and continued to hold shares at the end of the Class Period.

17. AP7 is the Swedish National Pension Fund. As of June 30, 2011, AP7 had approximately $15.3 billion in assets under management. Funds managed by AP7 purchased Sino's common shares over the TSX during the Class Period and continued to hold those common shares at the end of the Class Period.

18. Grant is an individual residing in Calgary, Alberta. He purchased 100 of the Sino 6.25% Guaranteed Senior Notes due 2017 that were offered by the October 2010 Offering Memorandum and in the distribution to which that Offering Memorandum related. Grant continued to hold those Notes at the end of the Class Period.

19. Wong is an individual residing in Kincardine, Ontario. During the Class Period, Wong purchased Sino's common shares over the TSX and continued to hold some or all of such shares at the end of the Class Period. In addition, Wong purchased Sino common shares offered by the December 2009 Prospectus and in the distribution to which that Prospectus related, and continued to own those shares at the end of the Class Period.

B. *The Defendants*

20. Sino purports to be a commercial forest plantation operator in the PRC and elsewhere. Sino is a corporation formed under the *CBCA*.

21. At the material times, Sino was a reporting issuer in all provinces of Canada, and had its registered office located in Mississauga, Ontario. At the material times, Sino's shares were listed for trading on the TSX under the ticker symbol "TRE," on the Berlin exchange as "SFJ GR," on the over-the-counter market in the United States as "SNOFF" and on the Tradegate market as "SFJ TH." Sino securities are also listed on alternative trading venues in Canada and elsewhere including, without limitation, AlphaToronto and PureTrading. Sino's shares also traded over-

the-counter in the United States. Sino has various debt instruments, derivatives and other securities that are traded in Canada and elsewhere.

22. As a reporting issuer in Ontario, Sino was required throughout the Class Period to issue and file with SEDAR:

(a) within 45 days of the end of each quarter, quarterly interim financial statements prepared in accordance with GAAP that must include a comparative statement to the end of each of the corresponding periods in the previous financial year;

(b) within 90 days of the end of the fiscal year, annual financial statements prepared in accordance with GAAP, including comparative financial statements relating to the period covered by the preceding financia1 year;

(c) contemporaneously with each of the above, a MD&A of each of the above financial statements; and

(d) within 90 days of the end of the fiscal year, an AIF, including material information about the company and its business at a point in time in the context of its historical and possible future development.

23. MD&As are a narrative explanation of how the company performed during the period covered by the financial statements, and of the company's financial condition and future prospects. The MD&A must discuss important trends and risks that have affected the financial statements, and trends and risks that are reasonably likely to affect them in future.

24. AIFs are an annual disclosure document intended to provide material information about the company and its business at a point in time in the context of its historical and future development. The AIF describes the company, its operations and prospects, risks and other external factors that impact the company specifically.

25. Sino controlled the contents of its MD&As, financial statements, AIFs and the other documents particularized herein and the misrepresentations made therein were made by Sino.

26. Chan is a co-founder of Sino, and was the Chairman, Chief Executive Officer and a director of the company from 1994 until his resignation from those positions on or about August 25, 2011. As Sino's CEO, Chan signed and certified the company's disclosure documents during the Class Period. Chan, along with Hyde, signed each of the 2006-2010 Audited Annual Financial Statements on behalf of Sino's board. Chan resides in Hong Kong, China.

27. Chan certified each of Sino's Class Period annual and quarterly MD&As and financial statements, each of which is an Impugned Document. In so doing, he adopted as his own the false statements such documents contained, as particularized below. Chan signed each of Sino's Class Period annual financial statements, each of which is an Impugned Document. In so doing, he adopted as his own the false statements such documents contained, as particularized below. As a director and officer, he caused Sino to make the misrepresentations particularized below.

28. Since Sino was established, Chan has received lavish compensation from Sino. For example, for 2006 to 2010, Chan's total compensation (other than share-based compensation) was, respectively, US$3.0 million, US$3.8 million, US$5.0 million, US$7.6 million and US$9.3 million.

29. As at May 1, 1995, shortly after Sino became a reporting issuer, Chan held 18.3% of Sino's outstanding common shares and 37.5% of its preference shares. As of April 29, 2011 he held 2.7% of Sino's common shares (the company no longer has preference shares outstanding). Chan has made in excess of $10 million through the sale of Sino shares.

30. Horsley is Sino's Chief Financial Officer, and has held this position since October 2005. In his position as Sino's CFO, Horsley has signed and certified the company's disclosure documents during the Class Period. Horsley resides in Ontario. Horsley has made in excess of $11 million through the sale of Sino shares.

31. Horsley certified each of Sino's Class Period annual and quarterly MD&As and financial statements, each of which is an Impugned Document. In so doing, he adopted as his own the false statements such documents contained, as particularized below. Horsley signed each of Sino's Class Period annual financial statements, each of which is an Impugned Document. In so doing, he adopted as his own the false statements such documents contained, as particularized below. As an officer, he caused Sino to make the misrepresentations particularized below.

32. Since becoming Sino's CFO, Horsley has also received lavish compensation from Sino. For 2006 to 2010, Horsley's total compensation (other than share-based compensation) was, respectively, US$1.1 million, US$1.4 million, US$1.7 million, US$2.5 million, and US$3.1 million.

33. Poon is a co-founder of Sino, and has been the President of the company since 1994. He was a director of Sino from 1994 to May 2009, and he continues to serve as Sino's President. Poon resides in Hong Kong, China. While he was a board member, he adopted as his own the false statements made in each of Sino's annual financial statements, particularized below, when such statements were signed on his behalf. While he was a board member, he caused Sino to make the misrepresentations particularized below.

34. As at May 1, 1995, shortly after Sino became a reporting issuer, Poon held 18.3% of Sino's outstanding common shares and 37.5% of its preference shares. As of April 29, 2011 he

held 0.42% of Sino's common shares. Poon has made in excess of $34.4 million through the sale of Sino shares.

35. Poon rarely attended board meetings while he was on Sino's board. From the beginning of 2006 until his resignation from the Board in 2009, he attended 5 of the 39 board meetings, or less than 13% of all board meetings held during that period.

36. Wang is a director of Sino, and has held this position since August 2007. Wang resides in Hong Kong, China. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

37. Martin has been a director of Sino since 2006, and was appointed vice-chairman in 2010. On or about August 25, 2011, Martin replaced Chan as Chief Executive Officer of Sino. Martin was a member of Sino's audit committee prior to early 2011. Martin has made in excess of $474,000 through the sale of Sino shares. He resides in Hong Kong, China. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized herein.

38. Mak is a director of Sino, and has held this position since 1994. Mak was a member of Sino's audit committee prior to early 2011. Mak and persons connected with Mak have made in excess of $6.4 million through sales of Sino shares. Mak resides in British Columbia. As a board member, he adopted as his own the false statements made in each of Sino's annual

financial statements, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

39. Murray is a director of Sino, and has held this position since 1999. Murray has made in excess of $9.9 million through sales of Sino shares. Murray resides in Hong Kong, China. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

40. Since becoming a director, Murray has rarely attended board and board committee meetings. From the beginning of 2006 to the close of 2010, Murray attended 14 of 64 board meetings, or less than 22% of board meetings held during that period. During that same period, Murray attended 2 out of 13, or 15%, of the meetings held by the Board's Compensation and Nominating Committee, and attended *none* of the 11 meetings of that Committee held from the beginning of 2007 to the close of 2010.

41. Hyde is a director of Sino, and has held this position since 2004. Hyde was previously a partner of E&Y. Hyde is the chairman of Sino's Audit Committee. Hyde, along with Chan, signed each of the 2007-2010 Annual Consolidated Financial Statements on behalf of Sino's board. Hyde is also member of the Compensation and Nominating Committee. Hyde has made in excess of $2.4 million through the sale of Sino shares. Hyde resides in Ontario. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements, particularized below, when he signed such statements or when they were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

42. Ardell is a director of Sino, and has held this position since January 2010. Ardell is a member of Sino's audit committee. Ardell resides in Ontario. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

43. Bowland was a director of Sino from February 2011 until his resignation from the Board of Sino in November 2011. While on Sino's Board, Bowland was a member of Sino's Audit Committee. He was formerly an employee of a predecessor to E&Y. Bowland resides in Ontario. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

44. West is a director of Sino, and has held this position since February 2011. West was previously a partner at E&Y. West is a member of Sino's Audit Committee. West resides in Ontario. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

45. As officer and/or directors of Sino, the Individual Defendants were fiduciaries of Sino, and they made the misrepresentations alleged herein, adopted such misrepresentations, and/or caused Sino to make such misrepresentations while they were acting in their capacity as fiduciaries, and in violation of their fiduciary duties. In addition, Chan, Poon, Horsley, Martin,

Mak and Murray were unjustly enriched in the manner and to the extent particularized below while they were acting in their capacity as fiduciaries, and in violation of their fiduciary duties.

46. At all material times, Sino maintained the Code, which governed Sino's employees, officers and directors, including the Individual Defendants. The Code stated that the members of senior management "are expected to lead according to high standards of ethical conduct, in both words and actions…" The Code further required that Sino representatives act in the best interests of shareholders, corporate opportunities not be used for personal gain, no one trade in Sino securities based on undisclosed knowledge stemming from their position or employment with Sino, the company's books and records be honest and accurate, conflicts of interest be avoided, and 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.

47. E&Y has been engaged as Sino's auditor since August 13, 2007. E&Y was also engaged as Sino's auditor from Sino's creation through February 19, 1999, when E&Y abruptly resigned during audit season and was replaced by the now-defunct Arthur Andersen LLP. E&Y was also Sino's auditor from 2000 to 2004, when it was replaced by BDO. E&Y is an expert of Sino within the meaning of the Securities Legislation.

48. E&Y, in providing what it purported to be "audit" services to Sino, made statements that it knowingly intended to be, and which were, disseminated to Sino's current and prospective security holders. At all material times, E&Y was aware of that class of persons, intended to and did communicate with them, and intended that that class of persons would rely on E&Y's statements relating to Sino, which they did to their detriment.

49. E&Y consented to the inclusion in the June 2009 and December 2009 Prospectuses, as well as the July 2008, June 2009, December 2009 and October 2010 Offering Memoranda, of its audit reports on Sino's Annual Financial Statements for various years, as alleged more particularly below.

50. BDO is the successor of BDO McCabe Lo Limited, the Hong Kong, China based auditing firm that was engaged as Sino's auditor during the period of March 21, 2005 through August 12, 2007, when they resigned at Sino's request, and were replaced by E&Y. BDO is an expert of Sino within the meaning of the Securities Legislation.

51. During the term of its service as Sino's auditor, BDO provided what it purported to be "audit" services to Sino, and in the course thereof made statements that it knowingly intended to be, and which were, disseminated to Sino's current and prospective security holders. At all material times, BDO was aware of that class of persons, intended to and did communicate with them, and intended that that class of persons rely on BDO's statements relating to Sino, which they did to their detriment.

52. BDO consented to the inclusion in each of the June 2007 and December 2009 Prospectuses and the July 2008, June 2009 and December 2009 Offering Memoranda, of its audit reports on Sino's Annual Financial Statements for 2005 and 2006.

53. E&Y and BDO's annual Auditors' Report was made "to the shareholders of Sino-Forest corporation," which included the Class Members. Indeed, s. 1000.11 of the Handbook of the Canadian Institute of Chartered Accountants states that "the objective of financial statements for profit-oriented enterprises focuses primarily on the information needs *of investors and creditors*" [emphasis added].

54. Sino's shareholders, including numerous Class Members, appointed E&Y as auditors of Sino-Forest by shareholder resolutions passed on various dates, including on June 21, 2004, May 26, 2008, May 25, 2009, May 31, 2010 and May 30, 2011.

55. Sino's shareholders, including numerous Class Members, appointed BDO as auditors of Sino-Forest by resolutions passed on May 16, 2005, June 5, 2006 and May 28, 2007.

56. During the Class Period, with the knowledge and consent of BDO or E&Y (as the case may be), Sino's audited annual financial statements for the years ended December 31, 2006, 2007, 2008, 2009 and 2010, together with the report of BDO or E&Y thereon (as the case may be), were presented to the shareholders of Sino (including numerous Class Members) at annual meetings of such shareholders held in Toronto, Canada on, respectively, May 28, 2007, May 26, 2008, May 25, 2009, May 31, 2010 and May 30, 2011. As alleged elsewhere herein, all such financial statements constituted Impugned Documents.

57. Pöyry is an international forestry consulting firm which purported to provide certain forestry consultation services to Sino. Pöyry is an expert of Sino within the meaning of the Securities Legislation.

58. Pöyry, in providing what it purported to be "forestry consulting" services to Sino, made statements that it knowingly intended to be, and which were, disseminated to Sino's current and prospective security holders. At all material times, Pöyry was aware of that class of persons, intended to and did communicate with them, and intended that that class of persons would rely on Pöyry's statements relating to Sino, which they did to their detriment.

59. Pöyry consented to the inclusion in the June 2007, June 2009 and December 2009 Prospectuses, as well as the July 2008, June 2009, December 2009 and October 2010 Offering Memoranda, of its various reports, as detailed below in paragraph ●.

60. The Underwriters are various financial institutions who served as underwriters in one or more of the Offerings.

61. In connection with the distributions conducted pursuant to the June 2007, June 2009 and December 2009 Prospectuses, the Underwriters who underwrote those distributions were paid, respectively, an aggregate of approximately $7.5 million, $14.0 million and $14.4 million in underwriting commissions. In connection with the offerings of Sino's notes in July 2008, December 2009, and October 2010, the Underwriters who underwrote those offerings were paid, respectively, an aggregate of approximately US$2.2 million, US$8.5 million and $US6 million. Those commissions were paid in substantial part as consideration for the Underwriters' purported due diligence examination of Sino's business and affairs.

62. None of the Underwriters conducted a reasonable investigation into Sino in connection with any of the Offerings. None of the Underwriters had reasonable grounds to believe that there was no misrepresentation in any of the Impugned Documents. In the circumstances of this case, including the facts that Sino operated in an emerging economy, Sino had entered Canada's capital markets by means of a reverse merger, and Sino had reported extraordinary results over an extended period of time that far surpassed those reported by Sino's peers, the Underwriters all ought to have exercised heightened vigilance and caution in the course of discharging their duties to investors, which they did not do. Had they done so, they would have uncovered Sino's true nature, and the Class Members to whom they owed their duties would not have sustained the losses that they sustained on their Sino investments.

V. THE OFFERINGS

63. Through the Offerings, Sino raised in aggregate in excess of $2.7 billion from investors during the Class Period. In particular:

(a) On June 5, 2007, Sino issued and filed with SEDAR the June 2007 Prospectus pursuant to which Sino distributed to the public 15,900,000 common shares at a price of $12.65 per share for gross proceeds of $201,135,000. The June 2007 Prospectus incorporated by reference Sino's: (1) 2006 AIF; (2) 2006 Audited Annual Financial Statements; (3) 2006 Annual MD&A; (4) Management Information Circular dated April 27, 2007; (5) Q1 2007 Financial Statements; and (6) Q1 2007 MD&A;

(b) On July 17, 2008, Sino issued the July 2008 Offering Memorandum pursuant to which Sino sold through private placement US$345 million in aggregate principal amount of convertible senior notes due 2013. The July 2008 Offering Memorandum included: (1) Sino's Consolidated Annual Financial Statements for 2005, 2006 and 2007; (2) Sino's unaudited interim financial statements for the three-month periods ended March 31, 2007 and 2008; (3) the section of the 2007 AIF entitled "Audit Committee" and the charter of the Audit Committee attached as an appendix to the 2007 AIF; and (4) the Pöyry report entitled "Sino-Forest Corporation Valuation of China Forest Assets Report as at 31 December 2007" dated March 14, 2008;

(c) On June 1, 2009, Sino issued and filed with SEDAR the June 2009 Prospectus pursuant to which Sino distributed to the public 34,500,000 common shares at a price of $11.00 per share for gross proceeds of $379,500,000. The June 2009 Prospectus incorporated by reference Sino's: (1) 2008 AIF; (2) 2007 and 2008 Annual Consolidated Financial Statements; (3) Amended 2008 Annual MD&A; (4) Q1 2009 MD&A; (5) Q1 2008 and 2009 Financial Statements; (6) Q1 2009 MD&A; (7) Management Information Circular dated April 28, 2009; and (8) the Pöyry report titled "Valuation of China Forest Corp Assets As at 31 December 2008" dated April 1, 2009;

(d) On June 24, 2009, Sino issued the June 2009 Offering Memorandum for exchange of certain of its then outstanding senior notes due 2011 with new notes, pursuant to which Sino issued US$212,330,000 in aggregate principal amount of 10.25% Guaranteed Senior Notes due 2014. The June 2009 Offering Memorandum incorporated by reference: (1) Sino's 2005, 2006 and 2007 Consolidated Annual Financial Statements; (2) the auditors' report of BDO dated March 19, 2007 with respect to Sino's Consolidated Annual Financial Statements for 2005 and 2006; (3) the auditors' report of E&Y dated March 12, 2008 with respect to Sino's Consolidated Annual Financial Statements for 2007 except as to notes 2, 18 and 23; (4) Sino's Consolidated Annual Financial Statements for 2007 and 2008 and the auditors' report of E&Y dated March 13, 2009; (5) the section entitled "Audit Committee" in the 2008 AIF, and the charter of the Audit Committee attached as an appendix to the 2008 AIF; and (6) the unaudited interim financial statements for the three-month periods ended March 31, 2008 and 2009;

(e) On December 10, 2009, Sino issued the December 2009 Offering Memorandum pursuant to which Sino sold through private placement US$460,000,000 in aggregate principal amount of 4.25% convertible senior notes due 2016. This Offering Memorandum incorporated by reference: (1) Sino's Consolidated Annual Financial Statements for 2005, 2006, 2007; (2) the auditors' report of BDO dated March 19, 2007 with respect to Sino's Annual Financial Statements for 2005 and 2006; (3) the auditors' report of E&Y dated March 12, 2008 with respect to Sino's Consolidated Annual Financial Statements for 2007, except as to notes 2, 18 and 23; (4) Sino's Consolidated Annual Financial Statements for 2007 and 2008 and the auditors' report of E&Y dated March 13, 2009; (5) the unaudited interim consolidated financial statements for the nine-month periods ended September 30, 2008 and 2009; (6) the section entitled "Audit Committee" in the 2008 AIF, and the charter of the Audit Committee attached to the 2008 AIF; (7) the Pöyry report entitled "Sino-Forest Corporation Valuation of China Forest Assets as at 31 December 2007"; and (8) the Pöyry report entitled "Sino-Forest Corporation Valuation of China Forest Corp Assets as at 31 December 2008" dated April 1, 2009;

(f) On December 10, 2009, Sino issued and filed with SEDAR the December 2009 Prospectus (together with the June 2007 Prospectus and the June 2009 Prospectus, the "**Prospectuses**") pursuant to which Sino distributed to the public 21,850,000 common shares at a price of $16.80 per share for gross proceeds of $367,080,000. The December 2009 Prospectus incorporated by reference Sino's: (1) 2008 AIF; (2) 2007 and 2008 Annual Consolidated Financial Statements; (3) Amended 2008 Annual MD&A; (4) Q3 2008 and 2009 Financial Statements; (5) Q3 2009 MD&A; (6) Management Information Circular dated April 28, 2009; and (7) the Pöyry report titled "Valuation of China Forest Corp Assets As at 31 December 2008" dated April 1, 2009;

(g) On February 8, 2010, Sino closed the acquisition of substantially all of the outstanding common shares of Mandra Forestry Holdings Limited. Concurrent with this acquisition, Sino completed an exchange with holders of 99.7% of the USD$195 million notes issued by Mandra Forestry Finance Limited and 96.7% of the warrants issued by Mandra Forestry Holdings Limited, for new 10.25% guaranteed senior notes issued by Sino in the aggregate principal amount of USD$187,177,375 with a maturity date of July 28, 2014. On February 11, 2010, Sino exchanged the new 2014 Senior Notes for an additional issue of USD$187,187,000 in aggregate principal amount of Sino's existing 2014 Senior Notes, issued pursuant to the June 2009 Offering Memorandum; and

(h) On October 14, 2010, Sino issued the October 2010 Offering Memorandum pursuant to which Sino sold through private placement US$600,000,000 in aggregate principal amount of 6.25% guaranteed senior notes due 2017. The October 2010 Offering Memorandum incorporated by reference: (1) Sino's Consolidated Annual Financial Statements for 2007, 2008 and 2009; (2) the auditors' report of E&Y dated March 15, 2010 with respect to Sino's Annual Financial Statements for 2008 and 2009; and (3) Sino's unaudited interim financial statements for the six-month periods ended June 30, 2009 and 2010.

64. The offering documents referenced in the preceding paragraph included, or incorporated other documents by reference that included, the Representation and the other misrepresentations in such documents that are particularized elsewhere herein. Had the truth in regard to Sino's management, business and affairs been timely disclosed, securities regulators likely would not have receipted the Prospectuses, nor would any of the Offerings have occurred.

65. Each of Chan, Horsley, Martin and Hyde signed the June 2007 Prospectus, and therein falsely certified that that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby. Each of Dundee, CIBC, Merrill and Credit Suisse also signed the June 2007 Prospectus, and therein falsely certified that, to the best of its knowledge, information and belief, that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

66. Each of Chan, Horsley, Martin and Hyde signed the June 2009 Prospectus, and therein falsely certified that that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby. Each of Dundee, Merrill, Credit Suisse, Scotia and TD also signed the June 2009 Prospectus, and therein falsely certified that, to the best of its knowledge, information and belief, that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

67. Each of Chan, Horsley, Martin and Hyde signed the December 2009 Prospectus, and therein falsely certified that that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities

offered thereby. Each of Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD also signed the December 2009 Prospectus, and therein falsely certified that, to the best of its knowledge, information and belief, that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

68. E&Y consented to the inclusion in: (1) the June 2009 Prospectus, of its audit reports on Sino's Audited Annual Financial Statements for 2007 and 2008; (2) the December 2009 Prospectus, of its audit reports on Sino's Audited Annual Financial Statements for 2007 and 2008; (3) the July 2008 Offering Memorandum, of its audit reports on Sino's Audited Annual Financial Statements for 2007, and its adjustments to Sino's Audited Annual Financial Statements for 2005 and 2006; (4) the December 2009 Offering Memorandum, of its audit reports on Sino's Audited Annual Financial Statements for 2007 and 2008; and (5) the October 2010 Offering Memoranda, of its audit reports on Sino's Audited Annual Financial Statements for 2008 and 2009.

69. BDO consented to the inclusion in each of the June 2007 and December 2009 Prospectuses and the July 2008, June 2009 and December 2009 Offering Memoranda of its audit reports on Sino's Audited Annual Financial Statements for 2006 and 2005.

VI. THE MISREPRESENTATIONS

70. During the Class Period, Sino made the misrepresentations particularized below. These misrepresentations related to:

A. Sino's history and fraudulent origins;

B. Sino's forestry assets;

C. Sino's related party transactions;

D. Sino's relationships with forestry bureaus and its purported title to forestry assets in the PRC;

E. Sino's relationships with its "Authorized Intermediaries;"

F. Sino's cash flows;

G. Certain risks to which Sino was exposed; and

H. Sino's compliance with GAAP and the Auditors' compliance with GAAS.

A. *Misrepresentations relating to Sino's History and Fraudulent Origins*

(i) Sino Overstates the Value of, and the Revenues Generated by, the Leizhou Joint Venture

71. At the time of its founding by way of reverse merger in 1994, Sino's business was conducted primarily through an equity joint venture between Sino's Hong Kong subsidiary, Sino-Wood Partners, Limited ("Sino-Wood"), and the Leizhou Forestry Bureau, which was situated in Guangdong Province in the south of the PRC. The name of the venture was Zhanjiang Leizhou Eucalyptus Resources Development Co. Ltd. ("**Leizhou**"). The stated purpose of Leizhou, established in 1994, was:

> Managing forests, wood processing, the production of wood products and wood chemical products, and establishing a production facility with an annual production capacity of 50,000 m^3 of Micro Density Fiber Board (MDF), managing a base of 120,000 mu (8,000 ha) of which the forest annual utilization would be 8,000 m^3.

72. There are two types of joint ventures in the PRC relevant to Sino: equity joint ventures ('**EJV**") and cooperating joint ventures ("**CJV**"). In an EJV, profits and assets are distributed in proportion to the parties' equity holdings upon winding up. In a CJV, the parties may contract to divide profits and assets disproportionately to their equity interests.

73. According to a Sino prospectus issued in January 1997, Leizhou, an EJV, was responsible for 20,000 hectares of the 30,000 hectares that Sino claimed to have "phased-in." Leizhou was the key driver of Sino's purported early growth.

74. Sino claimed to hold 53% of the equity in Leizhou, which was to total US$10 million, and Sino further claimed that the Leizhou Forestry Bureau was to contribute 20,000 ha of forestry land. In reality, however, the terms of the EJV required the Leizhou Forestry Bureau to contribute a mere 3,533 ha.

75. What was also unknown to investors was that Leizhou did not generate the sales claimed by Sino. More particularly, in 1994, 1995 and 1996, respectively, Sino claimed to have generated US$11.3 million, US$23.9 million and US$23.1 million in sales from Leizhou. In reality, however, these sales did not occur, or were materially overstated.

76. Indeed, in an undisclosed letter from Leizhou Forestry Bureau to Zhanjiang City Foreign and Economic Relations and Trade Commission, dated February 27, 1998, the Bureau complained:

> To: Zhanjiang Municipal Foreign Economic Relations & Trade Commission
>
> Through mutual consultation between Leizhou Forestry Administration (hereinafter referred to as *our side*) and Sino-Wood Partners Limited (hereinafter referred to as the *foreign party*), and, with the approval document ZJMPZ No.021 [1994] issued by your commission on 28th January 1994 for approving the contracts and articles of association entered into by both parties, and, with the approval certificate WJMZHZZZ No.065 [1994] issued by your commission, both parties jointly established Zhanjiang Eucalyptus Resources Development Co. Ltd. (hereinafter referred to as the Joint Venture) whose incorporate number is 162622-0012 and duly registered the same with Zhanjiang Administration for Industry and Commerce and obtained the business license GSQHYZ No.00604 on 29th January in the same year. It has been 4 years since the registration and we set out the situation as follows:
>
> I. Information of the investment of both sides

A. The investment of our side: according to the contract and articles of association signed by both sides and approved by your commission, our side has paid in RMB95,481,503.29 (equivalent to USD11,640,000.00) to the Joint Venture on 20th June 1995 through an in-kind contribution. The payment was made in accordance with the prescribed procedures and confirmed by signatures of the legal representatives of both parties. According to the Capital Verification Report from Yuexi ( ) Accounting Firm, this payment accounts for 99.1% of the agreed capital contribution from our side, which is USD11,750,000, and accounts for 46.56% of the total investment.

B. The investment of the foreign party: the foreign party has paid in USD1,000,000 on 16th March 1994, which was in the starting period of the Joint Venture. According to the Capital Verification Report from Yuexi ( ) Accounting Firm, this payment only accounts for 7.55% of the agreed capital contribution from the foreign party totaling USD13,250,000, and accounts for 4% of the total investment. Then, in the prescribed investment period, the foreign party did not further pay capital into the Joint Venture. In view of this, your commission sent a "Notice on Time for Capital Contribution" to the foreign party on 30th January 1996. In accordance with the notice, the foreign party then on 10th April sent a letter to your commission, requesting for postponing the deadline for capital contribution to 20th December the same year. On 14th May 1996, your commission replied to Allen Chan ( ), the Chairman of the Joint Venture, stating that "postponement of the deadline for capital contribution is subject to the consent of our side and requires amendment of the term on the capital contribution time in the original contract, and both parties shall sign a bilateral supplementary contract; after the application has been approved, the postponed deadline will become effective.". Based on the spirit of the letter dated 14th May from your commission and for the purpose of achieving mutual communication and dealing with the issues of the Joint Venture actively and appropriately, on 11th June 1996, Chan Shixing ( ) and two other Directors from our side sent a joint letter to Allen Chan ( ), the Chairman of the Joint Venture, to propose a meeting of the board to be convened before 30th June 1996 in Zhanjiang, in order to discuss how to deal with the issues of the Joint Venture in accordance with the relevant State provisions. Unfortunately, the foreign party neither had discussion with our side pursuant to your commission's letter, nor replied to the proposal of our side, and furthermore failed to make payment to the Joint Venture. Now, it has been two years beyond the deadline for capital contribution (29th January 1996), and more than one year beyond the date prescribed by the Notice on Time for Capital Contribution issued by your commission (30th April 1996). However, the foreign party has been evading the discussion of the capital contribution issue, and moreover has taken no further action.

II. ***The Joint Venture is not capable of attaining substantial operation***

According to the contract and articles of association, the main purposes of setting up the Joint Venture are, on the one hand, to invest and construct a project producing 50,000 cubic meter Medium Density Fiberboard (MDF) a year; and on the other hand, to create a forest base of 120,000 mu, with which to produce 80,000 cubic meter of timber as raw material for the production of medium density fiberboard. The contract and articles of association also prescribed that the whole funding required for the MDF board project should be paid by the foreign party in cash; our side should pay in-kind the proportion of the fund prescribed by the contract. ***After contributing capital of USD1,000,000 in the early stage, the foreign party not only failed to make subsequent capital contributions, but also in their own name successively withdrew a total amount of RMB4,141,045.02, from the funds they contributed, of which USD270,000 was paid to Huadu Baixing Wood Products Factory ( ), which has no business relationship with the Joint Venture. This amount of money equals 47.6% of [the foreign party's] paid in capital. Although our side has almost paid off the agreed capital contribution (only short 0.9% of the total committed), due to the limited contribution from the foreign party and the fact that they withdrew a huge amount of money from those funds originally contributed by them, it is impossible for the Joint Venture to construct or set up production projects and to commence production operation while the funds have been insufficient and the foreign party did not pay in the majority of the subscribed capital. In fact, the Joint Venture therefore is merely a shell, existing in name only.***

Additionally, after the establishment of the Joint Venture, its internal operations have been extremely abnormal, for example, annual board meetings have not been held as scheduled; annual reports on the status and the results of the annual financial audit are missing; the withdrawal of the huge amount of funds by the foreign party was not discussed in the board meetings, etc. It is hard to list all here.

In light of the present state of contributions by both sides and the status of the Joint Venture from its establishment till now, our side now applies to your commission for:

1. The cancellation of the approval certificate for "Zhanjiang Eucalyptus Resources Development Co. Ltd.", i.e. WJMZHZZZ No. 065[1994], based on the relevant provisions of Certain Regulations on the Subscription of Capital by the Parties to Sino-Foreign Joint Equity Enterprises,

2. Direct the Joint Venture to complete the deregistration procedures for "Zhanjiang Eucalyptus Resources Development Co. Ltd." at the local Administration for Industry and Commerce, and for the return of its business license.

3. Coordination with both parties to resolve the relevant remaining issues.

Please let us have your reply on whether the above is in order.

The Seal of the Leizhou Forestry Bureau

1998, February 27

[Translation; emphasis added.]

77. In its 1996 Annual Financial Statements, Sino stated:

> The $14,992,000 due from the LFB represents cash collected from the sale of wood chips on behalf of the Leizhou EJV. As originally agreed to by Sino-Wood, the cash was being retained by the LFB to fund the ongoing plantation costs of the Leizhou EJV incurred by the LFB. Sino-Wood and LFB have agreed that the amount due to the Leizhou EJV, after reduction for plantation costs incurred, will be settled in 1997 concurrent with the settlement of capital contributions due to the Leizhou EJV by Sino-Wood.

78. These statements were false, inasmuch as Leizhou never generated such sales. Leizhou was wound-up in 1998.

79. At all material times, Sino's founders, Chan and Poon, were fully aware of the reality relating to Leizhou, and knowingly misrepresented the true status of Leizhou, as well as its true revenues and profits.

(ii) Sino's Fictitious Investment in SJXT

80. In Sino's audited financial statements for the year ended December 31, 1997, filed on SEDAR on May 20, 1998 (the "**1997 Financial Statements**"), Sino stated that, in order to establish strategic partnerships with key local wood product suppliers and to build a strong distribution for the wood-based product and contract supply businesses, it had acquired a 20% equity interest in "Shanghai Jin Xiang Timber Ltd." ("**SJXT**"). Sino then described SJXT as an

EJV that had been formed in 1997 by the Ministry of Forestry in China, and declared that its function was to organize and manage the first and only official market for timber and log trading in Eastern China. It further stated that the investment in SJXT was expected to provide the Company with good accessibility to a large base of potential customers and companies in the timber and log businesses in Eastern China.

81. There is, in fact, no entity known as “Shanghai Jin Xiang Timber Ltd.” While an entity called “Shanghai Jin Xiang Timber Wholesale Market” does exist, Sino did not have, as claimed in its disclosure documents, an equity stake in that venture.

82. According to the 1997 Audited Annual Financial Statements, the total investment of SJXT was estimated to be US$9.7 million, of which Sino would be required to contribute approximately US$1.9 million for a 20% equity interest. The 1997 Audited Annual Financial Statements stated that, as at December 31, 1997, Sino had made capital contributions to SJXT in the amount of US$1.0 million. In Sino’s balance sheet as at December 31, 1997, the SXJT investment was shown as an asset of $1.0 million.

83. In October 1998, Sino announced an Agency Agreement with SJXT. At that time, Sino stated that it would provide 130,000 m^3 of various wood products to SJXT over an 18 month period, and that, based on then-current market prices, it expected this contract to generate “significant revenue” for Sino-Forest amounting to approximately $40 million. The revenues that were purportedly anticipated from the SJXT contract were highly material to Sino. Indeed, Sino’s total reported revenues in 1998 were $92.7 million.

84. In Sino’s Audited Annual Financial Statements for the year ended December 31, 1998, which statements were filed on SEDAR on May 18, 1999 (the “**1998 Financial Statements**”), Sino again stated that, in 1997, it had acquired a 20% equity interest in SJXT, that the total

investment in SJXT was estimated to be US$9.7 million, of which Sino would be required to contribute approximately $1.9 million, representing 20% of the registered capital, and that, as at December 31, 1997 and 1998, Sino had made contributions in the amount of US$1.0 million to SJXT. In Sino's balance sheet as at December 31, 1998, the SXJT investment was again shown as an asset of US$1.0 million.

85. Sino also stated in the 1998 Audited Annual Financial Statements that, during 1998, the sale of logs and lumber to SJXT amounted to approximately US$537,000. These sales were identified in the notes to the 1998 Financial Statements as related party transactions.

86. In Sino's Annual Report for 1998, Chan stated that lumber and wood products trading constituted a "promising new opportunity." Chan explained that:

> ***SJXT represents a very significant development for our lumber and wood products trading business. The market is prospering and continues to look very promising***. Phase I, consisting of 100 shops, is completed. Phases II and III are expected to be completed by the year 2000. This expansion would triple the size of the Shanghai Timber Market.
>
> ***The Shanghai Timber Market is important to Sino-Forest as a generator of significant new revenue. In addition to supplying various forest products to the market from our own operations, our direct participation in SJXT increases our activities in sourcing a wide range of other wood products both from inside China and internationally.***
>
> ***The Shanghai Timber Market is also very beneficial to the development of the forest products industry in China because it is the first forest products national sub-market in the eastern region of the country.***
>
> […]
>
> ***The market also greatly facilitates Sino-Forest's networking activities, enabling us to build new industry relationships and add to our market intelligence, all of which increasingly leverage our ability to act as principal in our dealings.***
>
> [Emphasis added.]

87. Chan also stated in the 1998 Annual Report that the "Agency Agreement with SJXT [is] expected to generate approximately $40 million over 18 months."

88. In Sino's Annual Report for 1999, Sino stated:

> ***There are also promising growth opportunities as Sino-Forest's investment in Shanghai Jin Xiang Timber Ltd. (SJXT or the Shanghai Timber Market), develops***. The Company also continues to explore opportunities to establish and reinforce ties with other international forestry companies and to bring our e-commerce technology into operation.
>
> Sino-Forest's investment in the Shanghai Timber Market — the first national forest products submarket in eastern China — has provided a strong foundation for the Company's lumber and wood products trading business.
>
> [Emphasis added.]

89. In Sino's MD&A for the year ended December 31, 1999, Sino also stated that:

> ***Sales from lumber and wood products trading increased 264% to $34.2 million compared to $9.4 million in 1998. The increase in lumber and wood products trading is attributable largely to the increase in new business generated from our investment in Shanghai Jin Xiang Timber Ltd. (SJXT) and a larger sales force in 1999.*** Lumber and wood products trading on an agency basis has increased 35% from $2.3 million in 1998 to $3.1 million in 1999. The increase in commission income on lumber and wood products trading is attributable to approximately $1.8 million of fees earned from a new customer.
>
> [Emphasis added.]

90. That same MD&A, however, also states that "The investment in SJXT has contributed to the significant growth of the lumber and wood products trading business, ***which has recorded an increase in sales of 219% from $11.7 million in 1998 to $37.2 million in 1999***" (emphasis added).

91. In Sino's Audited Annual Financial Statements for the year ended December 31, 1999, which statements were filed on SEDAR on May 18, 2000 (the "**1999 Financial Statements**"), Sino stated:

> During the year, Shanghai Jin Xiang Timber Ltd. ["SJXT"] applied to increase ***the original total capital contributions of $868,000*** [Chinese renminbi 7.2 million] to $1,509,000 [Chinese renminbi 12.5 million]. Sino-Wood is required to ***make an additional contribution of $278,000*** as a result of the increase in total capital contributions. The additional capital contribution of $278,000 was made in 1999 ***increasing its equity interest in SJXT from 27.8% to 34.4%.*** The principal activity of SJXT is to organize trading of timber and logs in the PRC market.
>
> [Emphasis added.]

92. The statements made in the 1999 Financial Statements contradicted Sino's prior representations in relation to SJXT. Among other things, Sino previously claimed to have made a capital contribution of $1,037,000 for a 20% equity interest in SJXT.

93. In addition, note 2(b) to the 1999 Financial Statements stated that, "[a]s at December 31, 1999, $796,000...advances to SJXT remained outstanding. The advances to SJXT were unsecured, non-interest bearing and without a fixed repayment date." Thus, assuming that Sino's contributions to SJXT were actually made, then Sino's prior statements in relation to SJXT were materially misleading, and violated GAAP, inasmuch as those statements failed to disclose that Sino had made to SJXT, a related party, a non-interest bearing loan of $796,000.

94. In Sino's Audited Annual Financial Statements for the year ended December 31, 2000, which statements were filed on SEDAR on May 18, 2000 (the "**2000 Financial Statements**"), Sino stated:

> In 1999, Shanghai Jin Xiang Timber Ltd. ("SJXT") applied to increase the original total capital contributions of $868,000 [Chinese renminbi 7.2 million] to $1,509,000 [Chinese renminbi 12.5 million]. Sino-Wood is required to make an additional contribution of $278,000 as a result of the increase in total capital contributions. The additional capital contribution of $278,000 was made in 1999 increasing its equity interest in SJXT from 27.8% to 34.4%. The principal activity of SJXT is to organize the trading of timber and logs in the PRC market. During the year, advances to SJXT of $796,000 were repaid.

95. In Sino's balance sheet as at December 31, 2000, the SJXT investment was shown as an asset of $519,000, being the sum of Sino's purported SJXT investment of $1,315,000 as at December 31, 1999, and the $796,000 of "advances" purportedly repaid to Sino by SJXT during the year ended December 31, 2000.

96. In Sino's Annual Reports (including the audited annual financial statements contained therein) for the years 2001 and beyond, there is no discussion whatsoever of SJXT. Indeed, Sino's "promising" and "very significant" investment in SJXT simply evaporated, without explanation, from Sino's disclosure documents. In fact, and unbeknownst to the public, Sino never invested in a company called "Shanghai Jin Xiang Timber Ltd." Chan and Poon knew, or were reckless in not knowing of, that fact.

97. At all material times, Sino's founders, Chan and Poon, were fully aware of the reality relating to SJXT, and knowingly misrepresented the true status of SJXT and Sino's interested therein.

(iii) Sino's Materially Deficient and Misleading Class Period Disclosures regarding Sino's History

98. During the Class Period, the Sino disclosure documents identified below purported to provide investors with an overview of Sino's history. However, those disclosure documents, and indeed all of the Impugned Documents, failed to disclose the material fact that, from its very founding, Sino was a fraud, inasmuch as its purportedly key investments in Leizhou and SJXT were either grossly inflated or fictitious.

99. Accordingly, the statements particularized in paragraphs 100 to 104 below were misrepresentations. The misleading nature of such statements was exacerbated by the fact that, throughout the Class Period, Sino's senior management and Board purported to be governed by

the Code, which touted the "high standards of ethical conduct, in both words and actions", of Sino's senior management and Board.

100. In the Prospectuses, Sino described its history, but did not disclose that the SJXT investment was fictitious, or that the revenues generated by Leizhou were non-existent or grossly overstated.

101. In particular, the June 2007 Prospectus stated merely that:

> The Corporation was formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. The articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to the Corporation's class A subordinate-voting shares and class B multiple-voting shares. On June 25, 2002, the Corporation filed articles of continuance to continue under the *Canada Business Corporations Act*. On June 22, 2004, the Corporation filed articles of amendment whereby its class A subordinate-voting shares were reclassified as Common Shares and its class B multiple-voting shares were eliminated.

102. Similarly, the June 2009 Prospectus stated only that:

> The Corporation was formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. The articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to the Corporation's class A subordinate-voting shares and class B multiple-voting shares. On June 25, 2002, the Corporation filed articles of continuance to continue under the *Canada Business Corporations Act*. On June 22, 2004, the Corporation filed articles of amendment whereby its class A subordinate-voting shares were reclassified as Common Shares and its class B multiple-voting shares were eliminated.

103. Finally, the December 2009 Prospectus stated only that:

> The Corporation was formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. The articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to the

> Corporation's class A subordinate-voting shares and class B multiple-voting shares. On June 25, 2002, the Corporation filed articles of continuance to continue under the *Canada Business Corporations Act* (the "CBCA"). On June 22, 2004, the Corporation filed articles of amendment whereby its class A subordinate-voting shares were reclassified as Common Shares and its class B multiple-voting shares were eliminated.

104. The failure to disclose the true nature of, and/or Sino's revenues and profits from, SJXT and Leizhou in the historical narrative in the Prospectuses rendered those Prospectuses materially false and misleading. Those historical facts would have alerted persons who purchased Sino shares under the Prospectuses, and/or in the secondary markets, to the highly elevated risk of investing in a company that continued to be controlled by Chan and Poon, both of whom were founders of Sino, and both of whom had knowingly misrepresented the true nature of Leizhou and SJXT from the time of Sino's creation. Thus, Sino was required to disclose those historical facts to the Class Members during the Class Period, but failed to do so, either in the Prospectuses or in any other Impugned Document.

B. *Misrepresentations relating to Sino's Forestry Assets*

(i) Sino Overstates its Yunnan Forestry Assets

105. In a press release issued by Sino and filed on SEDAR on March 23, 2007, Sino announced that it had entered into an agreement to sell 26 million shares to several institutional investors for gross proceeds of US$200 million, and that the proceeds would be used for the acquisition of standing timber, including pursuant to a new agreement to purchase standing timber in Yunnan Province. It further stated in that press release that Sino-Panel (Asia) Inc. ("**Sino-Panel**"), a wholly-owned subsidiary of Sino, had entered on that same day into an agreement with Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd., ("**Gengma Forestry**") established in Lincang City, Yunnan Province in the PRC, and that, under that Agreement, Sino-Panel would acquire approximately 200,000 hectares of non-state owned

commercial standing timber in Lincang City and surrounding cities in Yunnan for US$700 million to US$1.4 billion over a 10-year period.

106. These same terms of Sino's Agreement with Gengma Forestry were disclosed in Sino's Q1 2007 MD&A. Moreover, throughout the Class Period, Sino discussed its purported Yunnan acquisitions in the Impugned Documents, and Pöyry repeatedly made statements regarding said holdings, as particularized below.

107. The reported acquisitions did not take place. Sino overstated to a material degree the size and value of its forestry holdings in Yunnan Province. It simply does not own all of the trees it claims to own in Yunnan. Sino's overstatement of the Yunnan forestry assets violated GAAP.

108. The misrepresentations about Sino's acquisition and holdings of the Yunnan forestry assets were made in all of the Impugned Documents that were MD&As, financial statements, AIFs, Prospectuses and Offering Memoranda, except for the 2005 Audited Annual Financial Statements, the Q1 2006 interim financial statements, the 2006 Audited Annual Financial Statements, the 2006 Annual MD&A.

(ii) Sino Overstates its Suriname Forestry Assets; Alternatively, Sino fails to Disclose the Material Fact that its Suriname Forestry Assets are contrary to the Laws of Suriname

109. In mid-2010, Sino became a majority shareholder of Greenheart Group Ltd., a Bermuda corporation having its headquarters in Hong Kong, China and a listing on the Hong Kong Stock Exchange ("**Greenheart**").

110. In August 2010, Greenheart issued an aggregate principal amount of US$25,000,000 convertible notes for gross proceeds of US$24,750,000. The sole subscriber of these convertible notes was Greater Sino Holdings Limited, an entity in which Murray has an indirect interest. In

addition, Chan and Murray then became members of Greenheart's Board, Chan became the Board's Chairman, and Martin became the CEO of Greenheart and a member of its Board.

111. On August 24, 2010 and December 28, 2010, Greenheart granted to Chan, Martin and Murray options to purchase, respectively, approximately 6.8 million, 6.8 million and 1.1 million Greenheart shares. The options are exercisable for a five-year term.

112. As at March 31, 2011, General Enterprise Management Services International Limited, a company in which Murray has an indirect interest, held 7,000,000 shares of Greenheart, being 0.9% of the total issued and outstanding shares of Greenheart.

113. As a result of the aforesaid transactions and interests, Sino, Chan, Martin and Murray stood to profit handsomely from any inflation in the market price of Greenheart's shares.

114. At all material times, Greenheart purported to have forestry assets in New Zealand and Suriname. On March 1, 2011, Greenheart issued a press release in which it announced that:

> **Greenheart acquires certain rights to additional 128,000 hectare concession in Suriname**
>
> *****
>
> **312,000 hectares now under Greenheart management**
>
> Hong Kong, March 1, 2011 – Greenheart Group Limited ("Greenheart" or "the Company") (HKSE: 00094), an investment holding company with forestry assets in Suriname and New Zealand (subject to certain closing conditions) today announced that ***the Company has acquired 60% of Vista Marine Services N.V. ("Vista"), a private company based in Suriname, South America that controls certain harvesting rights to a 128,000 hectares hardwood concession. Vista will be rebranded as part of the Greenheart Group. This transaction will increase Greenheart's concessions under management in Suriname to approximately 312,000 hectares.*** The cost of this acquisition is not material to the Company as a whole but the Company is optimistic about the prospects of Vista and the positive impact that it will bring. ***The concession is located in the Sipalawini district of Suriname, South America, bordering Lake Brokopondo and has an estimated annual allowable cut of approximately 100,000 cubic meters.***

> Mr. Judson Martin, Chief Executive Officer of Greenheart and Vice-Chairman of Sino-Forest Corporation, the Company's controlling shareholder said, "This acquisition is in line with our growth strategy to expand our footprint in Suriname. In addition to increased harvestable area, this acquisition will bring synergies in sales, marketing, administration, financial reporting and control, logistics and overall management. I am pleased to welcome Mr. Ty Wilkinson to Greenheart as our minority partner. Mr. Wilkinson shares our respect for the people of Suriname and the land and will be appointed Chief Executive Officer of this joint venture and be responsible for operating in a sustainable and responsible manner. This acquisition further advances Greenheart's strategy of becoming a global agri-forestry company. We will continue to actively seek well-priced and sustainable concessions in Suriname and neighboring regions in the coming months."
>
> [Emphasis added.]

115. In its 2010 AIF, filed on SEDAR on March 31, 2011, Sino stated:

> We hold a majority interest in Greenheart Group which, together with its subsidiaries, owns certain rights and ***manages approximately 312,000 hectares of hardwood forest concessions in the Republic of Suriname, South America*** ("Suriname") and 11,000 hectares of a radiata pine plantation on 13,000 hectares of freehold land in New Zealand as at March 31, 2011. ***We believe that our ownership in Greenheart Group will strengthen our global sourcing network in supplying wood fibre for China in a sustainable and responsible manner.***
>
> [Emphasis added.]

116. The statements reproduced in the preceding paragraph were false and/or materially misleading when made. Under the Suriname *Forest Management Act*, it is prohibited for one company or a group of companies in which one person or company has a majority interest to control more than 150,000 hectares of land under concession. Therefore, either Greenheart's concessions under management in Suriname did not exceed 150,000 hectares, or Greenheart's concessions under management in Suriname violated the laws of Suriname, which was a material fact not disclosed in any of the Impugned Documents.

117. In each of the October 2010 Offering Memorandum, the 2010 Annual MD&A, the 2010 AIF, Sino represented that Greenheart had well in excess of 150,000 hectares of concession

under management in Suriname without however disclosing that Suriname law imposed a limit of 150,000 hectares on Greenheart and its subsidiaries.

118. Finally, Vista's forestry concessions are located in a region of Suriname populated by the Saramaka, an indigenous people. Pursuant to the American Convention on Human Rights and a decision of the Inter-American Court of Human Rights, the Saramaka people must have effective control over their land, including the management of their reserves, and must be effectively consulted by the State of Suriname. Sino has not disclosed in any of the Impugned Documents where it has discussed Greenheart and/or Suriname assets that Vista's purported concessions in Suriname, if they exist at all, are impaired due to the unfulfilled rights of the indigenous people of Suriname, in violation of GAAP. The Impugned Documents that omitted that disclosure were the 2010 Annual MD&A, the 2010 Audited Annual Financial Statements, and the 2010 AIF.

(iii) Sino overstates its Jiangxi Forestry Assets

119. On June 11, 2009, Sino issued a press release in which it stated:

> Sino-Forest Corporation (TSX: TRE), a leading commercial forest plantation operator in China, announced today that its wholly-owned subsidiary, Sino-Panel (China) Investments Limited ("Sino-Panel"), has entered into a Master Agreement for the Purchase of Pine and Chinese Fir Plantation Forests (the "Jiangxi Master Agreement") with Jiangxi Zhonggan Industrial Development Company Limited ("Jiangxi Zhonggan"), which will act as the authorized agent for the original plantation rights holders.
>
> Under the Jiangxi Master Agreement, Sino-Panel will, through PRC subsidiaries of Sino-Forest, acquire between 15 million and 18 million cubic metres (m^3) of wood fibre located in plantations in Jiangxi Province over a three-year period with a price not to exceed RMB300 per m^3, to the extent permitted under the relevant PRC laws and regulations. ***The plantations in which such amount of wood fibre to acquire is between 150,000 and 300,000 hectares*** to achieve an estimated average wood fibre yield of approximately 100 m^3 per hectare, and include tree species such as pine, Chinese fir and others. Jiangxi Zhonggan will ensure plantation forests sold to Sino-Panel and its PRC subsidiaries are non-state-owned, non-natural, commercial plantation forest trees.
>
> In addition to securing the maximum tree acquisition price, Sino-Panel has pre-emptive rights to lease the underlying plantation land at a price, permitted under the relevant PRC laws and regulations, not to exceed RMB450 per hectare per annum for 30 years from the

time of harvest. The land lease can also be extended to 50 years as permitted under PRC laws and regulations. The specific terms and conditions of purchasing or leasing are to be determined upon the execution of definitive agreements between the PRC subsidiaries of Sino-Panel and Jiangxi Zhonggan upon the authorisation of original plantation rights holders, and subject to the requisite governmental approval and in compliance with the relevant PRC laws and regulations.

Sino-Forest Chairman and CEO Allen Chan said, "We are fortunate to have been able to capture and support investment opportunities in China's developing forestry sector by locking up a large amount of fibre at competitive prices. The Jiangxi Master Agreement is Sino-Forest's fifth, long-term, fibre purchase agreement during the past two years. These five agreements cover a total plantation area of over one million hectares in five of China's most densely forested provinces."

[Emphasis added.]

120. According to Sino's 2010 Annual MD&A, as of December 31, 2010, Sino had acquired 59,700 ha of plantation trees from Jiangxi Zhonggan Industrial Development Company Limited ("**Zhonggan**") for US$269.1 million under the terms of the master agreement. (In its interim report for the second quarter of 2011, which was issued after the Class Period, Sino claims that, as at June 30, 2011, this number had increased to 69,100 ha, for a purchase price of US$309.6 million).

121. However, as was known to Sino, Chan, Poon and Horsley, and as ought to have been known to the remaining Individual Defendants, BDO, E&Y and Pöyry, Sino's plantation acquisitions through Zhonggan are materially smaller than Sino has claimed.

(iv) Poyry makes Misrepresentations in relation to Sino's Forestry Assets

122. As particularized above, Sino overstated its forestry assets in Yunnan and Jiangxi Provinces in the PRC and in Suriname. Accordingly, Sino's total assets are overstated to a material degree in all of the Impugned Documents, in violation of GAAP, and each such statement of Sino's total assets constitutes a misrepresentation.

123. In addition, during the Class Period, Pöyry and entities affiliated with it made statements that are misrepresentations in regard to Sino's Yunnan Province "assets," namely:

(a) In a report dated March 14, 2008, filed on SEDAR on March 31, 2008 (the "2008 Valuations"), Pöyry: (a) stated that it had determined the valuation of the Sino forest assets to be US$3.2 billion as at 31 December 2007; (b) provided tables and figures regarding Yunnan; (c) stated that "Stands in Yunnan range from 20 ha to 1000 ha," that "In 2007 Sino-Forest purchased an area of mixed broadleaf forest in Yunnan Province," that "Broadleaf forests already acquired in Yunnan are all mature," and that "Sino-Forest is embarking on a series of forest acquisitions/expansion efforts in Hunan, Yunnan and Guangxi;" and (d) provided a detailed discussion of Sino's Yunnan "holdings" at Appendixes 3 and 5. Pöyry's 2008 Valuations were incorporated in Sino's 2007 Annual MD&A, amended 2007 Annual MD&A, 2007 AIF, each of the Q1, Q2, and Q3 2008 MD&As, Annual 2008 MD&A, amended Annual 2008 MD&A, each of the Q1, Q2 and Q3 2009, annual 2009 MD&A, and July 2008 and December 2009 Offering Memoranda;

(b) In a report dated April 1, 2009 and filed on SEDAR on April 2, 2009 (the "2009 Valuations"), Pöyry stated that "[t]he area of forest owned in Yunnan has quadrupled from around 10 000 ha to almost 40 000 ha over the past year," provided figures and tables regarding Yunnan, and stated that "Sino-Forest has increased its holding of broadleaf crops in Yunnan during 2008, with this province containing nearly 99% of its broadleaf resource." Pöyry's 2009 Valuations were incorporated in Sino's 2008 AIF, each of the Q1, Q2, Q3 2009 MD&As, Annual 2009 MD&A, June 2009 Offering Memorandum, and June 2009 and December 2009 Prospectuses;

(c) In a "Final Report" dated April 23, 2010, filed on SEDAR on April 30, 2010 (the "2010 Valuations"), Pöyry stated that "Guangxi, Hunan and Yunnan are the three largest provinces in terms of Sino-Forest's holdings. The largest change in area by province, both in absolute and relative terms [sic] has been Yunnan, where the

area of forest owned has almost tripled, from around 39 000 ha to almost 106 000 ha over the past year," provided figures and tables regarding Yunnan, stated that "Yunnan contains 106 000 ha, including 85 000 ha or 99% of the total broadleaf forest," stated that "the three provinces of Guangxi, Hunan and Yunnan together contain 391 000 ha or about 80% of the total forest area of 491 000 ha" and that "[a]lmost 97% of the broadleaf forest is in Yunnan," and provided a detailed discussion of Sino's Yunnan "holdings" at Appendixes 3 and 4. Pöyry's 2010 Valuations were incorporated in Sino's 2009 AIF, the annual 2009 MD&A, each of the Q1, Q2 and Q3 2010 MD&As, and the October 2010 Offering Memorandum;

(d) In a "Summary Valuation Report" regarding "Valuation of Purchased Forest Crops as at 31 December 2010" and dated May 27, 2011, Pöyry provided tables and figures regarding Yunnan, stated that "[t]he major changes in area by species from December 2009 to 2010 has been in Yunnan pine, with acquisitions in Yunnan and Sichuan provinces" and that "[a]nalysis of [Sino's] inventory data for broadleaf forest in Yunnan, and comparisons with an inventory that Pöyry undertook there in 2008 supported the upwards revision of prices applied to the Yunnan broadleaf large size log," and stated that "[t]he yield table for Yunnan pine in Yunnan and Sichuan provinces was derived from data collected in this species in these provinces by Pöyry during other work;" and

(e) In a press release titled "Summary of Sino-Forest's China Forest Asset 2010 Valuation Reports" and which was "jointly prepared by Sino-Forest and Pöyry to highlight key findings and outcomes from the 2010 valuation reports," Pöyry reported on Sino's "holdings" and estimated the market value of Sino's forest assets on the 754,816 ha to be approximately US$3.1 billion as at December 31, 2010.

C. *Misrepresentations relating to Sino's Related Party Transactions*

(i) Related Party Transactions Generally

124. Under GAAP and GAAS, a "related party" exists "when one party has the ability to exercise directly or indirectly, control, joint control or significant influence over the other." (CICA Handbook 3840.03) Examples include a parent-subsidiary relationship or an entity that is economically dependent upon another.

125. Related parties raise the concern that transactions may not be conducted at arm's length, and pricing or other terms may not be determined at fair market values. For example, when a subsidiary "sells" an asset to its parent at a given price, it may not be appropriate that that asset be reported on the balance sheet or charged against the earnings of the parent at that price. Where transactions are conducted between arm's length parties, this concern is generally not present.

126. The existence of related party transactions is important to investors irrespective of the reported dollar values of the transactions because the transactions may be controlled, manipulated and/or concealed by management (for example, for corporate purposes or because fraudulent activity is involved), and because such transactions may be used to benefit management or persons close to management at the expense of the company, and therefore its shareholders.

(ii) Sino fails to disclose that Zhonggan was a Related Party

127. Irrespective of the true extent of Zhonggan's transactions in Jiangxi forestry plantations, Sino failed to disclose, in violation of GAAP, that Zhonggan was a related party of Sino. More particularly, according to AIC records, the legal representative of Zhonggan is Lam Hong Chiu, who is an executive vice president of Sino. Lam Hong Chiu is also a director and a 50%

shareholder of China Square Industrial Limited, a BVI corporation which, according to AIC records, owns 80% of the equity of Zhonggan.

128. The Impugned Documents that omitted that disclosure were the Q2 2009 MD&A, the Q2 2009 interim financial statements, the Q3 2009 MD&A, the Q3 2009 interim financial statements, the December 2009 Prospectus, the 2009 Annual MD&A, the 2009 Audited Annual Financial Statements, the 2009 AIF, the Q1 2010 MD&A, the Q1 2010 interim financial statements, the Q2 2010 MD&A, the Q2 2010 interim financial statements, the Q3 2010 MD&A, the Q3 2010 interim financial statements, the 2010 Annual MD&A, the 2010 Audited Annual Financial Statements, and the 2010 AIF.

(iii) Sino fails to disclose that Homix was a Related Party

129. On January 12, 2010, Sino issued a press release in which it announced the acquisition by one of its wholly-owned subsidiaries of Homix Limited ("**Homix**"), which it described as a company engaged in research and development and manufacturing of engineered-wood products in China, for an aggregate amount of US$7.1 million. That press release stated:

> HOMIX has an R&D laboratory and two engineered-wood production operations based in Guangzhou and Jiangsu Provinces, covering eastern and southern China wood product markets. The company has developed a number of new technologies with patent rights, specifically suitable for domestic plantation logs including poplar and eucalyptus species. HOMIX specializes in curing, drying and dyeing methods for engineered wood and has the know-how to produce recomposed wood products and laminated veneer lumber. Recomposed wood technology is considered to be environment-friendly and versatile as it uses fibre from forest plantations, recycled wood and/or wood residue. This reduces the traditional use of large-diameter trees from natural forests. There is growing demand for recomposed wood technology as it reduces cost for raw material while increases the utilization and sustainable use of plantation fibre for the production of furniture and interior/exterior building materials.
>
> […]
>
> Mr. Allen Chan, Sino-Forest's Chairman & CEO, said, "As we continue to ramp up our replanting programme with improved eucalyptus species, it is important for Sino-Forest to continue investing in the research and development that maximizes all aspects of the

> forest product supply chain. Modernization and improved productivity of the wood processing industry in China is also necessary given the country's chronic wood fibre deficit. Increased use of technology improves operation efficiency, and maximizes and broadens the use of domestic plantation wood, which reduces the need for logging domestic natural forests and for importing logs from strained tropical forests. HOMIX has significant technological capabilities in engineered-wood processing."
>
> Mr. Chan added, "By acquiring HOMIX, we intend to use six-year eucalyptus fibre instead of 30-year tree fibre from other species to produce quality lumber using recomposed technology. We believe that this will help preserve natural forests as well as improve the demand for and pricing of our planted eucalyptus trees."

130. Sino's 2009 Audited Annual Financial Statements, Q1/2010 Unaudited Interim Financial Statements, 2010 Audited Annual Financial Statements, the MD&As related to each of the aforementioned financial statements, and Sino's AIFs for 2009 and 2010, each discussed the acquisition of Homix, but nowhere disclosed that Homix was in fact a related party of Sino.

131. More particularly, Hua Chen, a Senior Vice President, Administration & Finance, of Sino in the PRC, and who joined Sino in 2002, is a 30% shareholder of an operating subsidiary of Homix, Jiangsu Dayang Wood Co., Ltd. ("**Jiangsu**")

132. In order to persuade current and prospective Sino shareholders that there was a commercial justification for the Homix acquisition, Sino misrepresented Homix's patent designs registered with the PRC State Intellectual Property Office. In particular, in its 2009 Annual Report, Sino stated:

> HOMIX acquisition
>
> In accordance with our strategy to focus on research and development and to improve the end-use of our wood fibre, we acquired HOMIX Ltd. in January 2010 for $7.1 million. This corporate acquisition is small but strategically important ***adding valuable intellectual property rights*** and two engineered-wood processing facilities located in Guangdong and Jiangsu Provinces to our operations. ***Homix has developed environment-friendly technology, an efficient process using recomposed technology to convert small-diameter plantation logs into building materials and furniture***. Since we plan to grow high volumes of eucalypt and other FGHY species, this acquisition will help us achieve our long-term objectives of maximizing the use of our fibre, supplying a

variety of downstream customers and enhancing economic rural development. [Emphasis added]

133. However, Homix itself then had no patent designs registered with the PRC State Intellectual Property Office. At that time, Homix had two subsidiaries, Jiangsu and Guangzhou Pany Dacheng Wood Co. The latter then had no patent designs registered with the PRC State Intellectual Property Office, while Jiangsu had two patent designs. However, each such design was for wood dyeing, and not for the conversion of small-diameter plantation logs into building materials and furniture.

(iv) Sino fails to disclose that Yunan Shunxuan was a Related Party

134. In addition, during the Class Period, Sino purportedly purchased approximately 1,600 hectares of timber in Yunnan province from Yunnan Shunxuan Forestry Co. Ltd. Yunnan Shunxuan was part of Sino, acting under a separate label. Accordingly, it was considered a related party for the purposes of the GAAP disclosure requirements, a fact that Sino failed to disclose.

135. The Impugned Documents that omitted that disclosure were the 2009 Annual MD&A, the 2009 Audited Annual Financial Statements, the 2009 AIF, the Q1 2010 MD&A, the Q1 2010 interim financial statements, the Q2 2010 MD&A, the Q2 2010 interim financial statements, the Q3 2010 MD&A, the Q3 2010 interim financial statements, the 2010 Annual MD&A, the 2010 Audited Annual Financial Statements, and the 2010 AIF.

136. Sino's failure to disclose that Yunnan Shunxuan was a related party was a violation of GAAP, and a misrepresentation.

(v) Sino fails to disclose that Yuda Wood was a Related Party

137. Huaihua City Yuda Wood Co. Ltd., based in Huaihua City, Hunan Province ("**Yuda Wood**"), was a major supplier of Sino at material times. Yuda Wood was founded in April 2006

and, from 2007 until 2010, its business with Sino totalled approximately 152,164 Ha and RMB 4.94 billion.

138. During that period, Yuda Wood was a related party of Sino. Indeed, in the Second Report, the IC acknowledged that ***"there is evidence suggesting close cooperation [between Sino and Yuda Wood] (including administrative assistance, possible payment of capital at the time of establishment, joint control of certain of Yuda Wood's RMB bank accounts and the numerous emails indicating coordination of funding and other business activities)*"** [emphasis added.]

139. The fact that Yuda Wood was a related party of Sino during the Class Period was a material fact and was required to be disclosed under GAAP, but, during the Class Period, that fact was not disclosed by Sino in any of the Impugned Documents, or otherwise.

(vi) Sino fails to Disclose that Major Suppliers were Related Parties

140. At material times, Sino had at least thirteen suppliers where former Sino employees, consultants or secondees are or were directors, officers and/or shareholders of one or more such suppliers. Due to these and other connections between these suppliers and Sino, some or all of such suppliers were in fact undisclosed related parties of Sino.

141. Including Yuda Wood, the thirteen suppliers referenced above accounted for 43% of Sino's purported plantation purchases between 2006 and the first quarter of 2011.

142. In none of the Impugned Documents did Sino disclose that any of these suppliers were related parties, nor did it disclose sufficient particulars of its relations with such suppliers as would have enabled the investing public to ascertain that those suppliers were related parties.

D. *Misrepresentations relating to Sino's Relations with Forestry Bureaus and its Purported Title to Forestry Assets in the PRC*

143. In at least two instances during the Class Period, PRC forestry bureau officials were either concurrently or subsequently employees of, or consultants to, Sino. One forestry bureau assigned employees to Sino and other companies to assist in the development of the forestry industry in its jurisdiction.

144. In addition, a vice-chief of the forestry bureau was assigned to work closely with Sino, and while that vice chief still drew a basic salary from the forestry bureau, he also acted as a consultant to Sino in the conduct of Sino's business. This arrangement was in place for several years. That vice-chief appeared on Sino's payroll from January 2007 with a monthly payment of RMB 15,000, which was significant compared with his forestry bureau salary.

145. In addition, at material times, Sino and/or its subsidiaries and/or its suppliers made cash payments and gave "gifts" to forestry bureau officals, which potentially constituted a serious criminal offence under the laws of the PRC. At least some of these payments and gifts were made or given in order to induce the recipients to issue "confirmation letters" in relation to Sino's purported holdings in the PRC of standing timber. These practices utterly compromised the integrity of the process whereby those "confirmation letters" were obtained.

146. Further, a chief of a forestry bureau who had authorized the issuance of confirmations to Sino was arrested due to corruption charges. That forestry bureau had issued confirmations only to Sino and to no other companies. Subsequent to the termination of that forestry bureau chief, that forestry bureau did not issue confirmations to any company.

147. The foregoing facts were material because: (1) they undermined the reliability (if any) of the documentation upon which Sino relied and continues to rely to establish its ownership of

standing timber; and (2) the corruption in which Sino was engaged exposed Sino to potential criminal penalties, including substantial fines, as well as a risk of severe reputational damage in Sino's most important market, the PRC.

148. However, none of these facts was disclosed in any of the Impugned Documents. On the contrary, Sino only made the following disclosure regarding former government officials in its 2007 Annual Report (and in no other Impugned Document), which was materially incomplete, and a misrepresentation:

> To ensure successful growth, we have trained and promoted staff from within our organization, and hired knowledgeable people with relevant working experience and industry expertise – some joined us from forestry bureaus in various regions and provinces and/or state-owned tree farms. [...] 4. Based in Heyuan, Guangdong, Deputy GM responsible for Heyuan plantations, previously with forestry bureau; studied at Yangdongxian Dangxiao [Mr. Liang] 5. Based in Hunan, Plantation controller, graduated from Hunan Agricultural University, previously Assistant Manager of state-owned farm trees in Hunan [Mr. Xie].

149. In respect of Sino's purported title to standing timber in the PRC, Sino possessed Plantation Rights Certificates, or registered title, only in respect of 18% of its purported holdings of standing timber as at December 31, 2010, a fact nowhere disclosed by Sino during the Class Period. This fact was highly material to Sino, inasmuch as standing timber comprised a large proportion of Sino's assets throughout the Class Period, and in the absence of Plantation Rights Certificates, Sino could not establish its title to that standing timber.

150. Rather than disclose this highly material fact, Sino made the following misrepresentations in the following Impugned Documents:

(a) In the 2008 AIF: "***We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased tree plantations and planted tree plantations currently under our management***, and we are in the process of applying for the plantation rights

certificates for those plantations for which we have not obtained such certificates" [emphasis added];

(b) In the 2009 AIF: "***We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased plantations and planted plantations currently under our management***, and we are in the process of applying for the plantation rights certificates for those plantations for which we have not obtained such certificates" [emphasis added]; and

(c) In the 2010 AIF: "***We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased plantations and planted plantations currently under our management***, and we are in the process of applying for the plantation rights certificates for those plantations for which we have not obtained such certificates" [emphasis added].

151. In the absence of Plantation Rights Certificates, Sino relies principally on the purchase contracts entered into by its BVI subsidiaries ("BVIs") in order to demonstrate its ownership of standing timber.

152. However, under PRC law, those contracts are void and unenforceable.

153. In the alternative, if those contracts are valid and enforceable, they are enforceable only as against the counterparties through which Sino purported to acquire the standing timber, and not against the party who has registered title (if any) to the standing timber. Because some or all of those counterparties were or became insolvent, corporate shells or thinly capitalized, then any claims that Sino would have against those counterparties under PRC law, whether for unjust enrichment or otherwise, were of little to no value, and certainly constituted no substitute for registered title to the standing timber which Sino purported to own.

154. Sino never disclosed these material facts during the Class Period, whether in the Impugned Documents or otherwise. On the contrary, Sino made the following misrepresentations in relation to its purported title to standing timber:

(a) In the July 2008 Offering Memorandum, Sino stated "Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations";

(b) In the June 2009 Offering Memorandum, Sino stated "Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations";

(c) In the October 2010 Offering Memorandum, Sino stated "Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations";

(d) In the 2006 AIF, Sino stated "Based on the supplemental purchase contracts and the plantation rights certificates issued by the relevant forestry departments, we have the legal right to own our purchased tree plantations";

(e) In the 2007 AIF, Sino stated "Based on the relevant purchase contracts and the approvals issued by the relevant forestry departments, we have the legal right to own our purchased tree plantations";

(f) In the 2008 AIF, Sino stated "Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased tree plantations";

(g) In the 2009 AIF, Sino stated "Based on the relevant purchase contracts and the approvals issued by the local forestry bureaus, we legally own our purchased plantations";

(h) In the December 2009 Offering Memorandum, Sino stated "Based on the relevant purchase contracts and the approvals issued by the local forestry bureaus, we legally own our purchased plantations"; and

(i) In the 2010 AIF, Sino stated "Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations."

155. In addition, during the Class Period, Sino never disclosed the material fact, belatedly revealed in the Second Report, that "***in practice it is not able to obtain Plantation Rights Certificates for standing timber purchases when no land transfer rights are transferred***" [emphasis added].

156. On the contrary, during the Class Period, Sino made the following misrepresentation in each of the 2006 and 2007 AIFs:

> Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership rights and its system of issuing certificates to the persons having plantation land use rights, to owners owning the plantation trees and to owners of the plantation land. In April 2000, the PRC State Forestry Bureau announced the "Notice on the Implementation of Nationwide Uniform Plantation Right Certificates" (Lin Zi Fa [2000] No. 159) on April 19, 2000 (the "Notice"). Under the Notice, a new uniform form of plantation rights certificate is to be used commencing from the date of the Notice. ***The same type of new form plantation rights certificate will be issued to the persons having the right to use the plantation land, to persons who own the plantation land and plantation trees, and to persons having the right to use plantation trees.***
>
> [Emphasis added]

157. Under PRC law, county and provincial forestry bureaus have no authority to issue confirmation letters. Such letters cannot be relied upon in a court of law to resolve a dispute and are not a guarantee of title. Notwithstanding this, during the Class Period, Sino made the following misrepresentations:

(a) In the 2006 AIF: "In addition, for the purchased tree plantations, ***we have obtained confirmations from the relevant forestry bureaus that we have the legal right to own the purchased tree plantations for which we have not received certificates***" [emphasis added]; and

(b) In the 2007 AIF: "For our Purchased Tree Plantations, we have applied for the relevant Plantation Rights Certificates with the competent local forestry departments. As the relevant locations where we purchased our Purchased Tree Plantations have not fully implemented the new form Plantation Rights Certificate, we are not able to obtain all the corresponding Plantation Rights Certificates for our Purchased Tree Plantations. ***In this connection, we obtained confirmation on our ownership of our Purchased Tree Plantations from the relevant forestry departments.*"** [emphasis added]

E. Misrepresentations relating to Sino's Relationships with its AIs

158. In addition to the misrepresentations alleged above in relation to Sino's AIs, including those alleged in Section VI.C hereof (*Misrepresentations relating to Sino's Related Party Transactions*), Sino made the following misrepresentations during the Class Period in relation to its relationships with it AIs.

(i) Sino Misrepresents the Degree of its Reliance on its AIs

159. On March 30, 2007, Sino issued and filed on SEDAR its 2006 AIF. In that AIF, Sino stated:

> …PRC laws and regulations require foreign companies to obtain licenses to engage in any business activities in the PRC. As a result of these requirements, we currently engage in our trading activities through PRC authorized intermediaries that have the requisite business licenses. There is no assurance that the PRC government will not take action to restrict our ability to engage in trading activities through our authorized intermediaries. ***In order to reduce our reliance on the authorized intermediaries, we intend to use a WFOE in the PRC to enter into contracts directly with suppliers of raw timber, and then process the raw timber, or engage others to process raw timber on its behalf, and sell logs, wood chips and wood-based products to customers, although it would not be able to engage in pure trading activities.***
>
> [Emphasis added.]

160. In its 2007 AIF, which Sino filed on March 28, 2008, Sino again declared its intention to reduce its reliance upon AIs.

161. These statements were false and/or materially misleading when made, inasmuch as Sino had no intention to reduce materially its reliance on AIs, because its AIs were critical to Sino's ability to inflate its revenue and net income. Rather, these statements had the effect of mitigating any investor concern arising from Sino's extensive reliance upon AIs.

162. Throughout the Class Period, Sino continued to depend heavily upon AIs for its purported sales of standing timber. In fact, contrary to Sino's purported intention to reduce its reliance on its AIs, Sino's reliance on its AIs in fact *increased* during the Class Period.

(ii) Sino Misrepresents the Tax-related Risks Arising from its use of AIs

163. Throughout the Class Period, Sino materially understated the tax-related risks arising from its use of AIs.

164. Tax evasion penalties in the PRC are severe. Depending on whether the PRC authorities seek recovery of unpaid taxes by means of a civil or criminal proceeding, its claims for unpaid tax are subject to either a five- or ten-year limitation period. The unintentional failure to pay taxes is subject to a 0.05% per day interest penalty, while an intentional failure to pay taxes is punishable with fines of up to five times the unpaid taxes, and confiscation of part or all of the criminal's personal properties maybe also imposed.

165. Therefore, because Sino professed to be unable to determine whether its AIs have paid required taxes, the tax-related risks arising from Sino's use of AIs were potentially devastating. Sino failed, however, to disclose these aspects of the PRC tax regime in its Class Period disclosure documents, as alleged more particularly below.

166. Based upon Sino's reported results, Sino's tax accruals in all of its Impugned Documents that were interim and annual financial statements were materially deficient. For example, depending on whether the PRC tax authorities would assess interest at the rate of 18.75% per annum, or would assess no interest, on the unpaid income taxes of Sino's BVI subsidiaries, and depending also on whether one assumes that Sino's AIs have paid no income taxes or have paid 50% of the income taxes due to the PRC, then Sino's tax accruals in its 2007, 2008, 2009 and 2010 Audited Annual Financial Statements were understated by, respectively, US$10 million to US$150 million, US$50 million to US$260 million, US$81 million to US$371 million, and US$83 million to US$493 million. Importantly, were one to consider the impact of unpaid taxes other than unpaid income taxes (for example, unpaid value-added taxes), then the amounts by

which Sino's tax accruals were understated in these financial statements would be substantially larger.

167. The aforementioned estimates of the amounts by which Sino's tax accruals were understated also assume that the PRC tax authorities only impose interest charges on Sino's BVI Subsidiaries and impose no other penalties for unpaid taxes, and assume further that the PRC authorities seek back taxes only for the preceding five years. As indicated above, each of these assumptions is likely to be unduly optimistic. In any case, Sino's inadequate tax accruals violated GAAP, and constituted misrepresentations.

168. Sino also violated GAAP in its 2009 Audited Annual Financial Statements by failing to apply to its 2009 financial results the PRC tax guidance that was issued in February 2010. Although that guidance was issued after year-end 2009, GAAP required that Sino apply that guidance to its 2009 financial results, because that guidance was issued in the subsequent events period.

169. Based upon Sino's reported profit margins on its dealings with AIs, which margins are extraordinary both in relation to the profit margins of Sino's peers, and in relation to the limited risks that Sino purports to assume in its transactions with its AIs, Sino's AIs are not satisfying their tax obligations, a fact that was either known to the Defendants or ought to have been known. If Sino's extraordinary profit margins are real, then Sino and its AIs must be dividing the gains from non-payment of taxes to the PRC.

170. During the Class Period, Sino never disclosed the true nature of the tax-related risks to which it was exposed. This omission, in violation of GAAP, rendered each of the following statements a misrepresentation:

(a) In the 2006 Annual Financial Statements, note 11 [b] "Provision for tax related liabilities" and associated text;

(b) In the 2006 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(c) In the AIF dated March 30, 2007, the section "Estimation of the Company's provision for income and related taxes," and associated text;

(d) In the Q1 and Q2 2007 Financial Statements, note 5 "Provision for Tax Related Liabilities," and associated text;

(e) In the Q3 2007 Financial Statements, note 6 "Provision for Tax Related Liabilities," and associated text;

(f) In the 2007 Annual Financial Statements, note 13 [b] "Provision for tax related liabilities," and associated text;

(g) In the 2007 Annual MD&A and Amended 2007 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(h) In the AIF dated March 28, 2008, the section "Estimation of the Corporation's provision for income and related taxes," and associated text;

(i) In the Q1, Q2 and Q3 2008 Financial Statements, note 12 "Provision for Tax Related Liabilities," and associated text;

(j) In the Q1, Q2 and Q3 2008 MD&As, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(k) In the July 2008 Offering Memorandum, the subsection "Taxation" in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations," and associated text;

(l) In the 2008 Annual Financial Statements, note 13 [d] "Provision for tax related liabilities," and associated text;

(m) In the 2008 Annual MD&A and Amended 2008 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(n) In the AIF dated March 31, 2009, the section "We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts we have estimated and for which we have provisioned," and associated text;

(o) In the Q1, Q2 and Q3 2009 Financial Statements, note 13 "Provision for Tax Related Liabilities," and associated text;

(p) In the Q1, Q2 and Q3 2009 MD&As, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(q) In the 2009 Annual Financial Statements, note 15 [d] "Provision for tax related liabilities," and associated text;

(r) In the 2009 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(s) In the AIF dated March 31, 2010, the section "We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts we have estimated and for which we have provisioned," and associated text;

(t) In the Q1 and Q2 2010 Financial Statements, note 14 "Provision for Tax Related Liabilities," and associated text;

(u) In the Q1 and Q2 2010 MD&As, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(v) In the Q3 2010 Financial Statements, note 14 “Provision and Contingencies for Tax Related Liabilities,” and associated text; and

(w) In the Q3 2010 MD&As, the subsection “Provision and Contingencies for Tax Related Liabilities” in the section “Critical Accounting Estimates,” and associated text;

(x) In the October 2010 Offering Memorandum, the subsection “Taxation” in the section “Selected Financial Information,” and associated text;

(y) In the 2010 Annual Financial Statements, note 18 “Provision and Contingencies for Tax Related Liabilities,” and associated text;

(z) In the 2010 Annual MD&A, the subsection “Provision and Contingencies for Tax Related Liabilities” in the section “Critical Accounting Estimates,” and associated text; and

(aa) In the AIF dated March 31, 2011, the section “We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts we have estimated and for which we have provisioned,” and associated text.

171. In every Impugned Document that is a financial statement, the line item “Accounts payable and accrued liabilities” and associated figures on the Consolidated Balance Sheets fails to properly account for Sino’s tax accruals and is a misrepresentation, and a violation of GAAP.

172. During the Class Period, Sino also failed to disclose in any of the Impugned Documents that were AIFs, MD&As, financial statements, Prospectuses or Offering Memoranda, the risks relating to the repatriation of its earnings from the PRC. In 2010, Sino added two new sections to its AIF regarding the risk that it would not be able to repatriate earnings from its BVI subsidiaries (which deal with the AIs). The amount of retained earnings that may not be able to be repatriated is stated therein to be US$1.4 billion. Notwithstanding this disclosure, Sino did not

disclose in these Impugned Documents that it would be unable to repatriate *any* earnings absent proof of payment of PRC taxes, which it has admitted that it lacks.

(iii) Sino Misrepresents its Accounting Treatment of its AIs

173. In addition, there are material discrepancies in Sino's descriptions of its accounting treatment of its AIs. Beginning in the 2003 AIF, Sino described its AIs as follows:

> Because of the provisions in the Operational Procedures that specify when we and the authorized intermediary assume the risks and obligations relating to the raw timber or wood chips, as the case may be, we treat these transactions for accounting purposes as providing that we take title to the raw timber when it is delivered to the authorized intermediary. Title then passes to the authorized intermediary once the timber is processed into wood chips. ***Accordingly, we treat the authorized intermediaries for accounting purposes as being both our suppliers and customers in these transactions.***
>
> [Emphasis added.]

174. Sino's disclosures were consistent in that regard up to and including Sino's first AIF issued in the Class Period (the 2006 AIF), which states:

> Because of the provisions in the Operational Procedures that specify when we and the AI assume the risks and obligations relating to the raw timber or wood chips, as the case may be, we treat these transactions for accounting purposes as providing that we take title to the raw timber when it is delivered to the AI. Title then passes to the AI once the timber is processed into wood chips. ***Accordingly, we treat the AI for accounting purposes as being both our supplier and customer in these transactions.***
>
> [Emphasis added.]

175. In subsequent AIFs, Sino ceased without explanation to disclose whether it treated AIs for accounting purposes as being both the supplier and the customer.

176. Following the issuance of Muddy Waters' report on the last day of the Class Period, however, Sino declared publicly that Muddy Waters was "wrong" in its assertion that, for accounting purposes, Sino treated its AIs as being both supplier and customer in transactions. This claim by Sino implies either that Sino misrepresented its accounting treatment of AIs in its

2006 AIF (and in its AIFs for prior years), or that Sino changed its accounting treatment of its AIs after the issuance of its 2006 AIF. If the latter is true, then Sino was obliged by GAAP to disclose its change in its accounting treatment of its AIs. It failed to do so.

F. *Misrepresentations relating to Sino's Cash Flow Statements*

177. Given the nature of Sino's operations, that of a frequent trader of standing timber, Sino improperly accounted for its purchases of timber assets as "Investments" in its Consolidated Statements Of Cash Flow. In fact, such purchases are "Inventory" within the meaning of GAAP, given the nature of Sino's business.

178. Additionally, Sino violated the GAAP 'matching' principle in treating timber asset purchases as "Investments" and the sale of timber assets as "Inventory": cash flow that came into the company was treated as cash flow from operations, but cash flow that was spent by Sino was treated as cash flow for investments. As a result, "Additions to timber holding" was improperly treated as a "Cash Flows Used In Investing Activities" instead of "Cash Flows From Operating Activities" and the item "Depletion of timber holdings included in cost of sales" should not be included in "Cash Flows From Operating Activities," because it is not a cash item.

179. The effect of these misstatements is that Sino's Cash Flows From Operating Activities were materially overstated throughout the Class Period, which created the impression that Sino was a far more successful cash generator than it was. Such mismatching and misclassification is a violation of GAAP.

180. Cash Flows From Operating Activities are one of the crucial metrics used by the financial analysts who followed Sino's performance. These misstatements were designed to, and did, have the effect of causing such analysts to materially overstate the value of Sino. This material

overstatement was incorporated into various research reports made available to the Class Members, the market and the public at large.

181. Matching is a foundational requirement of GAAP reporting. E&Y and BDO were aware, at all material times, that Sino was required to adhere to the matching principle. If E&Y and BDO had conducted GAAS-complaint audits, they would have been aware that Sino's reporting was not GAAP compliant with regard to the matching principle. Accordingly, if they had conducted GAAS-compliant audits, the statements by E&Y and BDO that Sino's reporting was GAAP-compliant were not only false, but were made, at a minimum, recklessly.

182. Further, at all material times, E&Y and BDO were aware that misstatements in Cash Flows From Operating Activities would materially impact the market's valuation of Sino.

183. Accordingly, in every Impugned Document that is a financial statement, the Consolidated Statements Of Cash Flow are a misrepresentation and, particularly, the Cash Flows From Operating Activities item and associated figures is materially overstated, the "additions to timber holdings" item and figures is required to be listed as Cash Flows From Operating Activities, and the "depletion of timber holdings included in cost of sales" item and figures should not have been included.

G. *Misrepresentations relating to Certain Risks to which Sino was exposed*

(i) Sino is conducting "business activities" in China

184. At material times, PRC law required foreign entities engaging in "business activities" in the PRC to register to obtain and maintain a license. Violation of this requirement could have resulted in both administrative sanctions and criminal punishment, including banning the unlicensed business activities, confiscating illegal income and properties used exclusively therefor, and/or an administrative fines of no more than RMB 500,000. Possible criminal punishment included a criminal fine from 1 to 5 times the amount of the profits gained.

185. Consequently, were Sino's BVI subsidiaries to have been engaged in unlicensed in "business activities" in the PRC during the Class Period, they would have been exposed to risks that were highly material to Sino.

186. Under PRC law, the term "business activities" generally encompasses any for-profit activities, and Sino's BVI subsidiaries were in fact engaged in unlicensed "business activities" in the PRC during the Class Period. However, Sino did not disclose this fact in any of the Impugned Documents, including in its AIFs for 2008-2010, which purported to make full disclosure of the material risks to which Sino was then exposed.

(ii) Sino fails to disclose that no proceeds were paid to it by its AIs

187. In the Second Report, Sino belatedly revealed that:

> In practice, proceeds from the Entrusted Sale Agreements are not paid to SF but are held by the AIs as instructed by SF and subsequently used to pay for further purchases of standing timber by the same or other BVIs. The AIs will continue to hold these proceeds until the Company instructs the AIs to use these proceeds to pay for new BVI standing timber purchases. ***No proceeds are directly paid to the Company, either onshore or offshore.***
>
> [Emphasis added]

188. This material fact was never disclosed in any of the Impugned Documents during the Class Period. On the contrary, Sino made the following statements during the Class Period in relation to the proceeds paid to it by its AIs, each of which was materially misleading and therefore a misrepresentation:

(a) In the 2005 financial statements, Sino stated: "As a result, ***the majority*** of the accounts receivable arising from sales of wood chips and standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other PRC liabilities" [emphasis added];

(b) In the 2006 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(c) In the 2006 financial statements, Sino stated: "As a result, ***the majority*** of the accounts receivable arising from sales of wood chips and standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi" [emphasis added];

(d) In the 2007 financial statements, Sino stated: "As a result, ***the majority*** of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi;"

(e) In the 2008 financial statements, Sino stated: "As a result, ***the majority*** of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi" [emphasis added];

(f) In the 2009 financial statements, Sino stated: "As a result, ***the majority*** of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi" [emphasis added]; and

(g) In the 2010 financial statements, Sino stated: "As a result, ***the majority*** of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi" [emphasis added].

H. *Misrepresentations relating to Sino's GAAP Compliance and the Auditors' GAAS Compliance*

(i) Sino, Chan and Horsley misrepresent that Sino complied with GAAP

189. In each of its Class Period financial statements, Sino represented that its financial reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein.

190. In particular, Sino misrepresented in those financial statements that it was GAAP-compliant as follows:

(a) In the annual statements filed on March 19, 2007, at Note 1: "These consolidated financial statements Sino-Forest Corporation (the "Company") have been prepared in United States dollars in accordance with Canadian generally accepted accounting principles";

(b) In the annual financial statements filed on March 18, 2008, at Note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles";

(c) In the annual financial statements filed on March 16, 2009, at note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles";

(d) In the annual financial statements filed on March 16, 2010, at note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles"; and

(e) In the annual financial statements filed on March 15, 2011, at note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles".

191. In each of its Class Period MD&As, Sino represented that its reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein.

192. In particular, Sino misrepresented in those MD&As that it was GAAP-compliant as follows:

(a) In the annual MD&A filed on March 19, 2007: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";

(b) In the quarterly MD&A filed on May 14, 2007: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";

(c) In the quarterly MD&A filed on August 13, 2007: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";

(d) In the quarterly MD&A filed on November 12, 2007: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";

(e) In the annual MD&A filed on March 18, 2008: “Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)”;

(f) In the amended annual MD&A filed on March 28, 2008: “Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)”;

(g) In the quarterly MD&A filed on May 13, 2008: “Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (“GAAP”)”;

(h) In the quarterly MD&A filed on August 12, 2008: “Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (“GAAP”)”;

(i) In the quarterly MD&A filed on November 13, 2008: “Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (“GAAP”)”;

(j) In the annual MD&A filed on March 16, 2009: “Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)”;

(k) In the amended annual MD&A filed on March 17, 2009: “Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)”;

(l) In the quarterly MD&A filed on May 11, 2009: “Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)”;

(m) In the quarterly MD&A filed on August 10, 2009: “Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)”;

(n) In the quarterly MD&A filed on November 12, 2009: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")";

(o) In the annual MD&A files on March 16, 2010: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")";

(p) In the quarterly MD&A filed on May 12, 2010: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")";

(q) In the quarterly MD&A filed on August 10, 2010: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")";

(r) In the quarterly MD&A filed on November 10, 2010: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")"; and

(s) In the annual MD&A filed on March 15, 2011: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")."

193. In the Offerings, Sino represented that its reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein.

194. In particular, Sino misrepresented in the Offerings that it was GAAP-compliant as follows:

(a) In the July 2008 Offering Memorandum: "We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada ("Canadian GAAP")[...]," "Our auditors conduct their audit of our

financial statements in accordance with auditing standards generally accepted in Canada" and "Each of the foregoing reports or financial statements will be prepared in accordance with Canadian generally accepted accounting principles other than for reports prepared for financial periods commencing on or after January 1, 2011 [...]";

(b) In the June 2009 Offering Memorandum: "We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada ("Canadian GAAP")[...]," "Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada," "The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP," "Our audited and consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 and our unaudited interim consolidated financial statements for the three-month periods ended March 31, 2008 and 2009 have been prepared in accordance with Canadian GAAP";

(c) In the June 2009 Offering Memorandum: "We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada ("Canadian GAAP")[...]," "Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada" and "The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP"; and

(d) In the October 2010 Offering Memorandum: "We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada ("Canadian GAAP")[...]," "Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada," "The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP," "Our audited and consolidated financial statements for the years ended December 31, 2007, 2008 and 2009 and our unaudited interim consolidated financial statements for the six-

month periods ended June 30, 2009 and 2010 have been prepared in accordance with Canadian GAAP."

195. In the Class Period Management's Reports, Chan and Horsley represented that Sino's reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein.

196. In particular, Chan and Horsley misrepresented in those Management's Reports that Sino's financial statements were GAAP-compliant as follows:

(a) In the annual statements filed on March 19, 2007 Chan and Horlsey stated: "The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles";

(b) In the annual financial statements filed on March 18, 2008 Chan and Horlsey stated: "The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles";

(c) In the annual financial statements filed on March 16, 2009 Chan and Horlsey stated: "The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles";

(d) In the annual financial statements filed on March 16, 2010 Chan and Horlsey stated: "The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles"; and

(e) In the annual financial statements filed on March 15, 2011 Chan and Horlsey stated: "The consolidated financial statements contained in this Annual Report

have been prepared by management in accordance with Canadian generally accepted accounting principles."

(ii) E&Y and BDO misrepresent that Sino complied with GAAP and that they complied with GAAS

197. In each of Sino's Class Period annual financial statements, E&Y or BDO, as the case may be, represented that Sino's reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein. In addition, in each such annual financial statement, E&Y and BDO, as the case may be, represented that they had conducted their audit in compliance with GAAS, which was a misrepresentation because they did not in fact conduct their audits in accordance with GAAS.

198. In particular, E&Y and BDO misrepresented that Sino's financial statements were GAAP-compliant and that they had conducted their audits in compliance with GAAS as follows:

(a) In Sino's annual financial statements filed on March 19, 2007, BDO stated: "We conducted our audit in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles";

(b) In the June 2007 Prospectus, BDO stated: "We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents";

(c) In Sino's annual financial statements filed on March 18, 2008, E&Y stated: "We conducted our audit in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at

December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. The financial statements as at December 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 19, 2007";

(d) In the July 2008 Offering Memorandum, BDO stated: "We conducted our audit in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles" and E&Y stated "We conducted our audit in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles";

(e) In Sino's annual financial statements filed on March 16, 2009, E&Y stated: "We conducted our audits in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles";

(f) In Sino's annual financial statements filed on March 16, 2010, E&Y stated: "We conducted our audits in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows

for the years then ended in accordance with Canadian generally accepted accounting principles"; and

(g) In Sino's annual financial statements filed on March 15, 2011, E&Y stated: "We conducted our audits in accordance with Canadian generally accepted auditing standards." and "In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sino-Forest corporation as at December 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles."

(iii) The Market Relied on Sino's Purported GAAP-compliance and E&Y's and BDO's purported GAAS-compliance in Sino's Financial Reporting

199. As a public company, Sino communicated the results it claimed to have achieved to the Class Members via quarterly and annual financial results, among other disclosure documents. Sino's auditors, E&Y and BDO, as the case may be, were instrumental in the communication of Sino's financial information to the Class Members. The auditors certified that the financial statements were compliant with GAAP and that they had performed their audits in compliance with GAAS. Neither was true.

200. The Class Members invested in Sino's securities on the critical premise that Sino's financial statements were in fact GAAP-compliant, and that Sino's auditors had in fact conducted their audits in compliance with GAAS. Sino's reported financial results were also followed by analysts at numerous financial institutions. These analysts promptly reported to the market at large when Sino made earnings announcements, and incorporated into their Sino-related analyses and reports Sino's purportedly GAAP-compliant financial results. These analyses and reports, in turn, significantly affected the market price for Sino's securities.

201. The market, including the Class Members, would not have relied on Sino's financial reporting had the auditors disclosed that Sino's financial statements were not reliable or that they had not followed the processes that would have amply revealed that those statements were reliable.

VII. CHAN'S AND HORSLEY'S FALSE CERTIFICATIONS

202. Pursuant to National Instrument 52-109, the defendants Chan, as CEO, and Horsley, as CFO, were required at the material times to certify Sino's annual and quarterly MD&As and Financial Statements as well as the AIFs (and all documents incorporated into the AIFs). Such certifications included statements that the filings "do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made" and that the reports "fairly present in all material respects the financial condition, results of operations and cash flows of the issuer."

203. As particularized elsewhere herein, however, the Impugned Documents contained the Representation, which was false, as well as the other misrepresentations alleged above. Accordingly, the certifications given by Chan and Horsley were false and were themselves misrepresentations. Chan and Horsley made such false certifications knowingly or, at a minimum, recklessly.

VIII. THE TRUTH IS REVEALED

204. On June 2, 2011, Muddy Waters issued its initial report on Sino, and stated in part therein:

> Sino-Forest Corp (TSE: TRE) is the granddaddy of China RTO frauds. It has always been a fraud – reporting excellent results from one of its early joint ventures – even though, because of TRE's default on its investment obligations, the JV never went into operation. TRE just lied.
>
> The foundation of TRE's fraud is a convoluted structure whereby it claims to run most of its revenues through "authorized intermediaries" ("AI"). AIs are supposedly timber trader customers who purportedly pay much of TRE's value added and income taxes. At the same time, these AIs allow TRE a gross margin of 55% on standing timber merely for TRE having speculated on trees.
>
> The sole purpose of this structure is to fabricate sales transactions while having an excuse for not having the VAT invoices that are the mainstay of China audit work. If TRE really were processing over one billion dollars in sales through AIs, TRE and the AIs would be in serious legal trouble. No legitimate public company would take such risks – particularly because this structure has zero upside.
>
> [...]
>
> On the other side of the books, TRE massively exaggerates its assets. TRE significantly falsifies its investments in plantation fiber (trees). It purports to have purchased $2.891 billion in standing timber under master agreements since 2006 [...]
>
> [...]
>
> Valuation
>
> Because TRE has $2.1 billion in debt outstanding, which we believe exceeds the potential recovery, we value its equity at less than $1.00 per share.

205. Muddy Waters' report also disclosed that (a) Sino's business is a fraudulent scheme; (b) Sino systemically overstated the value of its assets; (c) Sino failed to disclose various related party transactions; (d) Sino misstated that it had enforced high standards of governance; (e) Sino misstated that its reliance on the AIs had decreased; (f) Sino misrepresented the tax risk associated with the use of AIs; and (g) Sino failed to disclose the risks relating to repatriation of earnings from PRC.

206. After Muddy Waters' initial report became public, Sino shares fell to $14.46, at which point trading was halted (a decline of 20.6% from the pre-disclosure close of $18.21). When

trading was allowed to resume the next day, Sino's shares fell to a close of $5.23 (a decline of 71.3% from June 1).

207. On November 13, 2011 Sino released the Second Report in redacted form. Therein, the Committee summarized its findings:

> B. Overview of Principal Findings
>
> The following sets out a very high level overview of the IC's principal findings and should be read in conjunction with the balance of this report.
>
> Timber Ownership
>
> [...]
>
> ***The Company does not obtain registered title to BVI purchased plantations***. In the case of the BVIs' plantations, the IC has visited forestry bureaus, Suppliers and AIs to seek independent evidence to establish a chain of title or payment transactions to verify such acquisitions. The purchase contracts, set-off arrangement documentation and forestry bureau confirmations constitute the documentary evidence as to the Company's contractual or other rights***. The IC has been advised that the Company's rights to such plantations could be open to challenge. However, Management has advised that, to date, it is unaware of any such challenges that have not been resolved*** with the Suppliers in a manner satisfactory to the Company.
>
> Forestry Bureau Confirmations and Plantation Rights Certificates
>
> Registered title, through Plantation Rights Certificates is not available in the jurisdictions (i.e. cities and counties) examined by the IC Advisors for standing timber that is held without land use/lease rights. ***Therefore the Company was not able to obtain Plantation Rights Certificates for its BVIs standing timber assets in those areas.*** In these circumstances, the Company sought confirmations from the relevant local forestry bureau acknowledging its rights to the standing timber.
>
> The IC Advisors reviewed forestry bureau confirmations for virtually all BVIs assets and non-Mandra WFOE purchased plantations held as at December 31, 2010. The IC Advisors, in meetings organized by Management, met with a sample of forestry bureaus with a view to obtaining verification of the Company's rights to standing timber in those jurisdictions. The result of such meetings to date have concluded with the forestry bureaus or related entities having issued new confirmations as to the Company's contractual rights to the Company in respect of 111,177 Ha. as of December 31, 2010 and 133,040 Ha. as of March 31, 2011, and have acknowledged the issuance of existing confirmations issued to the

Company as to certain rights, among other things, in respect of 113,058 Ha. as of December 31, 2010.

Forestry bureau confirmations are not officially recognized documents and are not issued pursuant to a legislative mandate or, to the knowledge of the IC, a published policy. It appears they were issued at the request of the Company or its Suppliers. The confirmations are not title documents, in the Western sense of that term, although the IC believes they should be viewed as comfort indicating the relevant forestry bureau does not dispute SF's claims to the standing timber to which they relate and might provide comfort in case of disputes. The purchase contracts are the primary evidence of the Company's interest in timber assets.

In the meetings with forestry bureaus, the IC Advisors did not obtain significant insight into the internal authorization or diligence processes undertaken by the forestry bureaus in issuing confirmations and, as reflected elsewhere in this report, the IC did not have visibility into or complete comfort regarding the methods by which those confirmations were obtained. It should be noted that several Suppliers observed that SF was more demanding than other buyers in requiring forestry bureau confirmations.

Book Value of Timber

Based on its review to date, the IC is satisfied that the book value of the BVIs timber assets of $2.476 billion reflected on its 2010 Financial Statements and of SP WFOE standing timber assets of $298.6 million reflected in its 2010 Financial Statements reflects the purchase prices for such assets as set out in the BVIs and WFOE standing timber purchase contracts reviewed by the IC Advisors. Further, the purchase prices for such BVIs timber assets have been reconciled to the Company's financial statements based on set-off documentation relating to such contracts that were reviewed by the IC. However, ***these comments are also subject to the conclusions set out above under "Timber Ownership" on title and other rights to plantation assets.***

The IC Advisors reviewed documentation acknowledging the execution of the set-off arrangements between Suppliers, the Company and AIs for the 2006-2010 period. ***However, the IC Advisors were unable to review any documentation of AIs or Suppliers which independently verified movements of cash in connection with such set-off arrangements between Suppliers, the Company and the AIs used to settle purchase prices paid to Suppliers by AIs on behalf of SF***. We note also that the independent valuation referred to in Part VIII below has not yet been completed.

Revenue Reconciliation

As reported in its First Interim Report, the IC has reconciled reported 2010 total revenue to the sales prices in BVIs timber sales contracts, together with macro customer level data from other businesses. However, ***the IC was unable to review any documentation of AIs or Suppliers which independently verified movements***

of cash in connection with set-off arrangements used to settle purchase prices paid, or sale proceeds received by, or on behalf of SF.

Relationships

• Yuda Wood: The IC is satisfied that Mr. Huang Ran is not currently an employee of the Company and that Yuda Wood is not a subsidiary of the Company. However, ***there is evidence suggesting close cooperation (including administrative assistance, possible payment of capital at the time of establishment, joint control of certain of Yuda Wood's RMB bank accounts and the numerous emails indicating coordination of funding and other business activities).*** Management has explained these arrangements were mechanisms that allowed the Company to monitor its interest in the timber transactions. Further, ***Huang Ran (a Yuda Wood employee) has an ownership and/or directorship in a number of Suppliers*** (See Section VI.B). The IC Advisors have been introduced to persons identified as influential backers of Yuda Wood but were unable to determine the relationships, if any, of such persons with Yuda Wood, the Company or other Suppliers or AIs. ***Management explanations of a number of Yuda Wood-related emails and answers to E&Y's questions are being reviewed by the IC and may not be capable of independent verification***.

• Other: The IC's review has identified other situations which require further review. ***These situations suggest that the Company may have close relationships with certain Suppliers, and certain Suppliers and AIs may have cross-ownership and other relationships with each other***. The IC notes that in the interviews conducted by the IC with selected AIs and Suppliers, all such parties represented that they were independent of SF. Management has very recently provided information and analysis intended to explain these situations. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board. Some of such information and explanations may not be capable of independent verification.

• Accounting Considerations: ***To the extent that any of SF's purchase and sale transactions are with related parties for accounting purposes, the value of these transactions as recorded on the books and records of the Company may be impacted.***

[...]

BVI Structure

The BVI structure used by SF to purchase and sell standing timber assets could be challenged by the relevant Chinese authorities as the undertaking of "business activities" within China by foreign companies, which may only be undertaken by entities established within China with the requisite approvals. However, there is no clear definition of what constitutes "business activities" under Chinese law and there are different views among the IC's Chinese counsel and the Company's Chinese counsel as to whether the purchase and sale of timber in China as

undertaken by the BVIs could be considered to constitute "business activities" within China. In the event that the relevant Chinese authorities consider the BVIs to be undertaking "business activities" within China, they may be required to cease such activities and could be subject to other regulatory action. As regularization of foreign businesses in China is an ongoing process, the government has in the past tended to allow foreign companies time to restructure their operations in accordance with regulatory requirements (the cost of which is uncertain), rather than enforcing the laws strictly and imposing penalties without notice. See Section II.B.2

C. Challenges

Throughout its process, the IC has encountered numerous challenges in its attempts to implement a robust independent process which would yield reliable results. Among those challenges are the following:

(a) Chinese Legal Regime for Forestry:

• national laws and policies appear not yet to be implemented at all local levels;

• in practice, none of the local jurisdictions tested in which BVIs hold standing timber appears to have instituted a government registry and documentation system for the ownership of standing timber as distinct from a government registry system for the ownership of plantation land use rights;

• the registration of plantation land use rights, the issue of Plantation Rights Certificates and the establishment of registries, is incomplete in some jurisdictions based on the information available to the IC;

• as a result, ***title to standing timber, when not held in conjunction with a land use right, cannot be definitively proven by reference to a government maintained register***; and

• Sino-Forest has requested confirmations from forestry bureaus of its acquisition of timber holdings (excluding land leases) as additional evidence of ownership. Certain forestry bureaus and Suppliers have indicated the confirmation was beyond the typical diligence practice in China for acquisition of timber holdings.

(b) Obtaining Information from Third Parties: For a variety of reasons, all of them outside the control of the IC, it is very difficult to obtain information from third parties in China. These reasons include the following:

• ***many of the third parties from whom the IC wanted information (e.g., AIs, Suppliers and forestry bureaus) are not compellable by the Company or Canadian legal processes***;

• third parties appeared to have concerns relating to disclosure of information regarding their operations that could become public or fall into the hands of

Chinese government authorities: ***many third parties explained their reluctance to provide requested documentation and information as being "for tax reasons" but declined to elaborate***; and

• awareness of MW allegations, investigations and information gathering by the OSC and other parties, and court proceedings; while not often explicitly articulated, third parties had an awareness of the controversy surrounding SF and a reluctance to be associated with any of these allegations or drawn into any of these processes.

[...]

(e) Corporate Governance/Operational Weaknesses: ***Management has asserted that business in China is based upon relationships.*** The IC and the IC Advisors have observed this through their efforts to obtain meetings with forestry bureaus, Suppliers and AIs and their other experience in China. The importance of relationships appears to have resulted in dependence on a relatively small group of Management who are integral to maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority or lack of segregation of duties has been previously disclosed by the Company as a control weakness. As a result and as disclosed in the 2010 MD&A, senior Management in their ongoing evaluation of disclosure controls and procedures and internal controls over financial reporting, recognizing the disclosed weakness, determined that the design and controls were ineffective. The Chairman and Chief Financial Officer provided annual and quarterly certifications of their regulatory filings. Related to this weakness the following challenges presented themselves in the examination by the IC and the IC Advisors:

• operational and administration systems that are generally not sophisticated having regard to the size and complexity of the Company's business and in relation to North American practices; including:

> ***• incomplete or inadequate record creation and retention practices;***
>
> • contracts not maintained in a central location;
>
> • significant volumes of data maintained across multiple locations on decentralized servers;
>
> ***• data on some servers in China appearing to have been deleted on an irregular basis, and there is no back-up system;***
>
> • no integrated accounting system: accounting data is not maintained on a single, consolidated application, which can require extensive manual procedures to produce reports; and

• a treasury function that was centralized for certain major financial accounts, but was not actively involved in the control or management of numerous local operations bank accounts;

• ***no internal audit function*** although there is evidence the Company has undertaken and continues to assess its disclosure controls and procedures and internal controls over financial reporting using senior Management and independent control consultants;

• ***SF employees conduct Company affairs from time to time using personal devices and non-corporate email addresses*** which have been observed to be shared across groups of staff and changed on a periodic and organized basis; this complicated and delayed the examination of email data by the IC Advisors; and

• lack of full cooperation/openness in the ICs examination from certain members of Management.

(f) Complexity, Lack of Visibility into, and Limitations of BVIs Model: ***The use of AIs and Suppliers as an essential feature of the BVIs standing timber business model contributes to the lack of visibility into title documentation, cash movements and tax liability since cash settlement in respect of the BVIs standing timber transactions takes place outside of the Company's books.***

(g) Cooperation and openness of the Company's executives throughout the process: From the outset, the IC Advisors sought the full cooperation and support of Allen Chan and the executive management team. Initially, the executive management team appeared ill-prepared to address the IC's concerns in an organized fashion and there was perhaps a degree of culture shock as Management adjusted to the IC Advisors' examination. ***In any event, significant amounts of material information, particularly with respect to the relationship with Yuda Wood, interrelationships between AIs and/or Suppliers, were not provided to the IC Advisors as requested***. In late August 2011 on the instructions of the IC, interviews of Management were conducted by the IC Advisors in which documents evidencing these connections were put to the Management for explanation. As a result of these interviews (which were also attended by BJ) the Company placed certain members of Management on administrative leave upon the advice of Company counsel. At the same time the OSC made allegations in the CTO of Management misconduct.

[...]

(h) Independence of the IC Process: ***The cooperation and collaboration of the IC with Management (operating under the direction of the new Chief Executive Officer) and with Company counsel in completing certain aspects of the IC's mandate has been noted by the OSC and by E&Y. Both have questioned the degree of independence of the IC from Management as a result of this interaction.*** The IC has explained the practical impediments to its work in the context of the distinct business culture (and associated issues of privacy) in the

forestry sector in China in which the Company operates. Cooperation of third parties in Hong Kong and China, including employees, depends heavily on relationships and trust. As noted above, the Company's placing certain members of Management on administrative leave, as well as the OSC's allegations in the CTO, further hampered the IC's ability to conduct its process. As a result, the work of the IC was frequently done with the assistance of, or in reliance on, the new Chief Executive Officer and his Management team and Company counsel. Given that Mr. Martin was, in effect, selected by the IC and BJ was appointed in late June 2011, the IC concluded that, while not ideal, this was a practical and appropriate way to proceed in the circumstances. As evidenced by the increased number of scheduled meetings with forestry bureaus, Suppliers and AIs, and, very recently, the delivery to the IC of information regarding AIs and Suppliers and relationships among the Company and such parties, it is acknowledged that Mr. Martin's involvement in the process has been beneficial. It is also acknowledged that in executing his role and assisting the IC he has had to rely on certain of the members of Management who had been placed on administrative leave.

[Emphasis added]

208. On January 31, 2012, Sino released the Final Report. In material part, it read:

This Final Report of the IC sets out the activities undertaken by the IC since mid-November, the findings from such activities and the IC's conclusions regarding its examination and review. The IC's activities during this period have been limited as a result of Canadian and Chinese holidays (Christmas, New Year and Chinese New Year) and the extensive involvement of IC members in the Company's Restructuring and Audit Committees, both of which are advised by different advisors than those retained by the IC. ***The IC believes that, notwithstanding there remain issues which have not been fully answered, the work of the IC is now at the point of diminishing returns because much of the information which it is seeking lies with non-compellable third parties, may not exist or is apparently not retrievable from the records of the Company.***

In December 2011, the Company defaulted under the indentures relating to its outstanding bonds with the result that its resources are now more focused on dealing with its bondholders. This process is being overseen by the Restructuring Committee appointed by the Board. Pursuant to the Waiver Agreement dated January 18, 2012 between the Company and the holders of a majority of the principal amount of its 2014 Notes, the Company agreed, among other things, that the final report of the IC to the Board would be made public by January 31, 2012.

Given the circumstances described above, the IC understands that, with the delivery of this Final Report, its review and examination activities are terminated. the IC does not expect to undertake further work other than assisting with responses to regulators and the RCMP as required and engaging in such further specific activities as the IC may deem advisable or the Board may instruct. The

IC has asked the IC Advisors to remain available to assist and advise the IC upon its instructions.

[...]

II. RELATIONSHIPS

The objectives of the IC's examination of the Company's relationships with its AIs and Suppliers were to determine, in light of the MW allegations, if such relationships are arm's length and to obtain, if possible, independent verification of the cash flows underlying the set-off transactions described in Section II.A of the Second Interim Report. ***That the Company's relationships with its AIs and Suppliers be arm's length is relevant to SF's ability under GAAP to:***

• book its timber assets at cost in its 2011 and prior years' financial statements, both audited and unaudited

• recognize revenue from standing timber sales as currently reflected in its 2011 and prior years' financial statements, both audited and unaudited.

A. Yuda Wood

Yuda Wood was founded in April 2006 and was until 2010 a Supplier of SF. Its business with SF from 2007 to 2010 totalled approximately 152,164 Ha and RMB 4.94 billion. Section VI.A and Schedule VI.A.2(a) of the Second Interim Report described the MW allegations relating to Yuda Wood, the review conducted by the IC and its findings to date. The IC concluded that Huang Ran is not currently an employee, and that Yuda Wood is not a subsidiary, of the Company. ***However, there is evidence suggesting a close cooperation between SF and Yuda Wood which the IC had asked Management to explain.*** At the time the Second Interim Report was issued, the IC was continuing to review Management's explanations of a number of Yuda Wood-related emails and certain questions arising there-from.

Subsequent to the issuance of its Second Interim Report in mid-November, the IC, with the assistance of the IC Advisors, has reviewed the Management responses provided to date relating to Yuda Wood and has sought further explanations and documentary support for such explanations. This was supplementary to the activities of the Audit Committee of SF and its advisors who have had during this period primary carriage of examining Management's responses on the interactions of SF and Yuda Wood. ***While many answers and explanations have been obtained, the IC believes that they are not yet sufficient to allow it to fully understand the nature and scope of the relationship between SF and Yuda Wood. Accordingly, based on the information it has obtained, the IC is still unable to independently verify that the relationship of Yuda Wood is at arm's length to SF.*** It is to be noted that Management is of the view that Yuda Wood is unrelated to SF for accounting purposes. The IC remains satisfied that Yuda is not a subsidiary of SF. Management continues to undertake work related to Yuda

Wood, including seeking documentation from third parties and responding to e-mails where the responses are not yet complete or prepared. Management has provided certain banking records to the Audit Committee that the Audit Committee advises support Management's position that SF did not capitalize Yuda Wood (but that review is not yet completed). The IC anticipates that Management will continue to work with the Audit Committee, Company counsel and E&Y on these issues.

B. Other Relationships

Section VI.B.1 of the Second Interim Report described certain other relationships which had been identified in the course of the IC's preparation for certain interviews with AIs and Suppliers. ***These relationships include (i) thirteen Suppliers where former SF employees, consultants or secondees are or have been directors, officers and/or shareholders (including Yuda Wood); (ii) an AI with a former SF employee in a senior position; (iii) potential relationships between AIs and Suppliers; (iv) set-off payments for BVI standing timber purchases being made by companies that are not AIs and other setoff arrangements involving non-AI entities; (v) payments by AIs to potentially connected Suppliers; and (vi) sale of standing timber to an AI potentially connected to a Supplier of that timber. Unless expressly addressed herein, the IC has no further update of a material nature on the items raised above.***

On the instructions of the IC, the IC Advisors gave the details of these possible relationships to Management for further follow up and explanation. Just prior to the Second Interim Report, Management provided information regarding AIs and Suppliers relationships among the Company and such parties.

This information was in the form of a report dated November 10, 2011, subsequently updated on November 21, 2011 and January 20, 2012 (the latest version being the "Kaitong Report") prepared by Kaitong Law Firm ("Kaitong"), a Chinese law firm which advises the Company. The Kaitong Report has been separately delivered to the Board. ***Kaitong has advised that much of the information in the Kaitong Report was provided by Management and has not been independently verified by such law firm or the IC.***

[...]

The Kaitong Report generally describes certain relationships amongst AIs and Suppliers and certain relationships between their personnel and Sino-Forest, either identified by Management or through SAIC and other searches. The Kaitong Report also specifically addresses certain relationships identified in the Second Interim Report. The four main areas of information in the Kaitong Report are as follows and are discussed in more detail below:

(i) Backers to Suppliers and AIs: The Kaitong Report explains the concept of "backers" to both Suppliers and AIs. The Kaitong Report suggests that backers are individuals with considerable influence in political, social or business circles,

or all three. The Kaitong Report also states that such backers or their identified main business entities do not generally appear in SAIC filings by the Suppliers or AIs as shareholders thereof and, in most instances, in any other capacity.

(ii) ***Suppliers and AIs with Former SF Personnel: The appendices to the Kaitong Report list certain Suppliers that have former SF personnel as current shareholders.***

(iii) Common Shareholders Between Suppliers and AIs: The Kaitong Report states that there are 5 Suppliers and 3 AIs with current common shareholders but there is no cross majority ownership positions between Suppliers and AIs.

(iv) Transactions Involving Suppliers and AIs that have Shareholders in common: The Kaitong Report states that, where SF has had transactions with Suppliers and AIs that have certain current shareholders in common as noted above, the subject timber in those transactions is not the same; that is, the timber which SF buys from such Suppliers and the timber which SF sells to such AIs are located in different counties or provinces.

The IC Advisors have reviewed the Kaitong Report on behalf of the IC. The IC Advisors liaised with Kaitong and met with Kaitong and current and former Management. A description of the Kaitong Report and the IC's findings and comments are summarized below. By way of summary, the Kaitong Report provides considerable information regarding relationships among Suppliers and AIs, and between them and SF, but much of this information related to the relationship of each backer with the associated Suppliers and AIs is not supported by any documentary or other independent evidence. ***As such, some of the information provided is unverified and, particularly as it relates to the nature of the relationships with the backers, is viewed by the IC to be likely unverifiable by it.***

1. Backers to Suppliers and AIs

[...]

Given the general lack of information on the backers or the nature and scope of the relationships between the Suppliers or AIs and their respective backers and the absence of any documentary support or independent evidence of such relationships, the IC has been unable to reach any conclusion as to the existence, nature or importance of such relationships. ***As a result, the IC is unable to assess the implications, if any, of these backers with respect to SF's relationships with its Suppliers or AIs. Based on its experience to date, including interviews with Suppliers and AIs involving persons who have now been identified as backers in the Kaitong Report, the IC believes that it would be very difficult for the IC Advisors to arrange interviews with either the AIs or Suppliers or their respective backers and, if arranged, that such interviews would yield very little, if any, verifiable information to such advisors***. The IC understands Management is continuing to seek meetings with its AIs and Suppliers with the objective of

obtaining information, to the extent such is available, that will provide further background to the relationships to the Audit Committee.

[...]

2. Suppliers and AIs with Former SF Personnel

The Appendices to the Kaitong Report list the Suppliers with former SF personnel as current shareholders. According to the information previously obtained by the IC Advisors, the identification of former SF personnel indicated in the Kaitong Report to be current shareholders of past or current Suppliers is correct.

(a) Suppliers with former SF personnel

The Kaitong Report, which is limited to examining Suppliers where ex-SF employees are current shareholders as shown in SAIC filings, does not provide material new information concerning Suppliers where former SF employees were identified by the IC in the Second Interim Report as having various past or present connections to current or former Suppliers except that the Kaitong Report provides an explanation of two transactions identified in the Second Interim Report. These involved purchases of standing timber by SF from Suppliers controlled by persons who were employees of SF at the time of these transactions. Neither of the Suppliers have been related to an identified backer in the Kaitong Report. The explanations are similar indicating that neither of the SF employees was an officer in charge of plantation purchases or one of SF's senior management at the time of the transactions. The employees in question were Shareholder #14 in relation to a RMB 49 million purchase from Supplier #18 in December 2007 (shown in SAIC filings to be 100% owned by him) and Shareholder #20 in relation to a RMB 3.3 million purchase from Supplier #23 (shown in SAIC filings to be 70% owned by him) in October 2007. ***The Kaitong Report indicates Shareholder #20 is a current employee of SF who then had responsibilities in SF's wood board production business.***

The IC is not aware that the employees' ownership positions were brought to the attention of the Board at the time of the transactions or, subsequently, until the publication of the Second Interim Report and understands the Audit Committee will consider such information.

(b) AIs with former SF personnel

The Kaitong Report indicates that no SF employees are listed in SAIC filing reports as current shareholders of AIs. Except as noted herein, the IC agrees with this statement. The Kaitong Report does not address the apparent role of an ex-employee Officer #3 who was introduced to the IC as the person in charge of AI #2 by Backer #5 of AI Conglomerate #1. Backer #5 is identified in the Kaitong Report as a backer of two AIs, including AI#2. (The Kaitong Report properly does not include AI #14. as an AI for this purpose, whose 100% shareholder is former SF employee Officer #3. However, the IC is satisfied that the activities of

this entity primarily relate to certain onshoring transactions that facilitated the transfer of SF BVI timber assets to SF WFOE subsidiaries.)

There was one other instance where a past shareholding relationship has been identified between an AI #10 and persons who were previously or are still shown on the SF human resources records, Shareholder #26 and Shareholder #27. Management has explained that such entity sold wood board processing and other assets to SF and that the persons associated with that company consulted with SF after such sale in relation to the purchased wood board processing assets. ***Such entity subsequently also undertook material timber purchases as an AI of SF in 2007-2008 over a time period in which such persons are shown as shareholders of such AI in the SAIC filing reviewed (as to 47.5% for Shareholder #26 and as to 52.5% for Shareholder #27). That time period also intersects the time that Shareholder #26 is shown in such human resources records and partially intersects the time that Shareholder #27 is shown on such records. Management has also explained that Shareholder #26 subsequent to the time of such AI sales became an employee of a SF wood board processing subsidiary. Management has provided certain documentary evidence of its explanations. The IC understands that the Audit Committee will consider this matter.***

3. Common Shareholders between Supplier and AIs

The Kaitong Report states that there are 5 Suppliers and 3 AIs that respectively have certain common current shareholders but also states that there is no cross control by those current shareholders of such Suppliers or AIs based on SAIC filings. The Kaitong Report correctly addresses current cross shareholdings in Suppliers and AIs based on SAIC filings but does not address certain other shareholdings. With the exception of one situation of cross control in the past, the IC has not identified a circumstance in the SAIC filings reviewed where the same person controlled a Supplier at the time it controlled a different AI. ***The one exception is that from April 2002 to February 2006, AI #13 is shown in SAIC filings as the 90% shareholder of Supplier/AI #14. AI #13 did business with SF BVIs from 2005 through 2007 and Supplier/AI #14 supplied SF BVIs from 2004 through 2006. However, the IC to date has only identified one contract involving timber bought from Supplier/AI #14 that was subsequently sold to AI #13. It involved a parcel of 2,379 Ha. timber sold to AI #13 in December 2005 that originated from a larger timber purchase contract with Supplier/AI #14 earlier that year. Management has provided an explanation for this transaction. The IC understands that the Audit Committee will consider this matter.***

4. Transactions involving Suppliers and AIs with Current Shareholders in Common

The Kaitong Report states that where SF has had transactions with 5 Suppliers and 3 AIs that have current shareholders in common (but no one controlling shareholder) as shown in SAIC filings, the subject timber in the transactions they

each undertook with SF is not the same; that is, the timber which SF buys from the Suppliers and the timber which SF sells to the AIs where the Supplier and AI have a current common shareholder were located in different areas and do not involve the same plots of timber. The Kaitong Report further states that where SF has had transactions with 5 Suppliers and 3 AIs with current shareholders in common as shown in SAIC filings, SF had transactions with those AIs prior to having transactions with those Suppliers, thus SF was not overstating its transactions by buying and selling to the same counterparties.

[...]

The Kaitong Report does not specifically address historical situations involving common shareholders and potential other interconnections between AIs and Suppliers that may appear as a result of the identification of backers. There is generally no ownership connection shown in SAIC filings between backers and the Suppliers and AIs associated with such backers in the Kaitong Report.

[...]

VI. OUTSTANDING MATTERS

As noted in Section I above, the IC understands that with the delivery of this report, its examination and review activities are terminated. The IC would expect its next steps may include only:

(a) assisting in responses to regulators and RCMP as required; and

(b) such other specific activities as it may deem advisable or the Board may instruct.

[Emphasis added]

IX. SINO REWARDS ITS EXPERTS

209. Bowland, Hyde and West are former E&Y partners and employees. They served on Sino's Audit Committee but purported to exercise oversight of their former E&Y colleagues. In addition, Sino's Vice-President, Finance (Corporate), Thomas M. Maradin, is a former E&Y employee.

210. The charter of Sino's Audit Committee required that Ardell, Bowland, Hyde and West "review and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the Auditor." Sino's practice of appointing E&Y personnel to its board – and paying them handsomely (for example, Hyde was paid $163,623 by Sino in 2010, $115,962 in 2009, $57,000 in 2008 and $55,875 in 2007, plus options and other compensation) – undermined the Audit Committee's oversight of E&Y.

211. E&Y's independence was impaired by the significant non-audit fees it was paid during 2008-2010, which total $712,000 in 2008, $1,225,000 in 2009 and $992,000 in 2010.

212. Further, Andrew Fyfe, the former Asia-Pacific President for Pöyry Forestry Industry Ltd, was appointed Chief Operating Officer of Greenheart, and is the director of several Sino subsidiaries. Fyfe signed the Pöyry valuation report dated June 30, 2004, March 22, 2005, March 23, 2006, March 14, 2008 and April 1, 2009.

213. George Ho, Sino's Vice President, Finance (China), is a former Senior Manager of the BDO.

X. THE DEFENDANTS' RELATIONSHIP TO THE CLASS

214. By virtue of their purported accounting, financial and/or managerial acumen and qualifications, and by virtue of their having assumed, voluntarily and for profit, the role of gatekeepers, the Defendants had a duty at common law, informed by the Securities Legislation and/or the *CBCA*, to exercise care and diligence to ensure that the Impugned Documents fairly and accurately disclosed Sino's financial condition and performance in accordance with GAAP.

215. Sino is a reporting issuer and had an obligation to make timely, full, true and accurate disclosure of material facts and changes with respect to its business and affairs.

216. The Individual Defendants, by virtue of their positions as senior officers and/or directors of Sino, owed a duty to the Class Members to ensure that public statements on behalf of Sino were not untrue, inaccurate or misleading. The continuous disclosure requirements in Canadian securities law mandated that Sino provide the Impugned Documents, including quarterly and annual financial statements. These documents were meant to be read by Class Members who acquired Sino's Securities in the secondary market and to be relied on by them in making investment decisions. This public disclosure was prepared to attract investment, and Sino and the Individual Defendants intended that Class Members would rely on public disclosure for that purpose. With respect to Prospectuses and Offering Memoranda, these documents were prepared for primary market purchasers. They include detailed content as mandated under Canadian securities legislation, national instruments and OSC rules. They were meant to be read by the Class Members who acquired Sino's Securities in the primary market, and to be relied on by them in making decisions about whether to purchase the shares or notes under the Offerings to which these Prospectuses and Offering Memoranda related.

217. Chan and Horsley had statutory obligations under Canadian securities law to ensure the accuracy of disclosure documents and provided certifications in respect of the annual reports, financial statements and Prospectuses during the Class Period. The other Individual Defendants were directors of Sino during the Class Period and each had a statutory obligation as a director under the *CBCA* to manage or supervise the management of the business and affairs of Sino. These Individual Defendants also owed a statutory duty of care to shareholders under section 122 of the *CBCA*. In addition, Poon, along with Chan, co-founded Sino and has been its president since 1994. He is intimately aware of Sino's operations and as a long-standing senior officer, he

had an obligation to ensure proper disclosure. Poon authorized, permitted or acquiesced in the release of the Impugned Documents.

218. BDO and E&Y acted as Sino's auditors and provided audit reports in Sino's annual financial statements that were directed to shareholders. These audit reports specified that BDO and E&Y had conducted an audit in accordance with GAAS, which was untrue, and included their opinions that the financial statements presented fairly, in all material respects, the financial position of Sino, the results of operations and Sino's cash flows, in accordance with GAAP. BDO and E&Y knew and intended that Class Members would rely on the audit reports and assurances about the material accuracy of the financial statements.

219. Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD each signed one or more of the Prospectuses and certified that, to the best of its knowledge, information and belief, the particular prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby. These defendants knew that the Class Members who acquired Sino's Securities in the primary market would rely on these assurances and the trustworthiness that would be credited to the Prospectuses because of their involvement. Further, those Class Members that purchased shares under these Prospectuses purchased their shares from these defendants as principals.

220. Credit Suisse USA, TD and Banc of America acted as initial purchasers or dealer managers for one or more of the note Offerings. These defendants knew that persons purchasing these notes would rely on the trustworthiness that would be credited to the Offering Memoranda because of their involvement.

XI. THE PLAINTIFFS' CAUSES OF ACTION

A. *Negligent Misrepresentation*

221. As against all Defendants except Pöyry and the Underwriters, and on behalf of all Class Members who acquired Sino's Securities in the secondary market, the Plaintiffs plead negligent misrepresentation for all of the Impugned Documents except the Offering Memoranda.

222. Labourers and Wong, on behalf of Class Members who purchased Sino Securities in one of the distributions to which a Prospectus related, plead negligent misrepresentation as against Sino, Chan, Horsley, Poon, Wang, Martin, Mak, Murray, Hyde, BDO, E&Y, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD for the Prospectuses.

223. Grant, on behalf of Class Members who purchased Sino Securities in one of the distributions to which an Offering Memorandum related, pleads negligent misrepresentation as against Sino, BDO and E&Y for the Offering Memoranda.

224. In support of these claims, the sole misrepresentation that the Plaintiffs plead is the Representation. The Representation is contained in the language relating to GAAP particularized above, and was untrue for the reasons particularized elsewhere herein.

225. The Impugned Documents were prepared for the purpose of attracting investment and inducing members of the investing public to purchase Sino securities. The Defendants knew and intended at all material times that those documents had been prepared for that purpose, and that the Class Members would rely reasonably and to their detriment upon such documents in making the decision to purchase Sino securities.

226. The Defendants further knew and intended that the information contained in the Impugned Documents would be incorporated into the price of Sino's publicly traded securities

such that the trading price of those securities would at all times reflect the information contained in the Impugned Documents.

227. As set out elsewhere herein, the Defendants, other than Pöyry, Credit Suisse USA and Banc of America, had a duty at common law to exercise care and diligence to ensure that the Impugned Documents fairly and accurately disclosed Sino's financial condition and performance in accordance with GAAP.

228. These Defendants breached that duty by making the Representation as particularized above.

229. The Plaintiffs and the other Class Members directly or indirectly relied upon the Representation in making a decision to purchase the securities of Sino, and suffered damages when the falsity of the Representation was revealed on June 2, 2011.

230. Alternatively, the Plaintiffs and the other Class Members relied upon the Representation by the act of purchasing Sino securities in an efficient market that promptly incorporated into the price of those securities all publicly available material information regarding the securities of Sino. As a result, the repeated publication of the Representation in these Impugned Documents caused the price of Sino's shares to trade at inflated prices during the Class Period, thus directly resulting in damage to the Plaintiffs and Class Members.

B. *Statutory Claims, Negligence, Oppression, Unjust Enrichment and Conspiracy*

(i) Statutory Liability– Secondary Market under the Securities Legislation

231. The Plaintiffs plead the claim found in Part XXIII.1 of the *OSA*, and, if required, the equivalent sections of the Securities Legislation other than the *OSA*, against all Defendants except the Underwriters.

232. Each of the Impugned Documents except for the December 2009 and October 2010 Offering Memoranda is a "Core Document" within the meaning of the Securities Legislation.

233. Each of these Impugned Documents contained one or more misrepresentations as particularized above. Such misrepresentations and the Representation are misrepresentations for the purposes of the Securities Legislation.

234. Each of the Individual Defendants was an officer and/or director of Sino at material times. Each of the Individual Defendants authorized, permitted or acquiesced in the release of some or all of these Impugned Documents.

235. Sino is a reporting issuer within the meaning of the Securities Legislation.

236. E&Y is an expert within the meaning of the Securities Legislation. E&Y consented to the use of its statements particularized above in these Impugned Documents.

237. BDO is an expert within the meaning of the Securities Legislation. BDO consented to the use of its statements particularize above in these Impugned Documents.

238. Pöyry is an expert within the meaning of the Securities Legislation. Pöyry consented to the use of its statements particularized above in these Impugned Documents.

239. At all material times, each of Sino, Chan, Poon and Horsley, BDO and E&Y knew or, in the alternative, was wilfully blind to the fact, that the Impugned Documents contained the Representation and that the Representation was false, and that the Impugned Documents contained other of the misrepresentations that are alleged above to have been contained therein.

(ii) Statutory Liability – Primary Market for Sino's Shares under the Securities Legislation

240. As against Sino, Chan, Horsley, Wang, Martin, Mak, Murray, Hyde, Pöyry, BDO, E&Y, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD, and on behalf

of those Class Members who purchased Sino shares in one of the distributions to which the June 2009 or December 2009 Prospectuses related, Labourers and Wong assert the cause of action set forth in s. 130 of the *OSA* and, if necessary, the equivalent provisions of the Securities Legislation other than the *OSA*.

241. Sino issued the June 2009 and December 2009 Prospectuses, which contained the Representation and the other misrepresentations that are alleged above to have been contained in those Prospectuses or in the Sino disclosure documents incorporated therein by reference.

(iii) Statutory Liability – Primary Market for Sino's Notes under the Securities Legislation

242. As against Sino, and on behalf of those Class Members who purchased or otherwise acquired Sino's notes in one of the offerings to which the July 2008, June 2009, December 2009, and October 2010 Offering Memoranda related, Grant asserts the cause of action set forth in s. 130.1 of the *OSA* and, if necessary, the equivalent provisions of the Securities Legislation other than the *OSA*.

243. Sino issued the July 2008, June 2009, December 2009 and October 2010 Offering Memoranda, which contained the Representation and the other misrepresentations that are alleged above to have been contained in those Offering Memoranda or in the Sino disclosure documents incorporated therein by reference.

(iv) Negligence Simpliciter – Primary Market for Sino's Securities

244. Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, BDO, E&Y, Pöyry and the Underwriters (collectively, the "**Primary Market Defendants**") acted negligently in connection with one or more of the Offerings.

245. As against Sino, Chan, Horsley, Poon, Wang, Martin, Mak, Murray, Hyde, BDO, E&Y, Pöyry, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD, and on

behalf of those Class Members who purchased Sino's Securities in one of the distributions to which those Prospectuses related, Labourers and Wong assert negligence simpliciter.

246. As against Sino, BDO, E&Y, Pöyry, Credit Suisse USA, Banc of America and TD, and on behalf of those Class Members who purchased Sino's Securities in one of the distributions to which the Offering Memoranda related, Grant asserts negligence simpliciter.

247. The Primary Market Defendants owed a duty of care to ensure that the Prospectuses and/or the Offering Memoranda they issued, or authorized to be issued, or in respect of which they acted as an underwriter, initial purchaser or dealer manager, made full, true and plain disclosure of all material facts relating to the Securities offered thereby, or to ensure that their opinions or reports contained in such Prospectuses and Offering Memoranda did not contain a misrepresentation.

248. At all times material to the matters complained of herein, the Primary Market Defendants ought to have known that such Prospectuses or Offering Memoranda and the documents incorporated therein by reference were materially misleading in that they contained the Representation and the other misrepresentations particularized above.

249. Chan, Poon, Horsley, Wang, Martin, Mak, Murray and Hyde were senior officers and/or directors at the time the Offerings to which the Prospectuses related. These Prospectuses were created for the purposes of obtaining financing for Sino's operations. Chan, Horsley, Martin and Hyde signed each of the Prospectuses and certified that they made full, true and plain disclosure of all material facts relating to the shares offered. Wang, Mak and Murray were directors during one or more of these Offerings and each had a statutory obligation to manage or supervise the management of the business and affairs of Sino. Poon was a director for the June 2007 share Offering and was president of Sino at the time of the June 2009 and December 2009 Offering.

Poon, along with Chan, co-founded Sino and has been the president since 1994. He is intimately aware of Sino's business and affairs.

250. The Underwriters acted as underwriters, initial purchasers or dealer managers for the Offerings to which the Prospectuses and Offering Memoranda related. They had an obligation to conduct due diligence in respect of those Offerings and ensure that those Securities were offering at a price that reflected their true value or that such distributions did not proceed if inappropriate. In addition, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD signed one or more of the Prospectuses and certified that to the best of their knowledge, information and belief, the Prospectuses constituted full, true and plain disclosure of all material facts relating to the shares offered.

251. E&Y and BDO acted as Sino's auditors and had a duty to maintain or to ensure that Sino maintained appropriate internal controls to ensure that Sino's disclosure documents adequately and fairly presented the business and affairs of Sino on a timely basis.

252. Pöyry had a duty to ensure that its opinions and reports reflected the true nature and value of Sino's assets. Pöyry, at the time it produced each of the 2008 Valuations, 2009 Valuations, and 2010 Valuations, specifically consented to the inclusion of those valuations or a summary at any time that Sino or its subsidiaries filed any documents on SEDAR or issued any documents pursuant to which any securities of Sino or any subsidiary were offered for sale.

253. The Primary Market Defendants have violated their duties to those Class Members who purchased Sino's Securities in the distributions to which a Prospectus or an Offering Memorandum related.

254. The reasonable standard of care expected in the circumstances required the Primary Market Defendants to prevent the distributions to which the Prospectuses or the Offering Memoranda related from occurring prior to the correction of the Representation and the other misrepresentations alleged above to have been contained in the Prospectuses or the Offering Memoranda, or in the documents incorporated therein by reference. Those Defendants failed to meet the standard of care required by causing the Offerings to occur before the correction of such misrepresentations.

255. In addition, by failing to attend and participate in Sino board and board committee meetings to a reasonable degree, Murray and Poon effectively abdicated their duties to the Class Members and as directors of Sino.

256. Sino, E&Y, BDO and the Individual Defendants further breached their duty of care as they failed to maintain or to ensure that Sino maintained appropriate internal controls to ensure that Sino's disclosure documents adequately and fairly presented the business and affairs of Sino on a timely basis.

257. Had the Primary Market Defendants exercised reasonable care and diligence in connection with the distributions to which the Prospectuses related, then securities regulators likely would not have issued a receipt for any of the Prospectuses, and those distributions would not have occurred, or would have occurred at prices that reflected the true value of Sino's shares.

258. Had the Primary Market Defendants exercised reasonable care and diligence in connection with the distributions to which the Offering Memoranda related, then those distributions would not have occurred, or would have occurred at prices that reflected the true value of Sino's notes.

259. The Primary Market Defendants' negligence in relation to the Prospectuses and the Offering Memoranda resulted in damage to Labourers, Grant and Wong, and to the other Class Members who purchased Sino's Securities in the related distributions. Had those Defendants satisfied their duty of care to such Class Members, then those Class Members would not have purchased the Securities that they acquired under the Prospectuses or the Offering Memoranda, or they would have purchased them at a much lower price that reflected their true value.

(v) Unjust Enrichment of **Chan, Martin, Poon, Horsley, Mak and Murray**

260. As a result of the Representation and the other misrepresentations particularized above, Sino's shares traded, and were sold by Chan, Martin, Poon, Horsley, Mak and Murray, at artificially inflated prices during the Class Period.

261. Chan, Martin, Poon, Horsley, Mak and Murray were enriched by their wrongful acts and omissions during the Class Period, and the Class Members who purchased Sino shares from such Defendants suffered a corresponding deprivation.

262. There was no juristic reason for the resulting enrichment of Chan, Martin, Poon, Horsley, Mak and Murray.

263. The Class Members who purchased Sino shares from Chan, Martin, Poon, Horsley, Mak and Murray during the Class Period are entitled to the difference between the price they paid to such Defendants for such shares, and the price that they would have paid had the Defendants not made the Representation and the other misrepresentations particularized above, and had not committed the wrongful acts and omissions particularized above.

(vi) Unjust Enrichment of Sino

264. Throughout the Class Period, Sino made the Offerings. Such Offerings were made via various documents, particularized above, that contained the Representation and the misrepresentations particularized above.

265. The Securities sold by Sino via the Offerings were sold at artificially inflated prices as a result of the Representation and the others misrepresentations particularized above.

266. Sino was enriched by, and those Class Members who purchased the Securities via the Offerings were deprived of, an amount equivalent to the difference between the amount for which the Securities offered were actually sold, and the amount for which such securities would have been sold had the Offerings not included the Representation and the misrepresentations particularized above.

267. The Offerings violated Sino's disclosure obligations under the Securities Legislation and the various instruments promulgated by the securities regulators of the Provinces in which such Offerings were made. There was no juristic reason for the enrichment of Sino.

(vi) Unjust Enrichment of the Underwriters

268. Throughout the Class Period, Sino made the Offerings. Such Offerings were made via the Prospectuses and the Offering Memoranda, which contained the Representation and the other misrepresentations particularized above. Each of the Underwriters underwrote one or more of the Offerings.

269. The Securities sold by Sino via the Offerings were sold at artificially inflated prices as a result of the Representation and the other misrepresentations particularized above. The Underwriters earned fees from the Class, whether directly or indirectly, for work that they never

performed, or that they performed with gross negligence, in connection with the Offerings, or some of them.

270. The Underwriters were enriched by, and those Class Members who purchased securities via the Offerings were deprived of, an amount equivalent to the fees the Underwriters earned in connection with the Offerings.

271. The Offerings violated Sino's disclosure obligations under the Securities Legislation and the various instruments promulgated by the securities regulators of the Provinces in which such Offerings were made. There was no juristic reason for the enrichment of the Underwriters.

272. In addition, some or all of the Underwriters also acted as brokers in secondary market transactions relating to Sino securities, and earned trading commissions from the Class Members in those secondary market transactions in Sino's Securities. Those Underwriters were enriched by, and those Class Members who purchased Sino securities through those Underwriters in their capacity as brokers were deprived of, an amount equivalent to the commissions the Underwriters earned on such secondary market trades.

273. Had those Underwriters who also acted as brokers in secondary market transactions exercised reasonable diligence in connection with the Offerings in which they acted as Underwriters, then Sino's securities likely would not have traded at all in the secondary market, and the Underwriters would not have been paid the aforesaid trading commissions by the Class Members. There was no juristic reason for that enrichment of those Underwriters through their receipt of trading commissions from the Class Members.

(vii) Oppression

274. The Plaintiffs and the other Class Members had a reasonable and legitimate expectation that Sino and the Individual Defendants would use their powers to direct the company for Sino's

best interests and, in turn, in the interests of its security holders. More specifically, the Plaintiffs and the other Class Members had a reasonable expectation that:

(a) Sino and the Individual Defendants would comply with GAAP, and/or cause Sino to comply with GAAP;

(b) Sino and the Individual Defendants would take reasonable steps to ensure that the Class Members were made aware on a timely basis of material developments in Sino's business and affairs;

(c) Sino and the Individual Defendants would implement adequate corporate governance procedures and internal controls to ensure that Sino disclosed material facts and material changes in the company's business and affairs on a timely basis;

(d) Sino and the Individual Defendants would not make the misrepresentations particularized above;

(e) Sino stock options would not be backdated or otherwise mispriced; and

(f) the Individual Defendants would adhere to the Code.

275. Such reasonable expectations were not met as:

(a) Sino did not comply with GAAP;

(b) the Class Members were not made aware on a timely basis of material developments in Sino's business and affairs;

(c) Sino's corporate governance procedures and internal controls were inadequate;

(d) the misrepresentations particularized above were made;

(e) stock options were backdated and/or otherwise mispriced; and

(f) the Individual Defendants did not adhere to the Code.

276. Sino's and the Individual Defendants' conduct was oppressive and unfairly prejudicial to the Plaintiffs and the other Class Members and unfairly disregarded their interests. These defendants were charged with the operation of Sino for the benefit of all of its shareholders. The value of the shareholders' investments was based on, among other things:

(a) the profitability of Sino;

(b) the integrity of Sino's management and its ability to run the company in the interests of all shareholders;

(c) Sino's compliance with its disclosure obligations;

(d) Sino's ongoing representation that its corporate governance procedures met with reasonable standards, and that the business of the company was subjected to reasonable scrutiny; and

(e) Sino's ongoing representation that its affairs and financial reporting were being conducted in accordance with GAAP.

277. This oppressive conduct impaired the ability of the Plaintiffs and other Class Members to make informed investment decisions about Sino's securities. But for that conduct, the Plaintiffs and the other Class Members would not have suffered the damages alleged herein.

(viii) Conspiracy

278. Sino, Chan, Poon and Horsley conspired with each other and with persons unknown (collectively, the "**Conspirators**") to inflate the price of Sino's securities. During the Class Period, the Conspirators unlawfully, maliciously and lacking bona fides, agreed together to, among other things, make the Representation and other misrepresentations particularized above, and to profit from such misrepresentations by, among other things, issuing stock options in respect of which the strike price was impermissibly low.

279. The Conspirators' predominant purposes in so conspiring were to:

(a) inflate the price of Sino's securities, or alternatively, maintain an artificially high trading price for Sino's securities;

(b) artificially increase the value of the securities they held; and

(c) inflate the portion of their compensation that was dependent in whole or in part upon the performance of Sino and its securities.

280. In furtherance of the conspiracy, the following are some, but not all, of the acts carried out or caused to be carried out by the Conspirators:

(a) they agreed to, and did, make the Representation, which they knew was false;

(b) they agreed to, and did, make the other misrepresentations particularized above, which they knew were false;

(c) they caused Sino to issue the Impugned Documents which they knew to be materially misleading;

(d) as alleged more particularly below, they caused to be issued stock options in respect of which the strike price was impermissibly low; and

(e) they authorized the sale of securities pursuant to Prospectuses and Offering Memoranda that they knew to be materially false and misleading.

281. Stock options are a form of compensation used by companies to incentivize the performance of directors, officers and employees. Options are granted on a certain date (the 'grant date') at a certain price (the 'exercise' or 'strike' price). At some point in the future, typically following a vesting period, an options-holder may, by paying the strike price, exercise the option and convert the option into a share in the company. The option-holder will make money as long as the option's strike price is lower than the market price of the security at the

moment that the option is exercised. This enhances the incentive of the option recipient to work to raise the stock price of the company.

282. There are three types of option grants:

(a) 'in-the-money' grants are options granted where the strike price is lower than the market price of the security on the date of the grant; such options are not permissible under the TSX Rules and have been prohibited by the TSX Rules at all material times;

(b) 'at-the-money' grants are options granted where the strike price is equal to the market price of the security on the date of the grant or the closing price the day prior to the grant; and

(c) 'out-of-the-money' grants are options granted where the strike price is higher than the market price of the security on the date of the grant.

283. Both at-the-money and out-of-the-money options are permissible under the TSX Rules and have been at all material times.

284. The purpose of both at-the-money and out-of-the-money options is to create incentives for option recipients to work to raise the share price of the company. Such options have limited value at the time of the grant, because they entitle the recipient to acquire the company's shares at or above the price at which the recipient could acquire the company's shares in the open market. Options that are in-the-money, however, have substantial value at the time of the grant irrespective of whether the company's stock price rises subsequent to the grant date.

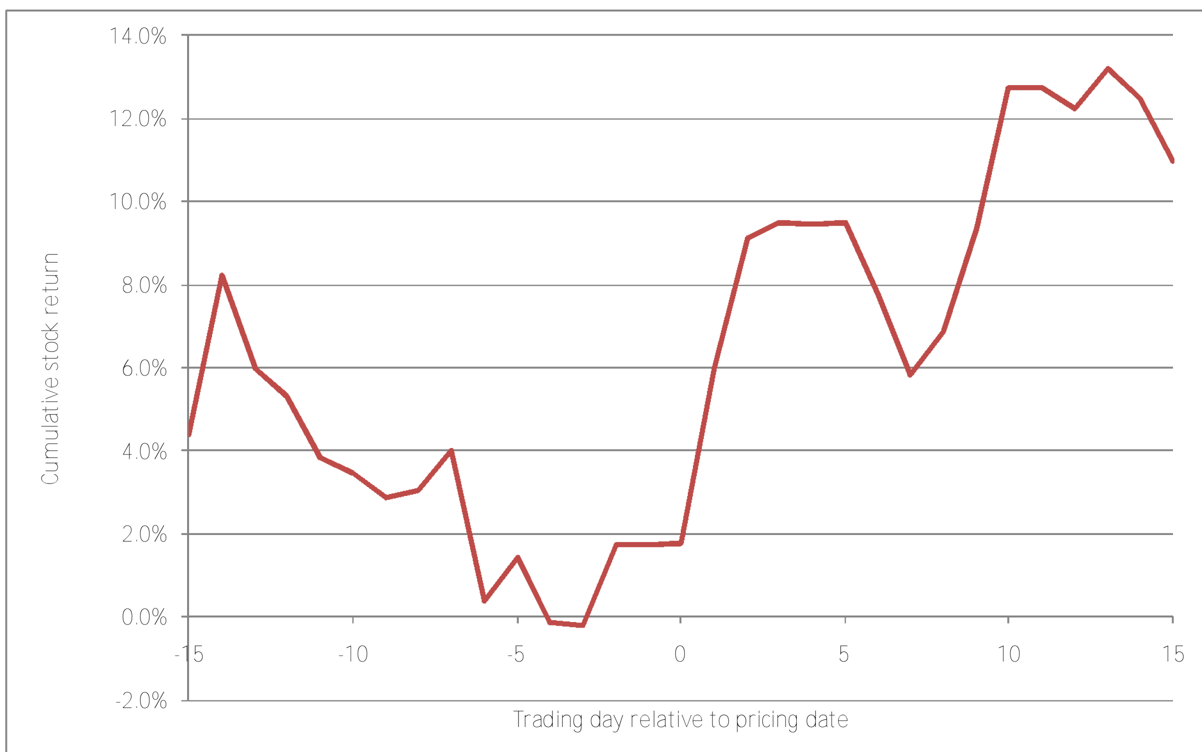
285. At all material times, the Sino Option Plan (the "**Plan**") prohibited in-the-money options.

286. The Conspirators backdated and/or otherwise mispriced Sino stock options, or caused the backdating and/or mispricing of Sino stock options, in violation of, inter alia: (a) the *OSA* and the rules and regulations promulgated thereunder; (b) the Plan; (c) GAAP; (d) the Code; (e) the TSX

Rules; and (f) the Conspirators' statutory, common law and contractual fiduciary duties and duties of care to Sino and its shareholders, including the Class Members.

287. The Sino stock options that were backdated or otherwise mispriced included those issued on June 26, 1996 to Chan, January 21, 2005 to Horsley, September 14, 2005 to Horsley, June 4, 2007 to Horsley and Chan, August 21, 2007 to Sino insiders other than the Conspirators, November 23, 2007 to George Ho and other Sino insiders, and March 31, 2009 to Sino insiders other than the Conspirators.

288. The graph below shows the average stock price returns for fifteen trading days prior and subsequent to the dates as of which Sino priced its stock options to its insiders. As appears therefrom, on average the dates as of which Sino's stock options were priced were preceded by a substantial decline in Sino's stock price, and were followed by a dramatic increase in Sino's stock price. This pattern could not plausibly be the result of chance.



289. The conspiracy was unlawful because the Conspirators knowingly and intentionally committed the foregoing acts when they knew such conduct was in violation of, *inter alia*, the *OSA*, the Securities Legislation other than the *OSA*, the Code, the rules and requirements of the TSX (the "**TSX Rules**") and the *CBCA*. The Conspirators intended to, and did, harm the Class by causing artificial inflation in the price of Sino's securities.

290. The Conspirators directed the conspiracy toward the Plaintiffs and the other Class Members. The Conspirators knew in the circumstances that the conspiracy would, and did, cause loss to the Plaintiffs and the other Class Members. The Plaintiffs and the Class Members suffered damages when the falsity of the Representation and other misrepresentations were revealed on June 2, 2011.

XII. THE RELATIONSHIP BETWEEN SINO'S DISCLOSURES AND THE PRICE OF SINO'S SECURITIES

291. The price of Sino's securities was directly affected during the Class Period by the issuance of the Impugned Documents. The Defendants were aware at all material times of the effect of Sino's disclosure documents upon the price of its Sino's securities.

292. The Impugned Documents were filed, among other places, with SEDAR and the TSX, and thereby became immediately available to, and were reproduced for inspection by, the Class Members, other members of the investing public, financial analysts and the financial press.

293. Sino routinely transmitted the documents referred to above to the financial press, financial analysts and certain prospective and actual holders of Sino securities. Sino provided either copies of the above referenced documents or links thereto on its website.

294. Sino regularly communicated with the public investors and financial analysts via established market communication mechanisms, including through regular disseminations of their disclosure documents, including press releases on newswire services in Canada, the United States and elsewhere. Each time Sino communicated that new material information about Sino financial results to the public the price of Sino securities was directly affected.

295. Sino was the subject of analysts' reports that incorporated certain of the material information contained in the Impugned Documents, with the effect that any recommendations to purchase Sino securities in such reports during the Class Period were based, in whole or in part, upon that information.

296. Sino's securities were and are traded, among other places, on the TSX, which is an efficient and automated market. The price at which Sino's securities traded promptly incorporated material information from Sino's disclosure documents about Sino's business and affairs, including the Representation, which was disseminated to the public through the documents referred to above and distributed by Sino, as well as by other means.

XIII. VICARIOUS LIABILITY

A. *Sino and the Individual Defendants*

297. Sino is vicariously liable for the acts and omissions of the Individual Defendants particularized in this Claim.

298. The acts or omissions particularized and alleged in this Claim to have been done by Sino were authorized, ordered and done by the Individual Defendants and other agents, employees and representatives of Sino, while engaged in the management, direction, control and transaction of the business and affairs of Sino. Such acts and omissions are, therefore, not only the acts and omissions of the Individual Defendants, but are also the acts and omissions of Sino.

299. At all material times, the Individual Defendants were officers and/or directors of Sino. As their acts and omissions are independently tortious, they are personally liable for same to the Plaintiffs and the other Class Members.

B. *E&Y*

300. E&Y is vicariously liable for the acts and omissions of each of its officers, directors, partners, agents and employees as set out above.

301. The acts or omissions particularized and alleged in this Claim to have been done by E&Y were authorized, ordered and done by its officers, directors, partners, agents and employees, while engaged in the management, direction, control and transaction of the business and affairs of E&Y. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of E&Y.

C. *BDO*

302. BDO is vicariously liable for the acts and omissions of each of its officers, directors, partners, agents and employees as set out above.

303. The acts or omissions particularized and alleged in this Claim to have been done by BDO were authorized, ordered and done by its officers, directors, partners, agents and employees, while engaged in the management, direction, control and transaction of the business and affairs of BDO. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of BDO.

D. *Pöyry*

304. Pöyry is vicariously liable for the acts and omissions of each of its officers, directors, partners, agents and employees as set out above.

305. The acts or omissions particularized and alleged in this Claim to have been done by Pöyry were authorized, ordered and done by its officers, directors, partners, agents and employees, while engaged in the management, direction, control and transaction of the business and affairs of Pöyry. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of Pöyry.

E. *The Underwriters*

306. The Underwriters are vicariously liable for the acts and omissions of each of their respective officers, directors, partners, agents and employees as set out above.

307. The acts or omissions particularized and alleged in this Claim to have been done by the Underwriters were authorized, ordered and done by each of their respective officers, directors, partners, agents and employees, while engaged in the management, direction, control and transaction of the business and affairs such Underwriters. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of the respective Underwriters.

XIV. REAL AND SUBSTANTIAL CONNECTION WITH ONTARIO

308. The Plaintiffs plead that this action has a real and substantial connection with Ontario because, among other thing:

(a) Sino is a reporting issuer in Ontario;

(b) Sino's shares trade on the TSX which is located in Toronto, Ontario;

(c) Sino's registered office and principal business office is in Mississauga, Ontario;

(d) the Sino disclosure documents referred to herein were disseminated in and from Ontario;

(e) a substantial proportion of the Class Members reside in Ontario;

(f) Sino carries on business in Ontario; and

(g) a substantial portion of the damages sustained by the Class were sustained by persons and entities domiciled in Ontario.

XV. SERVICE OUTSIDE OF ONTARIO

309. The Plaintiffs may serve the Notice of Action and Statement of Claim outside of Ontario without leave in accordance with rule 17.02 of the Rules of Civil Procedure, because this claim is:

(a) a claim in respect of personal property in Ontario (para 17.02(a));

(b) a claim in respect of damage sustained in Ontario (para 17.02(h));

(c) a claim authorized by statute to be made against a person outside of Ontario by a proceeding in Ontario (para 17.02(n)); and

(d) a claim against a person outside of Ontario who is a necessary or proper party to a proceeding properly brought against another person served in Ontario (para 17.02(o)); and

(e) a claim against a person ordinarily resident or carrying on business in Ontario (para 17.02(p)).

XVI. RELEVANT LEGISLATION, PLACE OF TRIAL, JURY TRIAL AND HEADINGS

310. The Plaintiffs plead and rely on the *CJA*, the *CPA*, the Securities Legislation and *CBCA*, all as amended.

311. The Plaintiffs propose that this action be tried in the City of Toronto, in the Province of Ontario, as a proceeding under the *CPA*.

312. The Plaintiffs will serve a jury notice.

313. The headings contained in this Statement of Claim are for convenience only. This Statement of Claim is intended to be read as an integrated whole, and not as a series of unrelated components.

~~April 18, 2012~~ January 26/12

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Lawyers for the Plaintiffs

Trustees of the Labourers' Pension Fund of Central and Eastern Canada, *et al.*
Plaintiffs

and

Sino-Forest Corporation, *et al.*
Defendants

Court File No.: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

Proceeding under the *Class Proceedings Act, 1992*

FRESH AS AMENDED STATEMENT OF CLAIM

(NOTICE OF ACTION ISSUED JULY 20, 2011)

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Lawyers for the Plaintiffs

This is Exhibit "C" mentioned and referred to in the Affidavit of Charles M. Wright, sworn before me at the City of London, in the County of Middlesex, this 4th day of July, 2014.

A Commissioner, etc.

Court File No.: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

B E T W E E N :

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF OPERATING ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS IN ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT, ~~and~~ ROBERT WONG, DAVIS NEW YORK VENTURE FUND, INC. and DAVIS SELECTED ADVISERS, L.P.

Plaintiffs

\- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN, KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND, JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY J. WEST, ~~PÖYRY (BEIJING) CONSULTING COMPANY LIMITED,~~ CREDIT SUISSE SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC WORLD MARKETS INC., MERRILL LYNCH CANADA INC., CANACCORD FINANCIAL LTD., MAISON PLACEMENTS CANADA INC., CREDIT SUISSE SECURITIES (USA) LLC and MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED (successor by merger to Banc of America Securities LLC)

Defendants

Proceeding under the *Class Proceedings Act, 1992*

SECOND FRESH AS AMENDED STATEMENT OF CLAIM

(NOTICE OF ACTION ISSUED JULY 20, 2011)

TO:	**Sino-Forest Corporation** 1208-90 Burnhamthorpe Rd W Mississauga, ON L5B 3C3
AND TO:	**David Horsley** Sino-Forest Corporation 1208-90 Burnhamthorpe Rd W Mississauga, ON L5B 3C3
AND TO:	**Allen Chan** Sino-Forest Corporation 1208-90 Burnhamthorpe Rd W Mississauga, ON L5B 3C3
AND TO:	**William Ardell** Sino-Forest Corporation 1208-90 Burnhamthorpe Rd W Mississauga, ON L5B 3C3
AND TO:	**James Bowland** Sino-Forest Corporation 1208-90 Burnhamthorpe Rd W Mississauga, ON L5B 3C3
AND TO:	**James Hyde** Sino-Forest Corporation 1208-90 Burnhamthorpe Rd W Mississauga, ON L5B 3C3
AND TO:	**Edmund Mak** Sino-Forest Corporation 1208-90 Burnhamthorpe Rd W Mississauga, ON L5B 3C3
AND TO:	**W. Judson Martin** Sino-Forest Corporation 1208-90 Burnhamthorpe Rd W Mississauga, ON L5B 3C3
AND TO:	**Simon Murray** Sino-Forest Corporation 1208-90 Burnhamthorpe Rd W Mississauga, ON L5B 3C3

AND TO: **Kai Kit Poon**
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AND TO: **Peter Wang**
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AND TO: **Garry West**
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AND TO: **Ernst & Young LLP**
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AND TO: **BDO Limited**
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~~**AND TO:**~~ ~~**Pöyry (Beijing) Consulting Company Limited**~~
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~~PR CHINA~~

AND TO: **Credit Suisse Securities (Canada), Inc.**
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AND TO: **TD Securities Inc.**
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AND TO: **Dundee Securities Corporation**
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AND TO: **RBC Dominion Securities Inc.**
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AND TO: **Scotia Capital Inc.**
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AND TO: **CIBC World Markets Inc.**
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AND TO: **Merrill Lynch Canada Inc.**
BCE Place, Wellington Tower
181 Bay Street, 4th and 5th Floors
Toronto, Ontario M5J 2V8

AND TO: **Canaccord Financial Ltd.**
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Toronto, Ontario M5J 2S1

AND TO: **Maison Placements Canada Inc.**
130 Adelaide Street West, Suite 906
Toronto, Ontario M5H 3P5

AND TO: **Credit Suisse Securities (USA) LLC**
Eleven Madison Avenue
New York, NY 10010

AND TO: **Merrill Lynch, Pierce, Fenner & Smith Incorporated**
100 N. Tryon St., Ste. 220
Charlotte, NC 28255

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I. DEFINED TERMS

1. In this Statement of Claim, in addition to the terms that are defined elsewhere herein, the following terms have the following meanings:

(a) "**AI**" means Authorized Intermediary;

(b) "**AIF**" means Annual Information Form;

(c) "**Ardell**" means the defendant William E. Ardell;

(d) "**Banc of America**" means the defendant Merrill Lynch, Pierce, Fenner & Smith Incorporated;

(e) "**BDO**" means the defendant BDO Limited;

(f) "**Bowland**" means the defendant James P. Bowland;

(g) "**BVI**" means British Virgin Islands;

(h) "**Canaccord**" means the defendant Canaccord Financial Ltd.;

(i) "***CBCA***" means the *Canada Business Corporations Act*, RSC 1985, c. C-44, as amended;

(j) "**Chan**" means the defendant Allen T.Y. Chan also known as "Tak Yuen Chan";

(k) "**CIBC**" means the defendant CIBC World Markets Inc.;

(l) "***CJA***" means the Ontario *Courts of Justice Act*, RSO 1990, c C-43, as amended;

(m) "**Class**" and "**Class Members**" means:

(i) all persons and entities, wherever they may reside, who acquired **Sino**'s **Securities** during the **Class Period** ~~by distribution in Canada or~~ on the Toronto Stock Exchange or other secondary market in Canada, which includes securities acquired over-the-counter, and all persons and entities who acquired **Sino**'s **Securities** during the **Class Period** who are resident of Canada or were resident of Canada at the time of acquisition and who acquired **Sino**'s **Securities** outside of Canada, except: those persons resident or domiciled in the Province of Quebec at the time they acquired **Sino**'s **Securities**, and who are not precluded from participating in a class action by virtue of Article 999 of the Quebec Code of Civil Procedure, RSQ, c C-25, and except the **Excluded Persons**; and

(ii) all persons and entities, wherever they may reside, who acquired **Sino**'s **Securities** during the **Class Period** by distribution in Canada in an **Offering**, or are resident of Canada or were resident of Canada at the time

of acquisition and acquired **Sino**'s **Securities** by offering outside of Canada, except the **Excluded Persons**;

(n) "**Class Period**" means the period from and including March 19, 2007 to and including June 2, 2011;

(o) "**Code**" means **Sino**'s Code of Business Conduct;

(p) "***CPA***" means the Ontario *Class Proceedings Act, 1992*, SO 1992, c 6, as amended;

(q) "**Credit Suisse**" means the defendant Credit Suisse Securities (Canada), Inc.;

(r) "**Credit Suisse USA**" means the defendant Credit Suisse Securities (USA) LLC;

(s) "**Defendants**" means **Sino**, the **Individual Defendants**, ~~**Pöyry,**~~ **BDO**, **E&Y** and the **Underwriters**;

(t) "**December 2009 Offering Memorandum**" means Sino's Final Offering Memorandum, dated December 10, 2009, relating to the distribution of Sino's 4.25% Convertible Senior Notes due 2016 which **Sino** filed on **SEDAR** on December 11, 2009;

(u) "**December 2009 Prospectus**" means **Sino**'s Final Short Form Prospectus, dated December 10, 2009, which **Sino** filed on **SEDAR** on December 11, 2009;

(v) **"DSA"** means **DNYVF** and **DSALP**;

(w) "**Dundee**" means the defendant Dundee Securities Corporation;

(x) "**E&Y**" means the defendant Ernst and Young LLP;

(y) "**Excluded Persons**" means the **Defendants**, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any individual who is a member of the immediate family of an **Individual Defendant;**

(z) "**Final Report**" means the report of the IC, as that term is defined in paragraph 10 hereof;

(aa) "**GAAP**" means Canadian generally accepted accounting principles;

(bb) "**GAAS**" means Canadian generally accepted auditing standards;

(cc) "**Horsley**" means the defendant David J. Horsley;

(dd) "**Hyde**" means the defendant James M.E. Hyde;

(ee) "**Impugned Documents**" mean the 2005 Annual Consolidated Financial Statements (filed on **SEDAR** on March 31, 2006), Q1 2006 Financial Statements (filed on **SEDAR** on May 11, 2006), the 2006 Annual Consolidated Financial Statements (filed on **SEDAR** on March 19, 2007), 2006 **AIF** (filed on **SEDAR** on March 30, 2007), 2006 Annual **MD&A** (filed on **SEDAR** on March 19, 2007), Management Information Circular dated April 27, 2007 (filed on **SEDAR** on May 4, 2007), Q1 2007 **MD&A** (filed on **SEDAR** on May 14, 2007), Q1 2007 Financial Statements (filed on **SEDAR** on May 14, 2007), **June 2007 Prospectus**, Q2 2007 **MD&A** (filed on **SEDAR** on August 13, 2007), Q2 2007 Financial Statements (filed on **SEDAR** on August 13, 2007), Q3 2007 **MD&A** (filed on **SEDAR** on November 12, 2007), Q3 2007 Financial Statements (filed on **SEDAR** on November 12, 2007), 2007 Annual Consolidated Financial Statements (filed on **SEDAR** on March 18, 2008), 2007 **AIF** (filed on **SEDAR** on March 28, 2008), 2007 Annual **MD&A** (filed on **SEDAR** on March 18, 2008), Amended 2007 Annual **MD&A** (filed on **SEDAR** on March 28, 2008), Management Information Circular dated April 28, 2008 (filed on **SEDAR** on May 6, 2008), Q1 2008 **MD&A** (filed on **SEDAR** on May 13, 2008), Q1 2008 Financial Statements (filed on **SEDAR** on May 13, 2008), **July 2008 Offering Memorandum**, Q2 2008 **MD&A** (filed on **SEDAR** on August 12, 2008), Q2 2008 Financial Statements (filed on **SEDAR** on August 12, 2008), Q3 2008 **MD&A** (filed on **SEDAR** on November 13, 2008), Q3 2008 Financial Statements (filed on **SEDAR** on November 13, 2008), 2008 Annual Consolidated Financial

Statements (filed on **SEDAR** on March 16, 2009), 2008 Annual **MD&A** (filed on **SEDAR** on March 16, 2009), Amended 2008 Annual **MD&A** (filed on **SEDAR** on March 17, 2009), 2008 **AIF** (filed on **SEDAR** on March 31, 2009), Management Information Circular dated April 28, 2009 (filed on **SEDAR** on May 4, 2009), Q1 2009 **MD&A** (filed on **SEDAR** on May 11, 2009), Q1 2009 Financial Statements (filed on **SEDAR** on May 11, 2009), **June 2009 Prospectus**, **June 2009 Offering Memorandum**, Q2 2009 **MD&A** (filed on **SEDAR** on August 10, 2009), Q2 2009 Financial Statements (filed on **SEDAR** on August 10, 2009), Q3 2009 **MD&A** (filed on **SEDAR** on November 12, 2009), Q3 2009 Financial Statements (filed on **SEDAR** on November 12, 2009), **December 2009 Prospectus**, **December 2009 Offering Memorandum**, 2009 Annual **MD&A** (filed on **SEDAR** on March 16, 2010), 2009 Audited Annual Financial Statements (filed on **SEDAR** on March 16, 2010), 2009 **AIF** (filed on **SEDAR** on March 31, 2010), Management Information Circular dated May 4, 2010 (filed on **SEDAR** on May 11, 2010), Q1 2010 **MD&A** (filed on **SEDAR** on May 12, 2010), Q1 2010 Financial Statements (filed on **SEDAR** on May 12, 2010), Q2 2010 **MD&A** (filed on **SEDAR** on August 10, 2010), Q2 2010 Financial Statements (filed on **SEDAR** on August 10, 2010), **October 2010 Offering Memorandum**, Q3 2010 **MD&A** (filed on **SEDAR** on November 10, 2010), Q3 2010 Financial Statements (filed on **SEDAR** on November 10, 2010), 2010 Annual **MD&A** (March 15, 2011), 2010 Audited Annual Financial Statements (filed on **SEDAR** on March 15, 2011), 2010 **AIF** (filed on **SEDAR** on March 31, 2011), and Management Information Circular dated May 2, 2011 (filed on **SEDAR** on May 10, 2011);

(ff) "**Individual Defendants**" means **Chan**, **Martin**, **Poon**, **Horsley**, **Ardell**, **Bowland**, **Hyde**, **Mak**, **Murray**, **Wang**, and **West**, collectively;

(gg) "**July 2008 Offering Memorandum**" means the Final Offering Memorandum dated July 17, 2008, relating to the distribution of Sino's 5% Convertible Senior Notes due 2013 which **Sino** filed on **SEDAR** as a schedule to a material change report on July 25, 2008;

(hh) "**June 2007 Prospectus**" means **Sino**'s Short Form Prospectus, dated June 5, 2007, which **Sino** filed on **SEDAR** on June 5, 2007;

(ii) "**June 2009 Offering Memorandum**" means **Sino**'s Exchange Offer Memorandum dated June 24, 2009, relating to an offer to exchange Sino's Guaranteed Senior Notes due 2011 for new 10.25% Guaranteed Senior Notes due 2014 which **Sino** filed on **SEDAR** as a schedule to a material change report on June 25, 2009;

(jj) "**June 2009 Prospectus**" means **Sino**'s Final Short Form Prospectus, dated June 1, 2009, which Sino filed on **SEDAR** on June 1, 2009;

(kk) "**Maison**" means the defendant Maison Placements Canada Inc.;

(ll) "**Martin**" means the defendant W. Judson Martin;

(mm) "**Mak**" means the defendant Edmund Mak;

(nn) "**MD&A**" means Management's Discussion and Analysis;

(oo) "**Merrill**" means the defendant Merrill Lynch Canada Inc.;

(pp) "**Muddy Waters**" means Muddy Waters LLC;

(qq) "**Murray**" means the defendant Simon Murray;

(rr) "**Notes**" means, collectively, Sino's 5% Convertible Senior Notes due 2013, 10.25% Guaranteed Senior Notes due 2014, 4.25% Convertible Senior Notes due 2016 and 6.25% Guaranteed Senior Notes due 2017;

(ss) "**October 2010 Offering Memorandum**" means the Final Offering Memorandum dated October 14, 2010, relating to the distribution of Sino's 6.25% Guaranteed Senior Notes due 2017;

(tt) "**Offering**" or "**Offerings**" means the primary distributions of Sino's **Securities** that occurred during the **Class Period** including the public offerings of Sino's

common shares pursuant to the **June 2007**, **June 2009** and **December 2009 Prospectuses**, as well as the offerings of Sino's notes pursuant to **the July 2008**, **June 2009**, **December 2009**, and **October 2010 Offering Memoranda**, collectively;

(uu) "***OSA***" means the *Securities Act*, RSO 1990 c S.5, as amended;

(vv) "**OSC**" means the Ontario Securities Commission;

(ww) "**Plaintiffs**" means the plaintiffs, the Trustees of the Labourers' Pension Fund of Central and Eastern Canada ("**Labourers**"), the Trustees of the International Union of Operating Engineers Local 793 Pension Plan for Operating Engineers in Ontario ("**Operating Engineers**"), Sjunde AP-Fonden ("**AP7**"), David C. Grant ("**Grant**"), ~~and~~ Robert Wong ("**Wong**"), Davis New York Venture Fund, Inc. ("**DNYVF**") and Davis Selected Advisers, L.P. ("**DSALP**"), collectively;

(xx) "**Poon**" means the defendant Kai Kit Poon;

~~(yy) **Pöyry**" means the defendant, Pöyry (Beijing) Consulting Company Limited;~~

(zz) "**PRC**" means the People's Republic of China;

(aaa) "**Representation**" means the statement that Sino's financial statements complied with **GAAP**;

(bbb) "**RBC**" means the defendant RBC Dominion Securities Inc.;

(ccc) "**Scotia**" means the defendant Scotia Capital Inc.;

(ddd) "**Second Report**" means the Second Interim Report of the IC, as that term is defined in paragraph 10 hereof;

(eee) "**Securities**" means Sino's common shares, ~~notes~~ **Notes** or other securities, as defined in the ***OSA***;

(fff) "**Securities Legislation**" means, collectively, the ***OSA***, the *Securities Act*, RSA 2000, c S-4, as amended; the *Securities Act*, RSBC 1996, c 418, as amended; the *Securities Act*, CCSM c S50, as amended; the *Securities Act*, SNB 2004, c S-5.5, as amended; the *Securities Act*, RSNL 1990, c S-13, as amended; the *Securities Act*, SNWT 2008, c 10, as amended; the *Securities Act*, RSNS 1989, c 418, as amended; the *Securities Act*, S Nu 2008, c 12, as amended; the *Securities Act*, RSPEI 1988, c S-3.1, as amended; the *Securities Act*, RSQ c V-1.1, as amended; the *Securities Act*, *1988*, SS 1988-89, c S-42.2, as amended; and the *Securities Act*, SY 2007, c 16, as amended;

(ggg) "**SEDAR**" means the system for electronic document analysis and retrieval of the Canadian Securities Administrators;

(hhh) "**Sino**" means, as the context requires, either the defendant Sino-Forest Corporation, or Sino-Forest Corporation and its affiliates and subsidiaries, collectively;

(iii) **"TD**" means the defendant TD Securities Inc.;

(jjj) "**TSX**" means the Toronto Stock Exchange;

(kkk) "**Underwriters**" means **Banc of America**, **Canaccord**, **CIBC**, **Credit Suisse**, **Credit Suisse USA**, **Dundee, Maison**, **Merrill**, **RBC**, **Scotia**, and **TD**, collectively;

(lll) "**Wang**" means the defendant Peter Wang;

(mmm) "**West**" means the defendant Garry J. West; and

(nnn) "**WFOE**" means wholly foreign owned enterprise or an enterprise established in China in accordance with the relevant PRC laws, with capital provided solely by foreign investors.

II. CLAIM

2. The Plaintiffs claim:

(a) An order certifying this action as a class proceeding and appointing the Plaintiffs as representative plaintiffs for the Class, or such other class as may be certified by the Court;

(b) A declaration that the Impugned Documents contained, either explicitly or implicitly, the Representation, and that, when made, the Representation was a misrepresentation, both at law and within the meaning of the Securities Legislation;

(c) A declaration that the Impugned Documents contained one or more of the other misrepresentations alleged herein, and that, when made, those other misrepresentations constituted misrepresentations, both at law and within the meaning of the Securities Legislation;

(d) A declaration that Sino is vicariously liable for the acts and/or omissions of the Individual Defendants and of its other officers, directors and employees;

(e) A declaration that the Underwriters, E&Y and BDO ~~and Pöyry~~ are each vicariously liable for the acts and/or omissions of their respective officers, directors, partners and employees;

(f) On behalf of all of the Class Members who purchased Sino's Securities in the secondary market during the Class Period, and as against all of the Defendants other than the Underwriters, general damages in the sum of $6.5 billion;

(g) On behalf of all of the Class Members who purchased Sino common shares in the distribution to which the June 2007 Prospectus related, and as against Sino, Chan, Poon, Horsley, Martin, Mak, Murray, Hyde, ~~Pöyry,~~ BDO, Dundee, CIBC, Merrill and Credit Suisse general damages in the sum of $175,835,000;

(h) On behalf of all of the Class Members who purchased Sino common shares in the distribution to which the June 2009 Prospectus related, and as against Sino, Chan,

Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, ~~Pöyry,~~ E&Y, Dundee, Merrill, Credit Suisse, Scotia and TD, general damages in the sum of $330,000,000;

(i) On behalf of all of the Class Members who purchased Sino common shares in the distribution to which the December 2009 Prospectus related, and as against Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, ~~Pöyry,~~ BDO, E&Y, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD, general damages in the sum of $319,200,000;

(j) On behalf of all the Class Members who purchased Sino's 5% Convertible Senior Notes due 2013 pursuant to the July 2008 Offering Memorandum, and as against Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, ~~Pöyry,~~ BDO, E&Y and Credit Suisse USA, general damages in the sum of US$345 million;

(k) On behalf of all the Class Members who purchased Sino's 10.25% Guaranteed Senior Notes due 2014 pursuant to the June 2009 Offering Memorandum, and as against Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, ~~Pöyry,~~ BDO, E&Y and Credit Suisse USA, general damages in the sum of US$400 million;

(l) On behalf of all the Class Members who purchased Sino's 4.25% Convertible Senior Notes due 2016 pursuant to the December 2009 Offering Memorandum, and as against Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, ~~Pöyry,~~ BDO, E&Y, Credit Suisse USA and TD, general damages in the sum of US$460 million;

(m) On behalf of all the Class Members who purchased Sino's 6.25% Guaranteed Senior Notes due 2017 pursuant to the October 2010 Offering Memorandum, and as against Sino, Chan, Poon, Horsley, Wang, Mak, Murray, Hyde, Ardell, E&Y, Credit Suisse USA and Banc of America, general damages in the sum of US$600 million;

(n) On behalf of all of the Class Members, and as against Sino, Chan, Poon and Horsley, punitive damages, in respect of the conspiracy pled below, in the sum of $50 million;

(o) A declaration that Sino, Chan, Poon, Horsley, Martin, Mak, Murray and the Underwriters were unjustly enriched;

(p) A constructive trust, accounting or such other equitable remedy as may be available as against Sino, Chan, Poon, Horsley, Martin, Mak, Murray and the Underwriters;

~~(q) A declaration that the acts and omissions of Sino have effected a result, the business or affairs of Sino have been carried on or conducted in a manner, or the powers of the directors of Sino have been exercised in a manner, that is oppressive or unfairly prejudicial to or that unfairly disregards the interests of the Plaintiffs and the Class Members, pursuant to s. 241 of the *CBCA*;~~

(r) An order directing a reference or giving such other directions as may be necessary to determine the issues, if any, not determined at the trial of the common issues;

(s) Prejudgment and post judgment interest;

(t) Costs of this action on a substantial indemnity basis or in an amount that provides full indemnity plus, pursuant to s 26(9) of the *CPA*, the costs of notice and of administering the plan of distribution of the recovery in this action plus applicable taxes; and

(u) Such further and other relief as to this Honourable Court may seem just.

III. OVERVIEW

3. From the time of its establishment in 1994, Sino has claimed to be a legitimate business operating in the commercial forestry industry in the PRC and elsewhere. Throughout that period, Sino has also claimed to have experienced breathtaking growth.

4. Beguiled by Sino's reported results, and by Sino's constant refrain that China constituted an extraordinary growth opportunity, investors drove Sino's stock price dramatically higher, as appears from the following chart:

5. The Defendants profited handsomely from the market's appetite for Sino's securities. Certain of the Individual Defendants sold Sino shares at lofty prices, and thereby reaped millions of dollars of gains. Sino's senior management also used Sino's illusory success to justify their lavish salaries, bonuses and other perks. For certain of the Individual Defendants, these outsized gains were not enough. Sino stock options granted to Chan, Horsley and other insiders were backdated or otherwise mispriced, prior to and during the Class Period, in violation of the TSX Rules, GAAP and the Securities Legislation.

6. Sino itself raised in excess of $2.7 billion[1] in the capital markets during this period. Meanwhile, the Underwriters were paid lucrative underwriting commissions, and BDO and E&Y ~~and Pöyry~~ garnered millions of dollars in fees to bless Sino's reported results and assets. To their great detriment, the Class Members relied upon these supposed gatekeepers.

7. As a reporting issuer in Ontario and elsewhere, Sino was required at all material times to comply with GAAP. Indeed, Sino, BDO and E&Y, Sino's auditors during the Class Period and previously, repeatedly misrepresented that Sino's financial statements complied with GAAP. This was false.

8. On June 2, 2011, Muddy Waters, a short seller and research firm with extensive PRC experience, issued its first research report in relation to Sino, and unveiled the scale of the deception that had been worked upon the Class Members. Muddy Waters' initial report effectively revealed, among other things, that Sino had materially misstated its financial results, had falsely claimed to have acquired trees that it did not own, had reported sales that had not been made, or that had been made in a manner that did not permit Sino to book those sales as revenue under GAAP, and had concealed numerous related party transactions. These revelations had a catastrophic effect on Sino's stock price.

9. On June 1, 2011, prior to the publication of Muddy Waters' report, Sino's common shares closed at $18.21. After the Muddy Waters report became public, Sino shares fell to $14.46 on the TSX (a decline of 20.6%), at which point trading was halted. When trading resumed the next day, Sino's shares fell to a close of $5.23 (a decline of 71.3% from June 1).

10. On June 3, 2011, Sino announced that, in response to the allegations of Muddy Waters, its board had formed a committee, which Sino then falsely characterized as "independent" (the

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1 Dollar figures are in Canadian dollars (unless otherwise indicated) and are rounded for convenience.

"**Independent Committee**" or "**IC**"), to examine and review the allegations contained in the Muddy Waters[2] report of June 2, 2011. The initial members of the IC were the Defendants Ardell, Bowland and Hyde. The IC subsequently retained legal, accounting and other advisers to assist it in the fulfillment of its mandate.

11. On August 26, 2011, the OSC issued a cease-trade order in respect of Sino's securities, alleging that Sino appeared to have engaged in significant non-arm's length transactions which may have been contrary to Ontario securities laws and the public interest, that Sino and certain of its officers and directors appeared to have misrepresented some of Sino's revenue and/or exaggerated some of its timber holdings, and that Sino and certain of its officers and directors, including Chan, appeared to be engaging or participating in acts, practices or a course of conduct related to Sino's securities which they (or any of them) knew or ought reasonably know would perpetuate a fraud.

12. On November 13, 2011, the IC released the Second Report. Therein, the IC revealed, *inter alia*, that: (1) Sino's management had failed to cooperate in numerous important respects with the IC's investigation; (2) "there is a risk" that certain of Sino's operations "taken as a whole" were in violation of PRC law; (3) Sino adopted processes that "avoid[] Chinese foreign exchange controls which must be complied with in a normal cross-border sale and purchase transaction, and [which] could present an obstacle to future repatriation of sales proceeds, and could have tax implications as well"; (4) the IC "has not been able to verify that any relevant income taxes and VAT have been paid by or on behalf of the BVIs in China"; (5) Sino lacked proof of title to the vast majority of its purported holdings of standing timber; (6) Sino's "transaction volumes with a number of AI and Suppliers do not match the revenue reported by such Suppliers in their SAIC filing"; (7) "[n]one of the BVI timber purchase contracts have as

attachments either (i) Plantation Rights Certificates from either the Counterparty or original owner or (ii) villager resolutions, both of which are contemplated as attachments by the standard form of BVI timber purchase contract employed by the Company; and (8) "[t]here are indications in emails and in interviews with Suppliers that gifts or cash payments are made to forestry bureaus and forestry bureau officials."

13. On January 31, 2012, the IC released its Final Report. Therein, the IC effectively revealed that, despite having conducted an investigation over nearly eight months, and despite the expenditure of US$50 million on that investigation, it had failed to refute, or even to provide plausible answers to, key allegations made by Muddy Waters:

> This Final Report of the IC sets out the activities undertaken by the IC since mid-November, the findings from such activities and the IC's conclusions regarding its examination and review. The IC's activities during this period have been limited as a result of Canadian and Chinese holidays (Christmas, New Year and Chinese New Year) and the extensive involvement of IC members in the Company's Restructuring and Audit Committees, both of which are advised by different advisors than those retained by the IC. The IC believes that, notwithstanding there remain issues which have not been fully answered, the work of the IC is now at the point of diminishing returns because much of the information which it is seeking lies with non-compellable third parties, may not exist or is apparently not retrievable from the records of the Company.
>
> [...]
>
> Given the circumstances described above, the IC understands that, with the delivery of this Final Report, its review and examination activities are terminated. The IC does not expect to undertake further work other than assisting with responses to regulators and the RCMP as required and engaging in such further specific activities as the IC may deem advisable or the Board may instruct. The IC has asked the IC Advisors to remain available to assist and advise the IC upon its instructions

14. Sino failed to meet the standards required of a public company in Canada. Aided by its auditors and the Underwriters, Sino raised billions of dollars from investors on the false premise that they were investing in a well managed, ethical and GAAP-compliant corporation. They

were not. Accordingly, this action is brought to recover the Class Members' losses from those who caused them: the Defendants.

IV. THE PARTIES

A. *The Plaintiffs*

15. Labourers are the trustees of the Labourers' Pension Fund of Central and Eastern Canada, a multi-employer pension plan providing benefits for employees working in the construction industry. The fund is a union-negotiated, collectively-bargained defined benefit pension plan established on February 23, 1972 and currently has approximately $2 billion in assets, over 39,000 members and over 13,000 pensioners and beneficiaries and approximately 2,000 participating employers. A board of trustees representing members of the plan governs the fund. The plan is registered under the *Pension Benefits Act*, RSO 1990, c P.8 and the *Income Tax Act*, RSC 1985, 5th Supp, c,1. Labourers purchased Sino's common shares over the TSX during the Class Period and continued to hold shares at the end of the Class Period. In addition, Labourers purchased Sino common shares offered by the December 2009 Prospectus and in the distribution to which that Prospectus related.

16. Operating Engineers are the trustees of the International Union of Operating Engineers Local 793 Pension Plan for Operating Engineers in Ontario, a multi-employer pension plan providing pension benefits for operating engineers in Ontario. The pension plan is a union-negotiated, collectively-bargained defined benefit pension plan established on November 1, 1973 and currently has approximately $1.5 billion in assets, over 9,000 members and pensioners and beneficiaries. The fund is governed by a board of trustees representing members of the plan. The plan is registered under the *Pension Benefits Act*, RSO 1990, c P.8 and the *Income Tax Act*, RSC 1985, 5th Supp, c.1. Operating Engineers purchased Sino's common shares over the TSX during the Class Period, and continued to hold shares at the end of the Class Period.

17. AP7 is the Swedish National Pension Fund. As of June 30, 2011, AP7 had approximately $15.3 billion in assets under management. Funds managed by AP7 purchased Sino's common shares over the TSX during the Class Period and continued to hold those common shares at the end of the Class Period.

18. Grant is an individual residing in Calgary, Alberta. He purchased 100 of the Sino 6.25% Guaranteed Senior Notes due 2017 that were offered by the October 2010 Offering Memorandum and in the distribution to which that Offering Memorandum related. Grant continued to hold those Notes at the end of the Class Period.

19. Wong is an individual residing in Kincardine, Ontario. During the Class Period, Wong purchased Sino's common shares over the TSX and continued to hold some or all of such shares at the end of the Class Period. In addition, Wong purchased Sino common shares offered by the December 2009 Prospectus and in the distribution to which that Prospectus related, and continued to own those shares at the end of the Class Period.

20. DSALP is an asset management firm. DSALP purchased Sino's common shares over the TSX during the Class Period and allocated these shares to funds managed by DSALP, including DNYVF, who continued to hold those common shares at the end of the Class Period. DSALP purchased Sino's Notes pursuant to the July 2008 Offering Memorandum and in the distribution to which that Offering Memorandum related, and allocated these Notes to funds, including DNYVF, who continued to hold those notes at the end of the Class Period. DSALP purchased Sino's common shares pursuant to the December 2009 Prospectus and in the distribution to which that Prospectus related, and allocated these common shares to funds managed by DSALP, including DNYVF, who continued to hold those common shares at the end of the Class Period.

B. ***The Defendants***

21. Sino purports to be a commercial forest plantation operator in the PRC and elsewhere. Sino is a corporation formed under the *CBCA*.

22. At the material times, Sino was a reporting issuer in all provinces of Canada, and had its registered office located in Mississauga, Ontario. At the material times, Sino's shares were listed for trading on the TSX under the ticker symbol "TRE," on the Berlin exchange as "SFJ GR," on the over-the-counter market in the United States as "SNOFF" and on the Tradegate market as "SFJ TH." Sino securities are also listed on alternative trading venues in Canada and elsewhere including, without limitation, AlphaToronto and PureTrading. Sino's shares also traded over-the-counter in the United States. Sino has various debt instruments, derivatives and other securities that are traded in Canada and elsewhere.

23. As a reporting issuer in Ontario, Sino was required throughout the Class Period to issue and file with SEDAR:

(a) within 45 days of the end of each quarter, quarterly interim financial statements prepared in accordance with GAAP that must include a comparative statement to the end of each of the corresponding periods in the previous financial year;

(b) within 90 days of the end of the fiscal year, annual financial statements prepared in accordance with GAAP, including comparative financial statements relating to the period covered by the preceding financia1 year;

(c) contemporaneously with each of the above, a MD&A of each of the above financial statements; and

(d) within 90 days of the end of the fiscal year, an AIF, including material information about the company and its business at a point in time in the context of its historical and possible future development.

24. MD&As are a narrative explanation of how the company performed during the period covered by the financial statements, and of the company's financial condition and future prospects. The MD&A must discuss important trends and risks that have affected the financial statements, and trends and risks that are reasonably likely to affect them in future.

25. AIFs are an annual disclosure document intended to provide material information about the company and its business at a point in time in the context of its historical and future development. The AIF describes the company, its operations and prospects, risks and other external factors that impact the company specifically.

26. Sino controlled the contents of its MD&As, financial statements, AIFs and the other documents particularized herein and the misrepresentations made therein were made by Sino.

27. Chan is a co-founder of Sino, and was the Chairman, Chief Executive Officer and a director of the company from 1994 until his resignation from those positions on or about August 25, 2011. As Sino's CEO, Chan signed and certified the company's disclosure documents during the Class Period. Chan, along with Hyde, signed each of the 200~~6~~5-2010 Audited Annual Financial Statements on behalf of Sino's board. Chan resides in Hong Kong, China.

28. Chan certified each of Sino's Class Period annual and quarterly MD&As and financial statements, each of which is an Impugned Document. In so doing, he adopted as his own the false statements such documents contained, as particularized below. Chan signed each of Sino's Class Period annual financial statements, each of which is an Impugned Document. In so doing, he adopted as his own the false statements such documents contained, as particularized below. As a director and officer, he caused Sino to make the misrepresentations particularized below.

29. Since Sino was established, Chan has received lavish compensation from Sino. For example, for 2006 to 2010, Chan's total compensation (other than share-based compensation) was, respectively, US$3.0 million, US$3.8 million, US$5.0 million, US$7.6 million and US$9.3 million.

30. As at May 1, 1995, shortly after Sino became a reporting issuer, Chan held 18.3% of Sino's outstanding common shares and 37.5% of its preference shares. As of April 29, 2011 he held 2.7% of Sino's common shares (the company no longer has preference shares outstanding). Chan has made in excess of $10 million through the sale of Sino shares.

31. At all material times, Horsley ~~is~~ was Sino's Chief Financial Officer, and ~~has~~ held this position since October 2005. In his position as Sino's CFO, Horsley ~~has~~ signed and certified the company's disclosure documents during the Class Period. Horsley resides in Ontario. Horsley has made in excess of $11 million through the sale of Sino shares.

32. Horsley certified each of Sino's Class Period annual and quarterly MD&As and financial statements, each of which is an Impugned Document. In so doing, he adopted as his own the false statements such documents contained, as particularized below. Horsley signed each of Sino's Class Period annual financial statements, each of which is an Impugned Document. In so doing, he adopted as his own the false statements such documents contained, as particularized below. As an officer, he caused Sino to make the misrepresentations particularized below.

33. ~~Since becoming~~ As Sino's CFO, Horsley has also received lavish compensation from Sino. For 2006 to 2010, Horsley's total compensation (other than share-based compensation) was, respectively, US$1.1 million, US$1.4 million, US$1.7 million, US$2.5 million, and US$3.1 million.

34. Horsley resigned as Sino's CFO, at the company's request, in April 2012 following the receipt of Enforcement Notices from Staff of the OSC. On September 27, 2012, Sino announced by way of a press release that Horsley had ceased to be employed by, and no longer had a position, with Sino.

35. Poon is a co-founder of Sino, and ~~has been the~~ at all material times since 1994, was the President of the company ~~since 1994~~. He was also a director of Sino from 1994 to May 2009 ~~and he continues to serve as Sino's President~~. Poon resides in Hong Kong, China. While he was a board member, he adopted as his own the false statements made in each of Sino's annual financial statements, particularized below, when such statements were signed on his behalf. While he was a board member, he caused Sino to make the misrepresentations particularized below.

36. As at May 1, 1995, shortly after Sino became a reporting issuer, Poon held 18.3% of Sino's outstanding common shares and 37.5% of its preference shares. As of April 29, 2011 he held 0.42% of Sino's common shares. Poon has made in excess of $34.4 million through the sale of Sino shares.

37. Poon rarely attended board meetings while he was on Sino's board. From the beginning of 2006 until his resignation from the Board in 2009, he attended 5 of the 39 board meetings, or less than 13% of all board meetings held during that period.

38. On October 9, 2012, Sino announced by way of a press release that Poon had ceased to be Sino's President, and had ceased to hold positions in Sino and certain of its subsidiaries.

39. At all material times, Wang ~~is~~ was a director of Sino, and ~~has~~ held this position since August 2007. Wang resides in Hong Kong, China. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

40. At all material times since 2006, Martin ~~has been~~ was a director of Sino ~~since 2006~~, and was appointed vice-chairman in 2010. On or about August 25, 2011, Martin replaced Chan as Chief Executive Officer of Sino. Martin was a member of Sino's audit committee prior to early 2011. Martin has made in excess of $474,000 through the sale of Sino shares. He resides in Hong Kong, China. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized herein.

41. At all material times, Mak ~~is~~ was a director of Sino, and ~~has~~ held this position since 1994. Mak was a member of Sino's audit committee prior to early 2011. Mak and persons connected with Mak have made in excess of $6.4 million through sales of Sino shares. Mak resides in British Columbia. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

42. ~~At all material times,~~ Murray ~~is~~ was a director of Sino, and held this position since 1999. Murray has made in excess of $9.9 million through sales of Sino shares. Murray resides in Hong

Kong, China. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

43. Since becoming a director, Murray ~~has~~ rarely attended board and board committee meetings. From the beginning of 2006 to the close of 2010, Murray attended 14 of 64 board meetings, or less than 22% of board meetings held during that period. During that same period, Murray attended 2 out of 13, or 15%, of the meetings held by the Board's Compensation and Nominating Committee, and attended *none* of the 11 meetings of that Committee held from the beginning of 2007 to the close of 2010.

44. At all material times, Hyde ~~is~~ was a director of Sino, and ~~has~~ held this position since 2004. Hyde was previously a partner of E&Y. Hyde ~~is~~ was the chairman of Sino's Audit Committee. Hyde, along with Chan, signed each of the 2007-2010 Annual Consolidated Financial Statements on behalf of Sino's board. Hyde ~~is~~ was also a member of the Compensation and Nominating Committee. Hyde ~~has~~ made in excess of $2.4 million through the sale of Sino shares. Hyde resides in Ontario. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements, particularized below, when he signed such statements or when they were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

45. Ardell ~~is~~ was a director of Sino, and ~~has~~ held this position since January 2010. Ardell ~~is~~ was a member of Sino's audit committee. Ardell resides in Ontario. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements

released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

46. Bowland was a director of Sino from February 2011 until his resignation from the Board of Sino in November 2011. While on Sino's Board, Bowland was a member of Sino's Audit Committee. He was formerly an employee of a predecessor to E&Y. Bowland resides in Ontario. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

47. West ~~is~~ was a director of Sino, and ~~has~~ held this position since February 2011. West was previously a partner at E&Y. West ~~is~~ was a member of Sino's Audit Committee. West resides in Ontario. As a board member, he adopted as his own the false statements made in each of Sino's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused Sino to make the misrepresentations particularized below.

48. As officers and/or directors of Sino, the Individual Defendants were fiduciaries of Sino, and they made the misrepresentations alleged herein, adopted such misrepresentations, and/or caused Sino to make such misrepresentations while they were acting in their capacity as fiduciaries, and in violation of their fiduciary duties. In addition, Chan, Poon, Horsley, Martin, Mak and Murray were unjustly enriched in the manner and to the extent particularized below while they were acting in their capacity as fiduciaries, and in violation of their fiduciary duties.

49. At all material times, Sino maintained the Code, which governed Sino's employees, officers and directors, including the Individual Defendants. The Code stated that the members of senior management "are expected to lead according to high standards of ethical conduct, in both words and actions…" The Code further required that Sino representatives act in the best interests of shareholders, corporate opportunities not be used for personal gain, no one trade in Sino securities based on undisclosed knowledge stemming from their position or employment with Sino, the company's books and records be honest and accurate, conflicts of interest be avoided, and 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.

50. E&Y ~~has been engaged as~~ was Sino's auditor ~~since~~ from August 13, 2007 until it resigned effective April 4, 2012. Prior to that, E&Y was also engaged as Sino's auditor from Sino's creation through February 19, 1999, when E&Y abruptly resigned during audit season and was replaced by the now-defunct Arthur Andersen LLP. E&Y was also Sino's auditor from 2000 to 2004, when it was replaced by BDO. E&Y is an expert of Sino within the meaning of the Securities Legislation.

51. E&Y, in providing what it purported to be "audit" services to Sino, made statements that it knowingly intended to be, and which were, disseminated to Sino's current and prospective security holders. At all material times, E&Y was aware of that class of persons, intended to and did communicate with them, and intended that that class of persons would rely on E&Y's statements relating to Sino, which they did to their detriment.

52. E&Y consented to the inclusion in the June 2009 and December 2009 Prospectuses, as well as the July 2008, June 2009, December 2009 and October 2010 Offering Memoranda, of its

audit reports on Sino's Annual Financial Statements for various years, as alleged more particularly below, and such audit reports were in fact included or incorporated by reference in those Prospectuses and Offering Memoranda.

53. BDO is the successor of BDO McCabe Lo Limited, the Hong Kong, China based auditing firm that was engaged as Sino's auditor during the period of March 21, 2005 through August 12, 2007, when ~~they~~ it resigned at Sino's request, and ~~were~~ was replaced by E&Y. BDO is an expert of Sino within the meaning of the Securities Legislation.

54. During the term of its service as Sino's auditor, BDO provided what it purported to be "audit" services to Sino, and in the course thereof made statements that it knowingly intended to be, and which were, disseminated to Sino's current and prospective security holders. At all material times, BDO was aware of that class of persons, intended to and did communicate with them, and intended that that class of persons rely on BDO's statements relating to Sino, which they did to their detriment.

55. BDO consented to the inclusion in each of the June 2007 and December 2009 Prospectuses and the July 2008, June 2009 and December 2009 Offering Memoranda, of its audit reports on Sino's Annual Financial Statements for 2005 and 2006, and such audit reports were in fact included or incorporated by reference in those Prospectuses and Offering Memoranda.

56. E&Y's and BDO's annual Auditors' Reports ~~was~~ were made "to the shareholders of Sino-Forest corporation," which included the Class Members. Indeed, s. 1000.11 of the Handbook of the Canadian Institute of Chartered Accountants states that "the objective of financial statements for profit-oriented enterprises focuses primarily on the information needs *of investors and creditors*" [emphasis added].

57. Sino's shareholders, including numerous Class Members, appointed E&Y as auditors of Sino-Forest by shareholder resolutions passed on various dates, including on June 21, 2004, May 26, 2008, May 25, 2009, May 31, 2010 and May 30, 2011.

58. Sino's shareholders, including numerous Class Members, appointed BDO as auditors of Sino-Forest by resolutions passed on May 16, 2005, June 5, 2006 and May 28, 2007.

59. During the Class Period, with the knowledge and consent of BDO or E&Y (as the case may be), Sino's audited annual financial statements for the years ended December 31, 2005, 2006, 2007, 2008, 2009 and 2010, together with the report of BDO or E&Y thereon (as the case may be), were presented to the shareholders of Sino (including numerous Class Members) at annual meetings of such shareholders held in Toronto, Canada on, respectively, May 28, 2007, May 26, 2008, May 25, 2009, May 31, 2010 and May 30, 2011. As alleged elsewhere herein, all such financial statements constituted Impugned Documents.

~~60. Pöyry is an international forestry consulting firm which purported to provide certain forestry consultation services to Sino. Pöyry is an expert of Sino within the meaning of the Securities Legislation.~~

~~61. Pöyry, in providing what it purported to be "forestry consulting" services to Sino, made statements that it knowingly intended to be, and which were, disseminated to Sino's current and prospective security holders. At all material times, Pöyry was aware of that class of persons, intended to and did communicate with them, and intended that that class of persons would rely on Pöyry's statements relating to Sino, which they did to their detriment.~~

~~62. Pöyry consented to the inclusion in the June 2007, June 2009 and December 2009 Prospectuses, as well as the July 2008, June 2009, December 2009 and October 2010 Offering Memoranda, of its various reports, as detailed below in paragraph ●.~~

63. The Underwriters are various financial institutions who served as underwriters in one or more of the Offerings.

64. In connection with the distributions conducted pursuant to the June 2007, June 2009 and December 2009 Prospectuses, the Underwriters who underwrote those distributions were paid, respectively, an aggregate of approximately $7.5 million, $14.0 million and $14.4 million in underwriting commissions. In connection with the offerings of Sino's notes in July 2008, December 2009, and October 2010, the Underwriters who underwrote those offerings were paid, respectively, an aggregate of approximately US$2.2 million, US$8.5 million and ~~$~~US$6 million. Those commissions were paid in substantial part as consideration for the Underwriters' purported due diligence examination of Sino's business and affairs.

65. None of the Underwriters conducted a reasonable investigation into Sino in connection with any of the Offerings. None of the Underwriters had reasonable grounds to believe that there was no misrepresentation in any of the Impugned Documents. In the circumstances of this case, including the facts that Sino operated in an emerging economy, Sino had entered Canada's capital markets by means of a reverse merger, and Sino had reported extraordinary results over an extended period of time that far surpassed those reported by Sino's peers, the Underwriters all ought to have exercised heightened vigilance and caution in the course of discharging their duties to investors, which they did not do. Had they done so, they would have uncovered Sino's true nature, and the Class Members to whom they owed their duties would not have sustained the losses that they sustained on their Sino investments.

V. THE OFFERINGS

66. Through the Offerings, Sino raised in aggregate in excess of $2.7 billion from investors during the Class Period. In particular:

(a) On June 5, 2007, Sino issued and filed with SEDAR the June 2007 Prospectus pursuant to which Sino distributed to the public 15,900,000 common shares at a price of $12.65 per share for gross proceeds of $201,135,000. The June 2007 Prospectus incorporated by reference Sino's: (1) 2006 AIF; (2) 2006 Audited Annual Financial Statements; (3) 2006 Annual MD&A; (4) Management Information Circular dated April 27, 2007; (5) Q1 2007 Financial Statements; and (6) Q1 2007 MD&A;

(b) On July 17, 2008, Sino issued the July 2008 Offering Memorandum pursuant to which Sino sold ~~through private placement~~ US$345 million in aggregate principal amount of convertible senior notes due 2013. The July 2008 Offering Memorandum included: (1) Sino's Consolidated Annual Financial Statements for 2005, 2006 and 2007; (2) Sino's unaudited interim financial statements for the three-month periods ended March 31, 2007 and 2008; (3) the section of the 2007 AIF entitled "Audit Committee" and the charter of the Audit Committee attached as an appendix to the 2007 AIF; and (4) the Pöyry report entitled "Sino-Forest Corporation Valuation of China Forest Assets Report as at 31 December 2007" dated March 14, 2008;

(c) On June 1, 2009, Sino issued and filed with SEDAR the June 2009 Prospectus pursuant to which Sino distributed to the public 34,500,000 common shares at a price of $11.00 per share for gross proceeds of $379,500,000. The June 2009 Prospectus incorporated by reference Sino's: (1) 2008 AIF; (2) 2007 and 2008 Annual Consolidated Financial Statements; (3) Amended 2008 Annual MD&A; (4) Q1 2009 MD&A; (5) Q1 2008 and 2009 Financial Statements; (6) Q1 2009 MD&A; (7) Management Information Circular dated April 28, 2009; and (8) the Pöyry report titled "Valuation of China Forest Corp Assets As at 31 December 2008" dated April 1, 2009;

(d) On June 24, 2009, Sino issued the June 2009 Offering Memorandum for exchange of certain of its then outstanding senior notes due 2011 with new notes, pursuant to which Sino issued US$212,330,000 in aggregate principal amount of 10.25% Guaranteed Senior Notes due 2014. The June 2009 Offering Memorandum incorporated by reference: (1) Sino's 2005, 2006 and 2007 Consolidated Annual Financial Statements; (2) the auditors' report of BDO dated March 19, 2007 with respect to Sino's Consolidated Annual Financial Statements for 2005 and 2006; (3) the auditors' report of E&Y dated March 12, 2008 with respect to Sino's Consolidated Annual Financial Statements for 2007 except as to notes 2, 18 and 23; (4) Sino's Consolidated Annual Financial Statements for 2007 and 2008 and the auditors' report of E&Y dated March 13, 2009; (5) the section entitled "Audit Committee" in the 2008 AIF, and the charter of the Audit Committee attached as an appendix to the 2008 AIF; and (6) the unaudited interim financial statements for the three-month periods ended March 31, 2008 and 2009;

(e) On December 10, 2009, Sino issued the December 2009 Offering Memorandum pursuant to which Sino sold ~~through private placement~~ US$460,000,000 in aggregate principal amount of 4.25% convertible senior notes due 2016. This Offering Memorandum incorporated by reference: (1) Sino's Consolidated Annual Financial Statements for 2005, 2006, 2007; (2) the auditors' report of BDO dated March 19, 2007 with respect to Sino's Annual Financial Statements for 2005 and 2006; (3) the auditors' report of E&Y dated March 12, 2008 with respect to Sino's Consolidated Annual Financial Statements for 2007, except as to notes 2, 18 and 23; (4) Sino's Consolidated Annual Financial Statements for 2007 and 2008 and the auditors' report of E&Y dated March 13, 2009; (5) the unaudited interim consolidated financial statements for the nine-month periods ended September 30, 2008 and 2009; (6) the section entitled "Audit Committee" in the 2008 AIF, and the charter of the Audit Committee attached to the 2008 AIF; (7) the Pöyry report entitled "Sino-Forest Corporation Valuation of China Forest Assets as at 31 December 2007"; and (8) the Pöyry report entitled "Sino-Forest Corporation Valuation of China Forest Corp Assets as at 31 December 2008" dated April 1, 2009;

(f) On December 10, 2009, Sino issued and filed with SEDAR the December 2009 Prospectus (together with the June 2007 Prospectus and the June 2009 Prospectus, the "**Prospectuses**") pursuant to which Sino distributed to the public 21,850,000 common shares at a price of $16.80 per share for gross proceeds of $367,080,000. The December 2009 Prospectus incorporated by reference Sino's: (1) 2008 AIF; (2) ~~2007 and 2008 Annual~~ the Audited Consolidated Financial Statements for the years ended December 31, 2008 and 2007; (3) Amended 2008 Annual MD&A; (4) Q3 2008 and 2009 Financial Statements; (5) Q3 2009 MD&A; (6) Management Information Circular dated April 28, 2009; ~~and~~ (7) the Pöyry report titled "Valuation of China Forest Corp Assets As at 31 December 2008" dated April 1, 2009; (8) Sino's material change reports dated May 22, 2009 and June 8, 2009, each of which included an offering document which incorporated by reference Sino's audited consolidated financial statements for the years ended December 31, 2005, 2006 and 2007, the auditors' report of BDO dated March 19, 2007 with respect to Sino's consolidated financial statements for the years ended December 31, 2006 and 2005, and the auditors' report of E&Y dated March 12, 2008, except as to notes 2, 18 and 23, with respect to Sino's consolidated financial statement for the year ended December 31, 2007; and (9) Sino's Material Change Report dated June 25, 2009, which included the June 2009 Offering Memorandum, and documents referenced therein.

(g) On February 8, 2010, Sino closed the acquisition of substantially all of the outstanding common shares of Mandra Forestry Holdings Limited. Concurrent with this acquisition, Sino completed an exchange with holders of 99.7% of the USD$195 million notes issued by Mandra Forestry Finance Limited and 96.7% of the warrants issued by Mandra Forestry Holdings Limited, for new 10.25% guaranteed senior notes issued by Sino in the aggregate principal amount of USD$187,177,375 with a maturity date of July 28, 2014. On February 11, 2010, Sino exchanged the new 2014 Senior Notes for an additional issue of USD$187,187,000 in aggregate principal amount of Sino's existing 2014 Senior Notes, issued pursuant to the June 2009 Offering Memorandum; and

(h) On October 14, 2010, Sino issued the October 2010 Offering Memorandum pursuant to which Sino sold ~~through private placement~~ US$600,000,000 in aggregate principal amount of 6.25% guaranteed senior notes due 2017. The October 2010 Offering Memorandum incorporated by reference: (1) Sino's Consolidated Annual Financial Statements for 2007, 2008 and 2009; (2) the auditors' report of E&Y dated March 15, 2010 with respect to Sino's Annual Financial Statements for 2008 and 2009; and (3) Sino's unaudited interim financial statements for the six-month periods ended June 30, 2009 and 2010.

67. The offering documents referenced in the preceding paragraph included, or incorporated other documents by reference that included, the Representation and the other misrepresentations in such documents that are particularized elsewhere herein. Had the truth in regard to Sino's management, business and affairs been timely disclosed, securities regulators likely would not have receipted the Prospectuses, nor would any of the Offerings have occurred.

68. All of the Offerings were public in nature. The share offerings were made to the public pursuant to the June 2007, June 2009 and December 2009 Prospectuses. Each of these Prospectuses indicated that they constituted a public offering of securities.

69. The July 2008, December 2009 and October 2010 note offerings were made pursuant to offering memoranda. Notwithstanding that these offering memoranda stated that the offerings were made by way of private placement, the offerings were in fact public in nature. The Notes were sold to or exchanged with class members who required the protection of the *Securities Act of 1933*. In particular, the Notes were sold to or exchanged with class members who lacked the requisite investment sophistication and there was insufficient information available to them to assess the investment and which would be comparable to that found in a registration statement under s. 5 of the *Securities Act of 1933*. The offerings were not registered under s. 5 of the *Securities Act of 1933* and did not meet the requisite exemptions under the *Securities Act of*

1933. Furthermore, class members who purchased or exchanged Notes did not satisfy accredited investor standards. For example, the 6.25% Guaranteed Senior Notes due 2017 (October 2010 notes) were sold to Grant even though Grant was not an accredited investor, since he did not meet the accredited investor exemption pursuant to NI-106, and the distribution did not otherwise fall within a prospectus exemption. This failure to comply with the restrictions on distribution made the Note Offerings public offerings.

70. Each of Chan, Horsley, Martin and Hyde signed the June 2007 Prospectus, and therein falsely certified that that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby. Each of Dundee, CIBC, Merrill and Credit Suisse also signed the June 2007 Prospectus, and therein falsely certified that, to the best of its knowledge, information and belief, that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

71. Each of Chan, Horsley, Martin and Hyde signed the June 2009 Prospectus, and therein falsely certified that that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby. Each of Dundee, Merrill, Credit Suisse, Scotia and TD also signed the June 2009 Prospectus, and therein falsely certified that, to the best of its knowledge, information and belief, that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

72. Each of Chan, Horsley, Martin and Hyde signed the December 2009 Prospectus, and therein falsely certified that that prospectus, together with the documents incorporated therein by

reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby. Each of Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD also signed the December 2009 Prospectus, and therein falsely certified that, to the best of its knowledge, information and belief, that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

73. E&Y consented to the inclusion in: (1) the June 2009 Prospectus, of its audit reports on Sino's Audited Annual Financial Statements for 2007 and 2008; (2) the December 2009 Prospectus, of its audit reports on Sino's Audited Annual Financial Statements for 2007 and 2008; (3) the July 2008 Offering Memorandum, of its audit reports on Sino's Audited Annual Financial Statements for 2007, and its adjustments to Sino's Audited Annual Financial Statements for 2005 and 2006; (4) the December 2009 Offering Memorandum, of its audit reports on Sino's Audited Annual Financial Statements for 2007 and 2008; and (5) the October 2010 Offering Memoranda, of its audit reports on Sino's Audited Annual Financial Statements for 2008 and 2009. All such audit reports were in fact included or incorporated by reference into those Prospectuses and Offering Memoranda.

74. BDO consented to the inclusion in each of the June 2007 and December 2009 Prospectuses and the July 2008, June 2009 and December 2009 Offering Memoranda of its audit reports on Sino's Audited Annual Financial Statements for 2006 and 2005. All such audit reports were in fact included or incorporated by reference into those Prospectuses and Offering Memoranda.

75. In connection with the offering of Sino's Securities pursuant to the June 2007 Prospectus, BDO entered into an engagement letter with Sino, which reads:

> In order to consent to the use of our audit report in the Prospectus, our professional standards require that we carry out certain procedures including a review of the Company's interim financial statements for the three months ended March 31, 2007 and 2006 and any other interim financial statements that may be issued, and a review of subsequent events and transactions, up to the date the Company files the final prospectus with regulatory authorities. We are also required to update our communications with the Company's legal counsel and obtain representations from management similar to those we customarily receive as part of our annual audit.
>
> In connection with the proposed offering of securities, we understand that the underwriting agreement will provide that we perform certain procedures for the purpose of issuing a comfort letter to Dundee Securities Corporation, CIBC World Markets Inc., Merrill Lynch Canada, Inc., UBS Securities Canada Inc., Credit Suisse Securities (Canada) Inc., and Haywood Securities Inc. (collectively, the "Underwriters"). The comfort letter would make reference to our audit report and our review of the unaudited interim financial statements issued up to the date of the Prospectus, and set out the procedures performed at the Underwriters' request and the results of performing those procedures. In addition, we understand that the Underwriters have requested that we attend a meeting (the "due diligence meeting") at which the Underwriters and the Underwriters' legal counsel wish to ask us certain questions in connection with our audits referred to above, and that you have agreed to grant such request.

In connection with that offering, BDO received professional fees based on its regular billing rates, plus direct, out-of-pocket, expenses and applicable Goods and Services Tax.

76. In connection with the offering of Sino's Securities pursuant to the July 2008 Offering Memorandum, BDO entered into an engagement letter with Sino, which reads:

> In order to consent to the use of our audit report in the Offering Memorandum, our professional standards require that we carry out certain procedures including a review of the Company's consolidated financial statements for the three months ended March 31, 2007 and review of subsequent events and transactions, up to the date the Company files the final prospectus with regulatory authorities. We are also required to update our communications with the Company's legal counsel and obtain representations from management similar to those we customarily receive as part of our annual audit.
>
> In connection with the proposed offering of securities, we understand we will perform certain procedures for the purpose of issuing a comfort letter to Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"). The comfort letter would make reference to our audit report and our review of the unaudited interim consolidated financial statements, and set out the procedures performed at

> the Underwriter's request and the results of performing those procedures. In addition, we understand that the Underwriter has requested that we attend a meeting (the "due diligence meeting") at which the Underwriter and its legal counsel wish to ask us certain questions in connection with our audits referred to above, and that you have agreed to grant such request.

In connection with that offering, BDO received professional fees based on its regular billing rates, plus direct, out-of-pocket, expenses and applicable Goods and Services Tax.

77. In connection with the offering of Sino's Securities in June 2009, BDO entered into an engagement letter with Sino, which reads:

> In order to consent to the use of our audit report in the Offering Memorandum, our professional standards require that we update our communications with the Company's legal counsels and present auditors and obtain representations from management similar to those we customarily receive as part of an annual audit.
>
> In connection with the proposed offering of securities, we understand we will perform certain procedures for the purpose of issuing a comfort letter to the Underwriters. The comfort letter will make reference to our audit report, and set out the procedures performed at the Underwriters' request and the results of performing those procedures. In addition, we understand that the Underwriters request that we attend a meeting (the "due diligence meeting") at which the Underwriters and the Underwriters' legal counsels wish to ask us certain questions in connection with our audit referred to above, and that you have agreed to grant such request.

In connection with that offering, BDO received professional fees in the amount that was stated in the engagement letter to be US$60,000.

78. In connection with the offering of Sino's Securities pursuant to the December 2009 Offering Memorandum, BDO entered into an engagement letter with Sino, which reads:

> In order to consent to the use of our audit report in the Offering Memorandum, our professional standards require that we update our communications with the Company's legal counsels and present auditors, and obtain representations from management similar to those we customarily receive as part of our annual audit.
>
> In connection with the proposed offering of securities, we understand we will perform certain procedures for the purpose of issuing a comfort letter to Credit Suisse Securities (USA) LLC as a representative (the "Representative") of several

> initial purchasers to be determined later. The comfort letter would make reference to our audit report and set out the procedures performed at the Representative's request and the results of performing those procedures. In addition, we understand that the Representative has requested that we attend a meeting (the "due diligence meeting") at which the Representative and its legal counsels wish to ask us certain questions in connection with our audit referred to above, and that you have agreed to grant such request.

In connection with that offering, BDO received professional fees in the amount that was stated in the engagement letter to be US$48,000.

79. In connection with the offering of Sino's Securities pursuant to the December 2009 Prospectus, BDO entered into an engagement letter with Sino, which reads:

> In order to consent to the use of our audit report in the Prospectus and the Offering Memorandum, our professional standards require that we update our communications with the Company's legal counsels and present auditors and obtain representations from management similar to those we customarily receive as part of an annual audit.
>
> In connection with the proposed offering of securities, we understand we will perform certain procedures for the purpose of issuing a comfort letter to the Underwriters. The comfort letter will make reference to our audit report, and set out the procedures performed at the Underwriters' request and the results of performing those procedures. In addition, we understand that the Underwriters request that we attend a meeting (the "due diligence meeting") at which the Underwriters and the Underwriters' legal counsels wish to ask us certain questions in connection with our audit referred to above, and that you have agreed to grant such request.

In connection with that offering, BDO received professional fees in the amount that was stated in the engagement letter to be US$48,000.

VI. THE MISREPRESENTATIONS

80. During the Class Period, Sino made the misrepresentations particularized below. These misrepresentations related to:

A. Sino's history and fraudulent origins;

B. Sino's forestry assets;

C. Sino's related party transactions;

D. Sino's relationships with forestry bureaus and its purported title to forestry assets in the PRC;

E. Sino's relationships with its "Authorized Intermediaries;"

F. Sino's cash flows;

G. Certain risks to which Sino was exposed; and

H. Sino's compliance with GAAP and the Auditors' compliance with GAAS.

A. *Misrepresentations relating to Sino's History and Fraudulent Origins*

(i) Sino Overstates the Value of, and the Revenues Generated by, the Leizhou Joint Venture

81. At the time of its founding by way of reverse merger in 1994, Sino's business was conducted primarily through an equity joint venture between Sino's Hong Kong subsidiary, Sino-Wood Partners, Limited ("Sino-Wood"), and the Leizhou Forestry Bureau, which was situated in Guangdong Province in the south of the PRC. The name of the venture was Zhanjiang Leizhou Eucalyptus Resources Development Co. Ltd. ("**Leizhou**"). The stated purpose of Leizhou, established in 1994, was:

> Managing forests, wood processing, the production of wood products and wood chemical products, and establishing a production facility with an annual production capacity of 50,000 m^3 of Micro Density Fiber Board (MDF), managing a base of 120,000 mu (8,000 ha) of which the forest annual utilization would be 8,000 m^3.

82. There are two types of joint ventures in the PRC relevant to Sino: equity joint ventures ('**EJV**") and cooperating joint ventures ("**CJV**"). In an EJV, profits and assets are distributed in proportion to the parties' equity holdings upon winding up. In a CJV, the parties may contract to divide profits and assets disproportionately to their equity interests.

83. According to a Sino prospectus issued in January 1997, Leizhou, an EJV, was responsible for 20,000 hectares of the 30,000 hectares that Sino claimed to have "phased-in." Leizhou was the key driver of Sino's purported early growth.

84. Sino claimed to hold 53% of the equity in Leizhou, which was to total US$10 million, and Sino further claimed that the Leizhou Forestry Bureau was to contribute 20,000 ha of forestry land. In reality, however, the terms of the EJV required the Leizhou Forestry Bureau to contribute a mere 3,533 ha.

85. What was also unknown to investors was that Leizhou did not generate the sales claimed by Sino. More particularly, in 1994, 1995 and 1996, respectively, Sino claimed to have generated US$11.3 million, US$23.9 million and US$23.1 million in sales from Leizhou. In reality, however, these sales did not occur, or were materially overstated.

86. Indeed, in an undisclosed letter from Leizhou Forestry Bureau to Zhanjiang City Foreign and Economic Relations and Trade Commission, dated February 27, 1998, the Bureau complained:

> To: Zhanjiang Municipal Foreign Economic Relations & Trade Commission
>
> Through mutual consultation between Leizhou Forestry Administration (hereinafter referred to as *our side*) and Sino-Wood Partners Limited (hereinafter referred to as the *foreign party*), and, with the approval document ZJMPZ No.021 [1994] issued by your commission on 28th January 1994 for approving the contracts and articles of association entered into by both parties, and, with the approval certificate WJMZHZZZ No.065 [1994] issued by your commission, both parties jointly established Zhanjiang Eucalyptus Resources Development Co. Ltd. (hereinafter referred to as the Joint Venture) whose incorporate number is 162622-0012 and duly registered the same with Zhanjiang Administration for Industry and Commerce and obtained the business license GSQHYZ No.00604 on 29th January in the same year. It has been 4 years since the registration and we set out the situation as follows:
>
> I. Information of the investment of both sides

A. The investment of our side: according to the contract and articles of association signed by both sides and approved by your commission, our side has paid in RMB95,481,503.29 (equivalent to USD11,640,000.00) to the Joint Venture on 20th June 1995 through an in-kind contribution. The payment was made in accordance with the prescribed procedures and confirmed by signatures of the legal representatives of both parties. According to the Capital Verification Report from Yuexi ( ) Accounting Firm, this payment accounts for 99.1% of the agreed capital contribution from our side, which is USD11,750,000, and accounts for 46.56% of the total investment.

B. The investment of the foreign party: the foreign party has paid in USD1,000,000 on 16th March 1994, which was in the starting period of the Joint Venture. According to the Capital Verification Report from Yuexi ( ) Accounting Firm, this payment only accounts for 7.55% of the agreed capital contribution from the foreign party totaling USD13,250,000, and accounts for 4% of the total investment. Then, in the prescribed investment period, the foreign party did not further pay capital into the Joint Venture. In view of this, your commission sent a "Notice on Time for Capital Contribution" to the foreign party on 30th January 1996. In accordance with the notice, the foreign party then on 10th April sent a letter to your commission, requesting for postponing the deadline for capital contribution to 20th December the same year. On 14th May 1996, your commission replied to Allen Chan ( ), the Chairman of the Joint Venture, stating that "postponement of the deadline for capital contribution is subject to the consent of our side and requires amendment of the term on the capital contribution time in the original contract, and both parties shall sign a bilateral supplementary contract; after the application has been approved, the postponed deadline will become effective.". Based on the spirit of the letter dated 14th May from your commission and for the purpose of achieving mutual communication and dealing with the issues of the Joint Venture actively and appropriately, on 11th June 1996, Chan Shixing ( ) and two other Directors from our side sent a joint letter to Allen Chan ( ), the Chairman of the Joint Venture, to propose a meeting of the board to be convened before 30th June 1996 in Zhanjiang, in order to discuss how to deal with the issues of the Joint Venture in accordance with the relevant State provisions. Unfortunately, the foreign party neither had discussion with our side pursuant to your commission's letter, nor replied to the proposal of our side, and furthermore failed to make payment to the Joint Venture. Now, it has been two years beyond the deadline for capital contribution (29th January 1996), and more than one year beyond the date prescribed by the Notice on Time for Capital Contribution issued by your commission (30th April 1996). However, the foreign party has been evading the discussion of the capital contribution issue, and moreover has taken no further action.

II. *The Joint Venture is not capable of attaining substantial operation*

According to the contract and articles of association, the main purposes of setting up the Joint Venture are, on the one hand, to invest and construct a project producing 50,000 cubic meter Medium Density Fiberboard (MDF) a year; and on the other hand, to create a forest base of 120,000 mu, with which to produce 80,000 cubic meter of timber as raw material for the production of medium density fiberboard. The contract and articles of association also prescribed that the whole funding required for the MDF board project should be paid by the foreign party in cash; our side should pay in-kind the proportion of the fund prescribed by the contract. ***After contributing capital of USD1,000,000 in the early stage, the foreign party not only failed to make subsequent capital contributions, but also in their own name successively withdrew a total amount of RMB4,141,045.02, from the funds they contributed, of which USD270,000 was paid to Huadu Baixing Wood Products Factory ( ), which has no business relationship with the Joint Venture. This amount of money equals 47.6% of [the foreign party's] paid in capital. Although our side has almost paid off the agreed capital contribution (only short 0.9% of the total committed), due to the limited contribution from the foreign party and the fact that they withdrew a huge amount of money from those funds originally contributed by them, it is impossible for the Joint Venture to construct or set up production projects and to commence production operation while the funds have been insufficient and the foreign party did not pay in the majority of the subscribed capital. In fact, the Joint Venture therefore is merely a shell, existing in name only.***

Additionally, after the establishment of the Joint Venture, its internal operations have been extremely abnormal, for example, annual board meetings have not been held as scheduled; annual reports on the status and the results of the annual financial audit are missing; the withdrawal of the huge amount of funds by the foreign party was not discussed in the board meetings, etc. It is hard to list all here.

In light of the present state of contributions by both sides and the status of the Joint Venture from its establishment till now, our side now applies to your commission for:

1. The cancellation of the approval certificate for "Zhanjiang Eucalyptus Resources Development Co. Ltd.", i.e. WJMZHZZZ No. 065[1994], based on the relevant provisions of Certain Regulations on the Subscription of Capital by the Parties to Sino-Foreign Joint Equity Enterprises,

2. Direct the Joint Venture to complete the deregistration procedures for "Zhanjiang Eucalyptus Resources Development Co. Ltd." at the local Administration for Industry and Commerce, and for the return of its business license.

3. Coordination with both parties to resolve the relevant remaining issues.

Please let us have your reply on whether the above is in order.

The Seal of the Leizhou Forestry Bureau

1998, February 27

[Translation; emphasis added.]

87. In its 1996 Annual Financial Statements, Sino stated:

> The $14,992,000 due from the LFB represents cash collected from the sale of wood chips on behalf of the Leizhou EJV. As originally agreed to by Sino-Wood, the cash was being retained by the LFB to fund the ongoing plantation costs of the Leizhou EJV incurred by the LFB. Sino-Wood and LFB have agreed that the amount due to the Leizhou EJV, after reduction for plantation costs incurred, will be settled in 1997 concurrent with the settlement of capital contributions due to the Leizhou EJV by Sino-Wood.

88. These statements were false, inasmuch as Leizhou never generated such sales. Leizhou was wound-up in 1998.

89. At all material times, Sino's founders, Chan and Poon, were fully aware of the reality relating to Leizhou, and knowingly misrepresented the true status of Leizhou, as well as its true revenues and profits.

(ii) Sino's Fictitious Investment in SJXT

90. In Sino's audited financial statements for the year ended December 31, 1997, filed on SEDAR on May 20, 1998 (the "**1997 Financial Statements**"), Sino stated that, in order to establish strategic partnerships with key local wood product suppliers and to build a strong distribution for the wood-based product and contract supply businesses, it had acquired a 20% equity interest in "Shanghai Jin Xiang Timber Ltd." ("**SJXT**"). Sino then described SJXT as an

EJV that had been formed in 1997 by the Ministry of Forestry in China, and declared that its function was to organize and manage the first and only official market for timber and log trading in Eastern China. It further stated that the investment in SJXT was expected to provide the Company with good accessibility to a large base of potential customers and companies in the timber and log businesses in Eastern China.

91. There is, in fact, no entity known as “Shanghai Jin Xiang Timber Ltd.” While an entity called “Shanghai Jin Xiang Timber Wholesale Market” does exist, Sino did not have, as claimed in its disclosure documents, an equity stake in that venture.

92. According to the 1997 Audited Annual Financial Statements, the total investment of SJXT was estimated to be US$9.7 million, of which Sino would be required to contribute approximately US$1.9 million for a 20% equity interest. The 1997 Audited Annual Financial Statements stated that, as at December 31, 1997, Sino had made capital contributions to SJXT in the amount of US$1.0 million. In Sino’s balance sheet as at December 31, 1997, the SXJT investment was shown as an asset of $1.0 million.

93. In October 1998, Sino announced an Agency Agreement with SJXT. At that time, Sino stated that it would provide 130,000 m^3 of various wood products to SJXT over an 18 month period, and that, based on then-current market prices, it expected this contract to generate “significant revenue” for Sino-Forest amounting to approximately $40 million. The revenues that were purportedly anticipated from the SJXT contract were highly material to Sino. Indeed, Sino’s total reported revenues in 1998 were $92.7 million.

94. In Sino’s Audited Annual Financial Statements for the year ended December 31, 1998, which statements were filed on SEDAR on May 18, 1999 (the “**1998 Financial Statements**”), Sino again stated that, in 1997, it had acquired a 20% equity interest in SJXT, that the total

investment in SJXT was estimated to be US$9.7 million, of which Sino would be required to contribute approximately $1.9 million, representing 20% of the registered capital, and that, as at December 31, 1997 and 1998, Sino had made contributions in the amount of US$1.0 million to SJXT. In Sino's balance sheet as at December 31, 1998, the SXJT investment was again shown as an asset of US$1.0 million.

95. Sino also stated in the 1998 Audited Annual Financial Statements that, during 1998, the sale of logs and lumber to SJXT amounted to approximately US$537,000. These sales were identified in the notes to the 1998 Financial Statements as related party transactions.

96. In Sino's Annual Report for 1998, Chan stated that lumber and wood products trading constituted a "promising new opportunity." Chan explained that:

> ***SJXT represents a very significant development for our lumber and wood products trading business. The market is prospering and continues to look very promising***. Phase I, consisting of 100 shops, is completed. Phases II and III are expected to be completed by the year 2000. This expansion would triple the size of the Shanghai Timber Market.
>
> ***The Shanghai Timber Market is important to Sino-Forest as a generator of significant new revenue. In addition to supplying various forest products to the market from our own operations, our direct participation in SJXT increases our activities in sourcing a wide range of other wood products both from inside China and internationally.***
>
> ***The Shanghai Timber Market is also very beneficial to the development of the forest products industry in China because it is the first forest products national sub-market in the eastern region of the country.***
>
> […]
>
> ***The market also greatly facilitates Sino-Forest's networking activities, enabling us to build new industry relationships and add to our market intelligence, all of which increasingly leverage our ability to act as principal in our dealings.***
>
> [Emphasis added.]

97. Chan also stated in the 1998 Annual Report that the "Agency Agreement with SJXT [is] expected to generate approximately $40 million over 18 months."

98. In Sino's Annual Report for 1999, Sino stated:

> ***There are also promising growth opportunities as Sino-Forest's investment in Shanghai Jin Xiang Timber Ltd. (SJXT or the Shanghai Timber Market), develops***. The Company also continues to explore opportunities to establish and reinforce ties with other international forestry companies and to bring our e-commerce technology into operation.
>
> Sino-Forest's investment in the Shanghai Timber Market — the first national forest products submarket in eastern China — has provided a strong foundation for the Company's lumber and wood products trading business.
>
> [Emphasis added.]

99. In Sino's MD&A for the year ended December 31, 1999, Sino also stated that:

> ***Sales from lumber and wood products trading increased 264% to $34.2 million compared to $9.4 million in 1998. The increase in lumber and wood products trading is attributable largely to the increase in new business generated from our investment in Shanghai Jin Xiang Timber Ltd. (SJXT) and a larger sales force in 1999.*** Lumber and wood products trading on an agency basis has increased 35% from $2.3 million in 1998 to $3.1 million in 1999. The increase in commission income on lumber and wood products trading is attributable to approximately $1.8 million of fees earned from a new customer.
>
> [Emphasis added.]

100. That same MD&A, however, also states that "The investment in SJXT has contributed to the significant growth of the lumber and wood products trading business, ***which has recorded an increase in sales of 219% from $11.7 million in 1998 to $37.2 million in 1999***" (emphasis added).

101. In Sino's Audited Annual Financial Statements for the year ended December 31, 1999, which statements were filed on SEDAR on May 18, 2000 (the "**1999 Financial Statements**"), Sino stated:

> During the year, Shanghai Jin Xiang Timber Ltd. ["SJXT"] applied to increase ***the original total capital contributions of $868,000*** [Chinese renminbi 7.2 million] to $1,509,000 [Chinese renminbi 12.5 million]. Sino-Wood is required to ***make an additional contribution of $278,000*** as a result of the increase in total capital contributions. The additional capital contribution of $278,000 was made in 1999 ***increasing its equity interest in SJXT from 27.8% to 34.4%.*** The principal activity of SJXT is to organize trading of timber and logs in the PRC market.
>
> [Emphasis added.]

102. The statements made in the 1999 Financial Statements contradicted Sino's prior representations in relation to SJXT. Among other things, Sino previously claimed to have made a capital contribution of $1,037,000 for a 20% equity interest in SJXT.

103. In addition, note 2(b) to the 1999 Financial Statements stated that, "[a]s at December 31, 1999, $796,000...advances to SJXT remained outstanding. The advances to SJXT were unsecured, non-interest bearing and without a fixed repayment date." Thus, assuming that Sino's contributions to SJXT were actually made, then Sino's prior statements in relation to SJXT were materially misleading, and violated GAAP, inasmuch as those statements failed to disclose that Sino had made to SJXT, a related party, a non-interest bearing loan of $796,000.

104. In Sino's Audited Annual Financial Statements for the year ended December 31, 2000, which statements were filed on SEDAR on May 18, 2000 (the "**2000 Financial Statements**"), Sino stated:

> In 1999, Shanghai Jin Xiang Timber Ltd. ("SJXT") applied to increase the original total capital contributions of $868,000 [Chinese renminbi 7.2 million] to $1,509,000 [Chinese renminbi 12.5 million]. Sino-Wood is required to make an additional contribution of $278,000 as a result of the increase in total capital contributions. The additional capital contribution of $278,000 was made in 1999 increasing its equity interest in SJXT from 27.8% to 34.4%. The principal activity of SJXT is to organize the trading of timber and logs in the PRC market. During the year, advances to SJXT of $796,000 were repaid.

105. In Sino's balance sheet as at December 31, 2000, the SJXT investment was shown as an asset of $519,000, being the sum of Sino's purported SJXT investment of $1,315,000 as at December 31, 1999, and the $796,000 of "advances" purportedly repaid to Sino by SJXT during the year ended December 31, 2000.

106. In Sino's Annual Reports (including the audited annual financial statements contained therein) for the years 2001 and beyond, there is no discussion whatsoever of SJXT. Indeed, Sino's "promising" and "very significant" investment in SJXT simply evaporated, without explanation, from Sino's disclosure documents. In fact, and unbeknownst to the public, Sino never invested in a company called "Shanghai Jin Xiang Timber Ltd." Chan and Poon knew, or were reckless in not knowing of, that fact.

107. At all material times, Sino's founders, Chan and Poon, were fully aware of the reality relating to SJXT, and knowingly misrepresented the true status of SJXT and Sino's interested therein.

(iii) Sino's Materially Deficient and Misleading Class Period Disclosures regarding Sino's History

108. During the Class Period, the Sino disclosure documents identified below purported to provide investors with an overview of Sino's history. However, those disclosure documents, and indeed all of the Impugned Documents, failed to disclose the material fact that, from its very founding, Sino was a fraud, inasmuch as its purportedly key investments in Leizhou and SJXT were either grossly inflated or fictitious.

109. Accordingly, the statements particularized in paragraphs ~~100~~ 110 to ~~104~~ 114 below were misrepresentations. The misleading nature of such statements was exacerbated by the fact that, throughout the Class Period, Sino's senior management and Board purported to be governed by

the Code, which touted the "high standards of ethical conduct, in both words and actions", of Sino's senior management and Board.

110. In the Prospectuses, Sino described its history, but did not disclose that the SJXT investment was fictitious, or that the revenues generated by Leizhou were non-existent or grossly overstated.

111. In particular, the June 2007 Prospectus stated merely that:

> The Corporation was formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. The articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to the Corporation's class A subordinate-voting shares and class B multiple-voting shares. On June 25, 2002, the Corporation filed articles of continuance to continue under the *Canada Business Corporations Act*. On June 22, 2004, the Corporation filed articles of amendment whereby its class A subordinate-voting shares were reclassified as Common Shares and its class B multiple-voting shares were eliminated.

112. Similarly, the June 2009 Prospectus stated only that:

> The Corporation was formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. The articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to the Corporation's class A subordinate-voting shares and class B multiple-voting shares. On June 25, 2002, the Corporation filed articles of continuance to continue under the *Canada Business Corporations Act*. On June 22, 2004, the Corporation filed articles of amendment whereby its class A subordinate-voting shares were reclassified as Common Shares and its class B multiple-voting shares were eliminated.

113. Finally, the December 2009 Prospectus stated only that:

> The Corporation was formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. The articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to the

> Corporation's class A subordinate-voting shares and class B multiple-voting shares. On June 25, 2002, the Corporation filed articles of continuance to continue under the *Canada Business Corporations Act* (the "CBCA"). On June 22, 2004, the Corporation filed articles of amendment whereby its class A subordinate-voting shares were reclassified as Common Shares and its class B multiple-voting shares were eliminated.

114. The failure to disclose the true nature of, and/or Sino's revenues and profits from, SJXT and Leizhou in the historical narrative in the Prospectuses rendered those Prospectuses materially false and misleading. Those historical facts would have alerted persons who purchased Sino shares under the Prospectuses, and/or in the secondary markets, to the highly elevated risk of investing in a company that continued to be controlled by Chan and Poon, both of whom were founders of Sino, and both of whom had knowingly misrepresented the true nature of Leizhou and SJXT from the time of Sino's creation. Thus, Sino was required to disclose those historical facts to the Class Members during the Class Period, but failed to do so, either in the Prospectuses or in any other Impugned Document.

B. *Misrepresentations relating to Sino's Forestry Assets*

115. Sino overstated its forestry assets in Yunnan and Jiangxi Provinces in the PRC and in Suriname. Accordingly, Sino's total assets are overstated to a material degree in all of the Impugned Documents, in violation of GAAP, and each such statement of Sino's total assets constitutes a misrepresentation.

(i) Sino Overstates its Yunnan Forestry Assets

116. In a press release issued by Sino and filed on SEDAR on March 23, 2007, Sino announced that it had entered into an agreement to sell 26 million shares to several institutional investors for gross proceeds of US$200 million, and that the proceeds would be used for the acquisition of standing timber, including pursuant to a new agreement to purchase standing timber in Yunnan Province. It further stated in that press release that Sino-Panel (Asia) Inc. ("**Sino-Panel**"), a wholly-owned subsidiary of Sino, had entered on that same day into an

agreement with Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd., ("**Gengma Forestry**") established in Lincang City, Yunnan Province in the PRC, and that, under that Agreement, Sino-Panel would acquire approximately 200,000 hectares of non-state owned commercial standing timber in Lincang City and surrounding cities in Yunnan for US$700 million to US$1.4 billion over a 10-year period.

117. These same terms of Sino's Agreement with Gengma Forestry were disclosed in Sino's Q1 2007 MD&A. Moreover, throughout the Class Period, Sino discussed its purported Yunnan acquisitions in the Impugned Documents ~~and Pöyry repeatedly made statements regarding said holdings, as particularized below~~.

118. The reported acquisitions did not take place. Sino overstated to a material degree the size and value of its forestry holdings in Yunnan Province. It simply does not own all of the trees it claims to own in Yunnan. Sino's overstatement of the Yunnan forestry assets violated GAAP.

119. The misrepresentations about Sino's acquisition and holdings of the Yunnan forestry assets were made in all of the Impugned Documents that were MD&As, financial statements, AIFs, Prospectuses and Offering Memoranda, except for the 2005 Audited Annual Financial Statements, the Q1 2006 interim financial statements, the 2006 Audited Annual Financial Statements and the 2006 Annual MD&A.

(ii) Sino Overstates its Suriname Forestry Assets; Alternatively, Sino fails to Disclose the Material Fact that its Suriname Forestry Assets are contrary to the Laws of Suriname

120. In mid-2010, Sino became a majority shareholder of Greenheart Group Ltd., a Bermuda corporation having its headquarters in Hong Kong, China and a listing on the Hong Kong Stock Exchange ("**Greenheart**").

121. In August 2010, Greenheart issued an aggregate principal amount of US$25,000,000 convertible notes for gross proceeds of US$24,750,000. The sole subscriber of these convertible notes was Greater Sino Holdings Limited, an entity in which Murray has an indirect interest. In addition, Chan and Murray then became members of Greenheart's Board, Chan became the Board's Chairman, and Martin became the CEO of Greenheart and a member of its Board.

122. On August 24, 2010 and December 28, 2010, Greenheart granted to Chan, Martin and Murray options to purchase, respectively, approximately 6.8 million, 6.8 million and 1.1 million Greenheart shares. The options are exercisable for a five-year term.

123. As at March 31, 2011, General Enterprise Management Services International Limited, a company in which Murray has an indirect interest, held 7,000,000 shares of Greenheart, being 0.9% of the total issued and outstanding shares of Greenheart.

124. As a result of the aforesaid transactions and interests, Sino, Chan, Martin and Murray stood to profit handsomely from any inflation in the market price of Greenheart's shares.

125. At all material times, Greenheart purported to have forestry assets in New Zealand and Suriname. On March 1, 2011, Greenheart issued a press release in which it announced that:

> **Greenheart acquires certain rights to additional 128,000 hectare concession in Suriname**
>
> *****
>
> **312,000 hectares now under Greenheart management**
>
> Hong Kong, March 1, 2011 – Greenheart Group Limited ("Greenheart" or "the Company") (HKSE: 00094), an investment holding company with forestry assets in Suriname and New Zealand (subject to certain closing conditions) today announced that ***the Company has acquired 60% of Vista Marine Services N.V. ("Vista"), a private company based in Suriname, South America that controls certain harvesting rights to a 128,000 hectares hardwood concession. Vista will be rebranded as part of the Greenheart Group. This transaction will increase Greenheart's concessions under management in Suriname to approximately 312,000 hectares.*** The cost of this

acquisition is not material to the Company as a whole but the Company is optimistic about the prospects of Vista and the positive impact that it will bring. ***The concession is located in the Sipalawini district of Suriname, South America, bordering Lake Brokopondo and has an estimated annual allowable cut of approximately 100,000 cubic meters.***

Mr. Judson Martin, Chief Executive Officer of Greenheart and Vice-Chairman of Sino-Forest Corporation, the Company's controlling shareholder said, "This acquisition is in line with our growth strategy to expand our footprint in Suriname. In addition to increased harvestable area, this acquisition will bring synergies in sales, marketing, administration, financial reporting and control, logistics and overall management. I am pleased to welcome Mr. Ty Wilkinson to Greenheart as our minority partner. Mr. Wilkinson shares our respect for the people of Suriname and the land and will be appointed Chief Executive Officer of this joint venture and be responsible for operating in a sustainable and responsible manner. This acquisition further advances Greenheart's strategy of becoming a global agri-forestry company. We will continue to actively seek well-priced and sustainable concessions in Suriname and neighboring regions in the coming months."

[Emphasis added.]

126. In its 2010 AIF, filed on SEDAR on March 31, 2011, Sino stated:

We hold a majority interest in Greenheart Group which, together with its subsidiaries, owns certain rights and ***manages approximately 312,000 hectares of hardwood forest concessions in the Republic of Suriname, South America*** ("Suriname") and 11,000 hectares of a radiata pine plantation on 13,000 hectares of freehold land in New Zealand as at March 31, 2011. ***We believe that our ownership in Greenheart Group will strengthen our global sourcing network in supplying wood fibre for China in a sustainable and responsible manner.***

[Emphasis added.]

127. The statements reproduced in the preceding paragraph were false and/or materially misleading when made. Under the Suriname *Forest Management Act*, it is prohibited for one company or a group of companies in which one person or company has a majority interest to control more than 150,000 hectares of land under concession. Therefore, either Greenheart's concessions under management in Suriname did not exceed 150,000 hectares, or Greenheart's concessions under management in Suriname violated the laws of Suriname, which was a material fact not disclosed in any of the Impugned Documents.

128. In each of the October 2010 Offering Memorandum, the 2010 Annual MD&A, the 2010 AIF, Sino represented that Greenheart had well in excess of 150,000 hectares of concession under management in Suriname without however disclosing that Suriname law imposed a limit of 150,000 hectares on Greenheart and its subsidiaries.

129. Finally, Vista's forestry concessions are located in a region of Suriname populated by the Saramaka, an indigenous people. Pursuant to the American Convention on Human Rights and a decision of the Inter-American Court of Human Rights, the Saramaka people must have effective control over their land, including the management of their reserves, and must be effectively consulted by the State of Suriname. Sino has not disclosed in any of the Impugned Documents where it has discussed Greenheart and/or Suriname assets that Vista's purported concessions in Suriname, if they exist at all, are impaired due to the unfulfilled rights of the indigenous people of Suriname, in violation of GAAP. The Impugned Documents that omitted that disclosure were the 2010 Annual MD&A, the 2010 Audited Annual Financial Statements, and the 2010 AIF.

(iii) Sino overstates its Jiangxi Forestry Assets

130. On June 11, 2009, Sino issued a press release in which it stated:

> Sino-Forest Corporation (TSX: TRE), a leading commercial forest plantation operator in China, announced today that its wholly-owned subsidiary, Sino-Panel (China) Investments Limited ("Sino-Panel"), has entered into a Master Agreement for the Purchase of Pine and Chinese Fir Plantation Forests (the "Jiangxi Master Agreement") with Jiangxi Zhonggan Industrial Development Company Limited ("Jiangxi Zhonggan"), which will act as the authorized agent for the original plantation rights holders.
>
> Under the Jiangxi Master Agreement, Sino-Panel will, through PRC subsidiaries of Sino-Forest, acquire between 15 million and 18 million cubic metres (m^3) of wood fibre located in plantations in Jiangxi Province over a three-year period with a price not to exceed RMB300 per m^3, to the extent permitted under the relevant PRC laws and regulations. ***The plantations in which such amount of wood fibre to acquire is between 150,000 and 300,000 hectares*** to achieve an estimated average wood fibre yield of approximately 100 m^3 per hectare, and include tree species such as pine, Chinese fir and others. Jiangxi Zhonggan will ensure plantation forests sold to Sino-Panel and its PRC subsidiaries are non-state-owned, non-natural, commercial plantation forest trees.

In addition to securing the maximum tree acquisition price, Sino-Panel has pre-emptive rights to lease the underlying plantation land at a price, permitted under the relevant PRC laws and regulations, not to exceed RMB450 per hectare per annum for 30 years from the time of harvest. The land lease can also be extended to 50 years as permitted under PRC laws and regulations. The specific terms and conditions of purchasing or leasing are to be determined upon the execution of definitive agreements between the PRC subsidiaries of Sino-Panel and Jiangxi Zhonggan upon the authorisation of original plantation rights holders, and subject to the requisite governmental approval and in compliance with the relevant PRC laws and regulations.

Sino-Forest Chairman and CEO Allen Chan said, "We are fortunate to have been able to capture and support investment opportunities in China's developing forestry sector by locking up a large amount of fibre at competitive prices. The Jiangxi Master Agreement is Sino-Forest's fifth, long-term, fibre purchase agreement during the past two years. These five agreements cover a total plantation area of over one million hectares in five of China's most densely forested provinces."

[Emphasis added.]

131. According to Sino's 2010 Annual MD&A, as of December 31, 2010, Sino had acquired 59,700 ha of plantation trees from Jiangxi Zhonggan Industrial Development Company Limited ("**Zhonggan**") for US$269.1 million under the terms of the master agreement. (In its interim report for the second quarter of 2011, which was issued after the Class Period, Sino claims that, as at June 30, 2011, this number had increased to 69,100 ha, for a purchase price of US$309.6 million).

132. However, as was known to Sino, Chan, Poon and Horsley, and as ought to have been known to the remaining Individual Defendants, BDO and E&Y, ~~and Pöyry,~~ Sino's plantation acquisitions through Zhonggan are materially smaller than Sino has claimed.

~~*(iv) Poyry makes Misrepresentations in relation to Sino's Forestry Assets*~~

~~133. As particularized above, Sino overstated its forestry assets in Yunnan and Jiangxi Provinces in the PRC and in Suriname. Accordingly, Sino's total assets are overstated to a material degree in all of the Impugned Documents, in violation of GAAP, and each such statement of Sino's total assets constitutes a misrepresentation.~~

~~134. In addition, during the Class Period, Pöyry and entities affiliated with it made statements that are misrepresentations in regard to Sino's Yunnan Province "assets," namely:~~

~~(a) In a report dated March 14, 2008, filed on SEDAR on March 31, 2008 (the "2008 Valuations"), Pöyry: (a) stated that it had determined the valuation of the Sino forest assets to be US$3.2 billion as at 31 December 2007; (b) provided tables and figures regarding Yunnan; (c) stated that "Stands in Yunnan range from 20 ha to 1000 ha," that "In 2007 Sino-Forest purchased an area of mixed broadleaf forest in Yunnan Province," that "Broadleaf forests already acquired in Yunnan are all mature," and that "Sino-Forest is embarking on a series of forest acquisitions/expansion efforts in Hunan, Yunnan and Guangxi;" and (d) provided a detailed discussion of Sino's Yunnan "holdings" at Appendixes 3 and 5. Pöyry's 2008 Valuations were incorporated in Sino's 2007 Annual MD&A, amended 2007 Annual MD&A, 2007 AIF, each of the Q1, Q2, and Q3 2008 MD&As, Annual 2008 MD&A, amended Annual 2008 MD&A, each of the Q1, Q2 and Q3 2009, annual 2009 MD&A, and July 2008 and December 2009 Offering Memoranda;~~

~~(b) In a report dated April 1, 2009 and filed on SEDAR on April 2, 2009 (the "2009 Valuations"), Pöyry stated that "[t]he area of forest owned in Yunnan has quadrupled from around 10 000 ha to almost 40 000 ha over the past year," provided figures and tables regarding Yunnan, and stated that "Sino-Forest has increased its holding of broadleaf crops in Yunnan during 2008, with this province containing nearly 99% of its broadleaf resource." Pöyry's 2009 Valuations were incorporated in Sino's 2008 AIF, each of the Q1, Q2, Q3 2009 MD&As, Annual 2009 MD&A, June 2009 Offering Memorandum, and June 2009 and December 2009 Prospectuses;~~

~~(c) In a "Final Report" dated April 23, 2010, filed on SEDAR on April 30, 2010 (the "2010 Valuations"), Pöyry stated that "Guangxi, Hunan and Yunnan are the three largest provinces in terms of Sino-Forest's holdings. The largest change in area by province, both in absolute and relative terms [sic] has been Yunnan, where the~~

~~area of forest owned has almost tripled, from around 39 000 ha to almost 106 000 ha over the past year," provided figures and tables regarding Yunnan, stated that "Yunnan contains 106 000 ha, including 85 000 ha or 99% of the total broadleaf forest," stated that "the three provinces of Guangxi, Hunan and Yunnan together contain 391 000 ha or about 80% of the total forest area of 491 000 ha" and that "[a]lmost 97% of the broadleaf forest is in Yunnan," and provided a detailed discussion of Sino's Yunnan "holdings" at Appendixes 3 and 4. Pöyry's 2010 Valuations were incorporated in Sino's 2009 AIF, the annual 2009 MD&A, each of the Q1, Q2 and Q3 2010 MD&As, and the October 2010 Offering Memorandum;~~

~~(d) In a "Summary Valuation Report" regarding "Valuation of Purchased Forest Crops as at 31 December 2010" and dated May 27, 2011, Pöyry provided tables and figures regarding Yunnan, stated that "[t]he major changes in area by species from December 2009 to 2010 has been in Yunnan pine, with acquisitions in Yunnan and Sichuan provinces" and that "[a]nalysis of [Sino's] inventory data for broadleaf forest in Yunnan, and comparisons with an inventory that Pöyry undertook there in 2008 supported the upwards revision of prices applied to the Yunnan broadleaf large size log," and stated that "[t]he yield table for Yunnan pine in Yunnan and Sichuan provinces was derived from data collected in this species in these provinces by Pöyry during other work;" and~~

~~(e) In a press release titled "Summary of Sino-Forest's China Forest Asset 2010 Valuation Reports" and which was "jointly prepared by Sino-Forest and Pöyry to highlight key findings and outcomes from the 2010 valuation reports," Pöyry reported on Sino's "holdings" and estimated the market value of Sino's forest assets on the 754,816 ha to be approximately US$3.1 billion as at December 31, 2010.~~

C. *Misrepresentations relating to Sino's Related Party Transactions*

(i) Related Party Transactions Generally

135. Under GAAP and GAAS, a "related party" exists "when one party has the ability to exercise directly or indirectly, control, joint control or significant influence over the other." (CICA Handbook 3840.03) Examples include a parent-subsidiary relationship or an entity that is economically dependent upon another.

136. Related parties raise the concern that transactions may not be conducted at arm's length, and pricing or other terms may not be determined at fair market values. For example, when a subsidiary "sells" an asset to its parent at a given price, it may not be appropriate that that asset be reported on the balance sheet or charged against the earnings of the parent at that price. Where transactions are conducted between arm's length parties, this concern is generally not present.

137. The existence of related party transactions is important to investors irrespective of the reported dollar values of the transactions because the transactions may be controlled, manipulated and/or concealed by management (for example, for corporate purposes or because fraudulent activity is involved), and because such transactions may be used to benefit management or persons close to management at the expense of the company, and therefore its shareholders.

(ii) Sino fails to disclose that Zhonggan was a Related Party

138. Irrespective of the true extent of Zhonggan's transactions in Jiangxi forestry plantations, Sino failed to disclose, in violation of GAAP, that Zhonggan was a related party of Sino. More particularly, according to AIC records, the legal representative of Zhonggan is Lam Hong Chiu, who is an executive vice president of Sino. Lam Hong Chiu is also a director and a 50%

shareholder of China Square Industrial Limited, a BVI corporation which, according to AIC records, owns 80% of the equity of Zhonggan.

139. The Impugned Documents that omitted that disclosure were the Q2 2009 MD&A, the Q2 2009 interim financial statements, the Q3 2009 MD&A, the Q3 2009 interim financial statements, the December 2009 Prospectus, the 2009 Annual MD&A, the 2009 Audited Annual Financial Statements, the 2009 AIF, the Q1 2010 MD&A, the Q1 2010 interim financial statements, the Q2 2010 MD&A, the Q2 2010 interim financial statements, the Q3 2010 MD&A, the Q3 2010 interim financial statements, the 2010 Annual MD&A, the 2010 Audited Annual Financial Statements, and the 2010 AIF.

(iii) Sino fails to disclose that Homix was a Related Party

140. On January 12, 2010, Sino issued a press release in which it announced the acquisition by one of its wholly-owned subsidiaries of Homix Limited ("**Homix**"), which it described as a company engaged in research and development and manufacturing of engineered-wood products in China, for an aggregate amount of US$7.1 million. That press release stated:

> HOMIX has an R&D laboratory and two engineered-wood production operations based in Guangzhou and Jiangsu Provinces, covering eastern and southern China wood product markets. The company has developed a number of new technologies with patent rights, specifically suitable for domestic plantation logs including poplar and eucalyptus species. HOMIX specializes in curing, drying and dyeing methods for engineered wood and has the know-how to produce recomposed wood products and laminated veneer lumber. Recomposed wood technology is considered to be environment-friendly and versatile as it uses fibre from forest plantations, recycled wood and/or wood residue. This reduces the traditional use of large-diameter trees from natural forests. There is growing demand for recomposed wood technology as it reduces cost for raw material while increases the utilization and sustainable use of plantation fibre for the production of furniture and interior/exterior building materials.
>
> […]
>
> Mr. Allen Chan, Sino-Forest's Chairman & CEO, said, "As we continue to ramp up our replanting programme with improved eucalyptus species, it is important for Sino-Forest to continue investing in the research and development that maximizes all aspects of the

forest product supply chain. Modernization and improved productivity of the wood processing industry in China is also necessary given the country's chronic wood fibre deficit. Increased use of technology improves operation efficiency, and maximizes and broadens the use of domestic plantation wood, which reduces the need for logging domestic natural forests and for importing logs from strained tropical forests. HOMIX has significant technological capabilities in engineered-wood processing."

Mr. Chan added, "By acquiring HOMIX, we intend to use six-year eucalyptus fibre instead of 30-year tree fibre from other species to produce quality lumber using recomposed technology. We believe that this will help preserve natural forests as well as improve the demand for and pricing of our planted eucalyptus trees."

141. Sino's 2009 Audited Annual Financial Statements, Q1/2010 Unaudited Interim Financial Statements, 2010 Audited Annual Financial Statements, the MD&As related to each of the aforementioned financial statements, and Sino's AIFs for 2009 and 2010, each discussed the acquisition of Homix, but nowhere disclosed that Homix was in fact a related party of Sino.

142. More particularly, Hua Chen, a Senior Vice President, Administration & Finance, of Sino in the PRC, and who joined Sino in 2002, is a 30% shareholder of an operating subsidiary of Homix, Jiangsu Dayang Wood Co., Ltd. ("**Jiangsu**")

143. In order to persuade current and prospective Sino shareholders that there was a commercial justification for the Homix acquisition, Sino misrepresented Homix's patent designs registered with the PRC State Intellectual Property Office. In particular, in its 2009 Annual Report, Sino stated:

HOMIX acquisition

In accordance with our strategy to focus on research and development and to improve the end-use of our wood fibre, we acquired HOMIX Ltd. in January 2010 for $7.1 million. This corporate acquisition is small but strategically important ***adding valuable intellectual property rights*** and two engineered-wood processing facilities located in Guangdong and Jiangsu Provinces to our operations. ***Homix has developed environment-friendly technology, an efficient process using recomposed technology to convert small-diameter plantation logs into building materials and furniture***. Since we plan to grow high volumes of eucalypt and other FGHY species, this acquisition will help us achieve our long-term objectives of maximizing the use of our fibre, supplying a

variety of downstream customers and enhancing economic rural development. [Emphasis added]

144. However, Homix itself then had no patent designs registered with the PRC State Intellectual Property Office. At that time, Homix had two subsidiaries, Jiangsu and Guangzhou Pany Dacheng Wood Co. The latter then had no patent designs registered with the PRC State Intellectual Property Office, while Jiangsu had two patent designs. However, each such design was for wood dyeing, and not for the conversion of small-diameter plantation logs into building materials and furniture.

(iv) Sino fails to disclose that Yunan Shunxuan was a Related Party

145. In addition, during the Class Period, Sino purportedly purchased approximately 1,600 hectares of timber in Yunnan province from Yunnan Shunxuan Forestry Co. Ltd. Yunnan Shunxuan was part of Sino, acting under a separate label. Accordingly, it was considered a related party for the purposes of the GAAP disclosure requirements, a fact that Sino failed to disclose.

146. The Impugned Documents that omitted that disclosure were the 2009 Annual MD&A, the 2009 Audited Annual Financial Statements, the 2009 AIF, the Q1 2010 MD&A, the Q1 2010 interim financial statements, the Q2 2010 MD&A, the Q2 2010 interim financial statements, the Q3 2010 MD&A, the Q3 2010 interim financial statements, the 2010 Annual MD&A, the 2010 Audited Annual Financial Statements, and the 2010 AIF.

147. Sino's failure to disclose that Yunnan Shunxuan was a related party was a violation of GAAP, and a misrepresentation.

(v) Sino fails to disclose that Yuda Wood was a Related Party

148. Huaihua City Yuda Wood Co. Ltd., based in Huaihua City, Hunan Province ("**Yuda Wood**"), was a major supplier of Sino at material times. Yuda Wood was founded in April 2006

and, from 2007 until 2010, its business with Sino totalled approximately 152,164 Ha and RMB 4.94 billion.

149. During that period, Yuda Wood was a related party of Sino. Indeed, in the Second Report, the IC acknowledged that ***"there is evidence suggesting close cooperation [between Sino and Yuda Wood] (including administrative assistance, possible payment of capital at the time of establishment, joint control of certain of Yuda Wood's RMB bank accounts and the numerous emails indicating coordination of funding and other business activities)***" [emphasis added.]

150. The fact that Yuda Wood was a related party of Sino during the Class Period was a material fact and was required to be disclosed under GAAP, but, during the Class Period, that fact was not disclosed by Sino in any of the Impugned Documents, or otherwise.

(vi) Sino fails to Disclose that Major Suppliers were Related Parties

151. At material times, Sino had at least thirteen suppliers where former Sino employees, consultants or secondees are or were directors, officers and/or shareholders of one or more such suppliers. Due to these and other connections between these suppliers and Sino, some or all of such suppliers were in fact undisclosed related parties of Sino.

152. Including Yuda Wood, the thirteen suppliers referenced above accounted for 43% of Sino's purported plantation purchases between 2006 and the first quarter of 2011.

153. In none of the Impugned Documents did Sino disclose that any of these suppliers were related parties, nor did it disclose sufficient particulars of its relations with such suppliers as would have enabled the investing public to ascertain that those suppliers were related parties.

D. ***Misrepresentations relating to Sino's Relations with Forestry Bureaus and its Purported Title to Forestry Assets in the PRC***

154. In at least two instances during the Class Period, PRC forestry bureau officials were either concurrently or subsequently employees of, or consultants to, Sino. One forestry bureau assigned employees to Sino and other companies to assist in the development of the forestry industry in its jurisdiction.

155. In addition, a vice-chief of the forestry bureau was assigned to work closely with Sino, and while that vice chief still drew a basic salary from the forestry bureau, he also acted as a consultant to Sino in the conduct of Sino's business. This arrangement was in place for several years. That vice-chief appeared on Sino's payroll from January 2007 with a monthly payment of RMB 15,000, which was significant compared with his forestry bureau salary.

156. In addition, at material times, Sino and/or its subsidiaries and/or its suppliers made cash payments and gave "gifts" to forestry bureau officals, which potentially constituted a serious criminal offence under the laws of the PRC. At least some of these payments and gifts were made or given in order to induce the recipients to issue "confirmation letters" in relation to Sino's purported holdings in the PRC of standing timber. These practices utterly compromised the integrity of the process whereby those "confirmation letters" were obtained.

157. Further, a chief of a forestry bureau who had authorized the issuance of confirmations to Sino was arrested due to corruption charges. That forestry bureau had issued confirmations only to Sino and to no other companies. Subsequent to the termination of that forestry bureau chief, that forestry bureau did not issue confirmations to any company.

158. The foregoing facts were material because: (1) they undermined the reliability (if any) of the documentation upon which Sino relied and continues to rely to establish its ownership of

standing timber; and (2) the corruption in which Sino was engaged exposed Sino to potential criminal penalties, including substantial fines, as well as a risk of severe reputational damage in Sino's most important market, the PRC.

159. However, none of these facts was disclosed in any of the Impugned Documents. On the contrary, Sino only made the following disclosure regarding former government officials in its 2007 Annual Report (and in no other Impugned Document), which was materially incomplete, and a misrepresentation:

> To ensure successful growth, we have trained and promoted staff from within our organization, and hired knowledgeable people with relevant working experience and industry expertise – some joined us from forestry bureaus in various regions and provinces and/or state-owned tree farms. [...] 4. Based in Heyuan, Guangdong, Deputy GM responsible for Heyuan plantations, previously with forestry bureau; studied at Yangdongxian Dangxiao [Mr. Liang] 5. Based in Hunan, Plantation controller, graduated from Hunan Agricultural University, previously Assistant Manager of state-owned farm trees in Hunan [Mr. Xie].

160. In respect of Sino's purported title to standing timber in the PRC, Sino possessed Plantation Rights Certificates, or registered title, only in respect of 18% of its purported holdings of standing timber as at December 31, 2010, a fact nowhere disclosed by Sino during the Class Period. This fact was highly material to Sino, inasmuch as standing timber comprised a large proportion of Sino's assets throughout the Class Period, and in the absence of Plantation Rights Certificates, Sino could not establish its title to that standing timber.

161. Rather than disclose this highly material fact, Sino made the following misrepresentations in the following Impugned Documents:

(a) In the 2008 AIF: "***We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased tree plantations and planted tree plantations currently under our management***, and we are in the process of applying for the plantation rights

certificates for those plantations for which we have not obtained such certificates" [emphasis added];

(b) In the 2009 AIF: "***We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased plantations and planted plantations currently under our management***, and we are in the process of applying for the plantation rights certificates for those plantations for which we have not obtained such certificates" [emphasis added]; and

(c) In the 2010 AIF: "***We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased plantations and planted plantations currently under our management***, and we are in the process of applying for the plantation rights certificates for those plantations for which we have not obtained such certificates" [emphasis added].

162. In the absence of Plantation Rights Certificates, Sino relies principally on the purchase contracts entered into by its BVI subsidiaries ("BVIs") in order to demonstrate its ownership of standing timber.

163. However, under PRC law, those contracts are void and unenforceable.

164. In the alternative, if those contracts are valid and enforceable, they are enforceable only as against the counterparties through which Sino purported to acquire the standing timber, and not against the party who has registered title (if any) to the standing timber. Because some or all of those counterparties were or became insolvent, corporate shells or thinly capitalized, then any claims that Sino would have against those counterparties under PRC law, whether for unjust enrichment or otherwise, were of little to no value, and certainly constituted no substitute for registered title to the standing timber which Sino purported to own.

165. Sino never disclosed these material facts during the Class Period, whether in the Impugned Documents or otherwise. On the contrary, Sino made the following misrepresentations in relation to its purported title to standing timber:

(a) In the July 2008 Offering Memorandum, Sino stated "Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations";

(b) In the June 2009 Offering Memorandum, Sino stated "Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations";

(c) In the October 2010 Offering Memorandum, Sino stated "Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations";

(d) In the 2006 AIF, Sino stated "Based on the supplemental purchase contracts and the plantation rights certificates issued by the relevant forestry departments, we have the legal right to own our purchased tree plantations";

(e) In the 2007 AIF, Sino stated "Based on the relevant purchase contracts and the approvals issued by the relevant forestry departments, we have the legal right to own our purchased tree plantations";

(f) In the 2008 AIF, Sino stated "Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased tree plantations";

(g) In the 2009 AIF, Sino stated "Based on the relevant purchase contracts and the approvals issued by the local forestry bureaus, we legally own our purchased plantations";

(h) In the December 2009 Offering Memorandum, Sino stated "Based on the relevant purchase contracts and the approvals issued by the local forestry bureaus, we legally own our purchased plantations"; and

(i) In the 2010 AIF, Sino stated "Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations."

166. In addition, during the Class Period, Sino never disclosed the material fact, belatedly revealed in the Second Report, that "***in practice it is not able to obtain Plantation Rights Certificates for standing timber purchases when no land transfer rights are transferred***" [emphasis added].

167. On the contrary, during the Class Period, Sino made the following misrepresentation in each of the 2005, 2006 and 2007 AIFs:

> Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership rights and its system of issuing certificates to the persons having plantation land use rights, to owners owning the plantation trees and to owners of the plantation land. In April 2000, the PRC State Forestry Bureau announced the "Notice on the Implementation of Nationwide Uniform Plantation Right Certificates" (Lin Zi Fa [2000] No. 159) on April 19, 2000 (the "Notice"). Under the Notice, a new uniform form of plantation rights certificate is to be used commencing from the date of the Notice. ***The same type of new form plantation rights certificate will be issued to the persons having the right to use the plantation land, to persons who own the plantation land and plantation trees, and to persons having the right to use plantation trees.***
>
> [Emphasis added]

168. Under PRC law, county and provincial forestry bureaus have no authority to issue confirmation letters. Such letters cannot be relied upon in a court of law to resolve a dispute and are not a guarantee of title. Notwithstanding this, during the Class Period, Sino made the following misrepresentations:

(a) In the 2005 AIF: "In addition, for the purchased tree plantations, ***we have obtained confirmations from the relevant forestry bureaus that we have the legal right to own the purchased tree plantations for which we have not received certificates***" [emphasis added];

(b) In the 2006 AIF: "In addition, for the purchased tree plantations, ***we have obtained confirmations from the relevant forestry bureaus that we have the legal right to own the purchased tree plantations for which we have not received certificates***" [emphasis added]; and

(c) In the 2007 AIF: "For our Purchased Tree Plantations, we have applied for the relevant Plantation Rights Certificates with the competent local forestry departments. As the relevant locations where we purchased our Purchased Tree Plantations have not fully implemented the new form Plantation Rights Certificate, we are not able to obtain all the corresponding Plantation Rights Certificates for our Purchased Tree Plantations. ***In this connection, we obtained confirmation on our ownership of our Purchased Tree Plantations from the relevant forestry departments.*****"** [emphasis added]

E. Misrepresentations relating to Sino's Relationships with its AIs

169. In addition to the misrepresentations alleged above in relation to Sino's AIs, including those alleged in Section VI.C hereof (*Misrepresentations relating to Sino's Related Party Transactions*), Sino made the following misrepresentations during the Class Period in relation to its relationships with it AIs.

(i) Sino Misrepresents the Degree of its Reliance on its AIs

170. On March 31, 2006, Sino issued and filed on SEDAR its 2005 AIF. In that AIF, Sino stated that "We intend to reduce our reliance on authorized intermediaries going forward."

171. On March 30, 2007, Sino issued and filed on SEDAR its 2006 AIF. In that AIF, Sino stated:

> …PRC laws and regulations require foreign companies to obtain licenses to engage in any business activities in the PRC. As a result of these requirements, we currently engage in our trading activities through PRC authorized intermediaries that have the requisite business licenses. There is no assurance that the PRC government will not take action to restrict our ability to engage in trading activities through our authorized intermediaries. ***In order to reduce our reliance on the authorized intermediaries, we intend to use a WFOE in the PRC to enter into contracts directly with suppliers of raw timber, and then process the raw timber, or engage others to process raw timber on its behalf, and sell logs, wood chips and wood-based products to customers, although it would not be able to engage in pure trading activities.***
>
> [Emphasis added.]

172. In its 2007 AIF, which Sino filed on March 28, 2008, Sino again declared its intention to reduce its reliance upon AIs.

173. These statements were false and/or materially misleading when made, inasmuch as Sino had no intention to reduce materially its reliance on AIs, because its AIs were critical to Sino's ability to inflate its revenue and net income. Rather, these statements had the effect of mitigating any investor concern arising from Sino's extensive reliance upon AIs.

174. Throughout the Class Period, Sino continued to depend heavily upon AIs for its purported sales of standing timber. ~~In fact, contrary~~ Contrary to Sino's purported intention to reduce its reliance on its AIs, Sino's reliance on its AIs in fact *increased* during the Class Period.

(ii) Sino Misrepresents the Tax-related Risks Arising from its use of AIs

175. Throughout the Class Period, Sino materially understated the tax-related risks arising from its use of AIs.

176. Tax evasion penalties in the PRC are severe. Depending on whether the PRC authorities seek recovery of unpaid taxes by means of a civil or criminal proceeding, its claims for unpaid tax are subject to either a five- or ten-year limitation period. The unintentional failure to pay taxes is subject to a 0.05% per day interest penalty, while an intentional failure to pay taxes is punishable with fines of up to five times the unpaid taxes, and confiscation of part or all of the criminal's personal properties maybe also imposed.

177. Therefore, because Sino professed to be unable to determine whether its AIs have paid required taxes, the tax-related risks arising from Sino's use of AIs were potentially devastating. Sino failed, however, to disclose these aspects of the PRC tax regime in its Class Period disclosure documents, as alleged more particularly below.

178. Based upon Sino's reported results, Sino's tax accruals in all of its Impugned Documents that were interim and annual financial statements were materially deficient. For example, depending on whether the PRC tax authorities would assess interest at the rate of 18.75% per annum, or would assess no interest, on the unpaid income taxes of Sino's BVI subsidiaries, and depending also on whether one assumes that Sino's AIs have paid no income taxes or have paid 50% of the income taxes due to the PRC, then Sino's tax accruals in its 2007, 2008, 2009 and 2010 Audited Annual Financial Statements were understated by, respectively, US$10 million to

US$150 million, US$50 million to US$260 million, US$81 million to US$371 million, and US$83 million to US$493 million. Importantly, were one to consider the impact of unpaid taxes other than unpaid income taxes (for example, unpaid value-added taxes), then the amounts by which Sino's tax accruals were understated in these financial statements would be substantially larger.

179. The aforementioned estimates of the amounts by which Sino's tax accruals were understated also assume that the PRC tax authorities only impose interest charges on Sino's BVI Subsidiaries and impose no other penalties for unpaid taxes, and assume further that the PRC authorities seek back taxes only for the preceding five years. As indicated above, each of these assumptions is likely to be unduly optimistic. In any case, Sino's inadequate tax accruals violated GAAP, and constituted misrepresentations.

180. Sino also violated GAAP in its 2009 Audited Annual Financial Statements by failing to apply to its 2009 financial results the PRC tax guidance that was issued in February 2010. Although that guidance was issued after year-end 2009, GAAP required that Sino apply that guidance to its 2009 financial results, because that guidance was issued in the subsequent events period.

181. Based upon Sino's reported profit margins on its dealings with AIs, which margins are extraordinary both in relation to the profit margins of Sino's peers, and in relation to the limited risks that Sino purports to assume in its transactions with its AIs, Sino's AIs are not satisfying their tax obligations, a fact that was either known to the Defendants or ought to have been known. If Sino's extraordinary profit margins are real, then Sino and its AIs must be dividing the gains from non-payment of taxes to the PRC.

182. During the Class Period, Sino never disclosed the true nature of the tax-related risks to which it was exposed. This omission, in violation of GAAP, rendered each of the following statements a misrepresentation:

(a) In the 2005 Annual Financial Statements, note 12 [b] "Provision for tax related liabilities" and associated text;

(b) In the 2006 Annual Financial Statements, note 11 [b] "Provision for tax related liabilities" and associated text;

(c) In the 2006 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(d) In the AIF dated March 30, 2007, the section "Estimation of the Company's provision for income and related taxes," and associated text;

(e) In the Q1 and Q2 2007 Financial Statements, note 5 "Provision for Tax Related Liabilities," and associated text;

(f) In the Q3 2007 Financial Statements, note 6 "Provision for Tax Related Liabilities," and associated text;

(g) In the 2007 Annual Financial Statements, note 13 [b] "Provision for tax related liabilities," and associated text;

(h) In the 2007 Annual MD&A and Amended 2007 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(i) In the AIF dated March 28, 2008, the section "Estimation of the Corporation's provision for income and related taxes," and associated text;

(j) In the Q1, Q2 and Q3 2008 Financial Statements, note 12 "Provision for Tax Related Liabilities," and associated text;

(k) In the Q1, Q2 and Q3 2008 MD&As, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(l) In the July 2008 Offering Memorandum, the subsection "Taxation" in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations," and associated text;

(m) In the 2008 Annual Financial Statements, note 13 [d] "Provision for tax related liabilities," and associated text;

(n) In the 2008 Annual MD&A and Amended 2008 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(o) In the AIF dated March 31, 2009, the section "We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts we have estimated and for which we have provisioned," and associated text;

(p) In the Q1, Q2 and Q3 2009 Financial Statements, note 13 "Provision for Tax Related Liabilities," and associated text;

(q) In the Q1, Q2 and Q3 2009 MD&As, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(r) In the 2009 Annual Financial Statements, note 15 [d] "Provision for tax related liabilities," and associated text;

(s) In the 2009 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(t) In the AIF dated March 31, 2010, the section "We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts we have estimated and for which we have provisioned," and associated text;

(u) In the Q1 and Q2 2010 Financial Statements, note 14 "Provision for Tax Related Liabilities," and associated text;

(v) In the Q1 and Q2 2010 MD&As, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(w) In the Q3 2010 Financial Statements, note 14 "Provision and Contingencies for Tax Related Liabilities," and associated text; and

(x) In the Q3 2010 MD&As, the subsection "Provision and Contingencies for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(y) In the October 2010 Offering Memorandum, the subsection "Taxation" in the section "Selected Financial Information," and associated text;

(z) In the 2010 Annual Financial Statements, note 18 "Provision and Contingencies for Tax Related Liabilities," and associated text;

(aa) In the 2010 Annual MD&A, the subsection "Provision and Contingencies for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text; and

(bb) In the AIF dated March 31, 2011, the section "We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts we have estimated and for which we have provisioned," and associated text.

183. In every Impugned Document that is a financial statement, the line item "Accounts payable and accrued liabilities" and associated figures on the Consolidated Balance Sheets fails to properly account for Sino's tax accruals and is a misrepresentation, and a violation of GAAP.

184. During the Class Period, Sino also failed to disclose in any of the Impugned Documents that were AIFs, MD&As, financial statements, Prospectuses or Offering Memoranda, the risks

relating to the repatriation of its earnings from the PRC. In 2010, Sino added two new sections to its AIF regarding the risk that it would not be able to repatriate earnings from its BVI subsidiaries (which deal with the AIs). The amount of retained earnings that may not be able to be repatriated is stated therein to be US$1.4 billion. Notwithstanding this disclosure, Sino did not disclose in these Impugned Documents that it would be unable to repatriate *any* earnings absent proof of payment of PRC taxes, which it has admitted that it lacks.

(iii) Sino Misrepresents its Accounting Treatment of its AIs

185. In addition, there are material discrepancies in Sino's descriptions of its accounting treatment of its AIs. Beginning in the 2003 AIF, Sino described its AIs as follows:

> Because of the provisions in the Operational Procedures that specify when we and the authorized intermediary assume the risks and obligations relating to the raw timber or wood chips, as the case may be, we treat these transactions for accounting purposes as providing that we take title to the raw timber when it is delivered to the authorized intermediary. Title then passes to the authorized intermediary once the timber is processed into wood chips. ***Accordingly, we treat the authorized intermediaries for accounting purposes as being both our suppliers and customers in these transactions.***
>
> [Emphasis added.]

186. Sino's disclosures were consistent in that regard up to and including Sino's first AIF issued in the Class Period (the 2006 AIF), which states:

> Because of the provisions in the Operational Procedures that specify when we and the AI assume the risks and obligations relating to the raw timber or wood chips, as the case may be, we treat these transactions for accounting purposes as providing that we take title to the raw timber when it is delivered to the AI. Title then passes to the AI once the timber is processed into wood chips. ***Accordingly, we treat the AI for accounting purposes as being both our supplier and customer in these transactions.***
>
> [Emphasis added.]

187. In subsequent AIFs, Sino ceased without explanation to disclose whether it treated AIs for accounting purposes as being both the supplier and the customer.

188. Following the issuance of Muddy Waters' report on ~~the last day of the Class Period~~ June 2, 2011, however, Sino declared publicly that Muddy Waters was "wrong" in its assertion that, for accounting purposes, Sino treated its AIs as being both suppliers and customers in transactions. This claim by Sino implies either that Sino misrepresented its accounting treatment of AIs in its 2006 AIF (and in its AIFs for prior years), or that Sino changed its accounting treatment of its AIs after the issuance of its 2006 AIF. If the latter is true, then Sino was obliged by GAAP to disclose its change in its accounting treatment of its AIs. It failed to do so.

F. *Misrepresentations relating to Sino's Cash Flow Statements*

189. Given the nature of Sino's operations, that of a frequent trader of standing timber, Sino improperly accounted for its purchases of timber assets as "Investments" in its Consolidated Statements Of Cash Flow. In fact, such purchases are "Inventory" within the meaning of GAAP, given the nature of Sino's business.

190. Additionally, Sino violated the GAAP 'matching' principle in treating timber asset purchases as "Investments" and the sale of timber assets as "Inventory": cash flow that came into the company was treated as cash flow from operations, but cash flow that was spent by Sino was treated as cash flow for investments. As a result, "Additions to timber holding" was improperly treated as a "Cash Flows Used In Investing Activities" instead of "Cash Flows From Operating Activities" and the item "Depletion of timber holdings included in cost of sales" should not be included in "Cash Flows From Operating Activities," because it is not a cash item.

191. The effect of these misstatements is that Sino's Cash Flows From Operating Activities were materially overstated throughout the Class Period, which created the impression that Sino was a far more successful cash generator than it was. Such mismatching and misclassification is a violation of GAAP.

192. Cash Flows From Operating Activities are one of the crucial metrics used by the financial analysts who followed Sino's performance. These misstatements were designed to, and did, have the effect of causing such analysts to materially overstate the value of Sino. This material overstatement was incorporated into various research reports made available to the Class Members, the market and the public at large.

193. Matching is a foundational requirement of GAAP reporting. E&Y and BDO were aware, at all material times, that Sino was required to adhere to the matching principle. If E&Y and BDO had conducted GAAS-complaint audits, they would have been aware that Sino's reporting was not GAAP compliant with regard to the matching principle. Accordingly, if they had conducted GAAS-compliant audits, the statements by E&Y and BDO that Sino's reporting was GAAP-compliant were not only false, but were made, at a minimum, recklessly.

194. Further, at all material times, E&Y and BDO were aware that misstatements in Cash Flows From Operating Activities would materially impact the market's valuation of Sino.

195. Accordingly, in every Impugned Document that is a financial statement, the Consolidated Statements Of Cash Flow are a misrepresentation and, particularly, the Cash Flows From Operating Activities item and associated figures is materially overstated, the "additions to timber holdings" item and figures is required to be listed as Cash Flows From Operating Activities, and the "depletion of timber holdings included in cost of sales" item and figures should not have been included.

G. ***Misrepresentations relating to Certain Risks to which Sino was exposed***

(i) Sino is conducting "business activities" in China

196. At material times, PRC law required foreign entities engaging in "business activities" in the PRC to register to obtain and maintain a license. Violation of this requirement could have

resulted in both administrative sanctions and criminal punishment, including banning the unlicensed business activities, confiscating illegal income and properties used exclusively therefor, and/or an administrative fines of no more than RMB 500,000. Possible criminal punishment included a criminal fine from 1 to 5 times the amount of the profits gained.

197. Consequently, were Sino's BVI subsidiaries to have been engaged in unlicensed in "business activities" in the PRC during the Class Period, they would have been exposed to risks that were highly material to Sino.

198. Under PRC law, the term "business activities" generally encompasses any for-profit activities, and Sino's BVI subsidiaries were in fact engaged in unlicensed "business activities" in the PRC during the Class Period. However, Sino did not disclose this fact in any of the Impugned Documents, including in its AIFs for 2008-2010, which purported to make full disclosure of the material risks to which Sino was then exposed.

(ii) Sino fails to disclose that no proceeds were paid to it by its AIs

199. In the Second Report, Sino belatedly revealed that:

> In practice, proceeds from the Entrusted Sale Agreements are not paid to SF but are held by the AIs as instructed by SF and subsequently used to pay for further purchases of standing timber by the same or other BVIs. The AIs will continue to hold these proceeds until the Company instructs the AIs to use these proceeds to pay for new BVI standing timber purchases. ***No proceeds are directly paid to the Company, either onshore or offshore.***
>
> [Emphasis added]

200. This material fact was never disclosed in any of the Impugned Documents during the Class Period. On the contrary, Sino made the following statements during the Class Period in relation to the proceeds paid to it by its AIs, each of which was materially misleading and therefore a misrepresentation:

(a) In the 2005 financial statements, Sino stated: "As a result, ***the majority*** of the accounts receivable arising from sales of wood chips and standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other PRC liabilities" [emphasis added];

(b) In the 2006 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

(c) In the 2006 financial statements, Sino stated: "As a result, ***the majority*** of the accounts receivable arising from sales of wood chips and standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi" [emphasis added];

(d) In the 2007 financial statements, Sino stated: "As a result, ***the majority*** of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi;"

(e) In the 2008 financial statements, Sino stated: "As a result, ***the majority*** of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi" [emphasis added];

(f) In the 2009 financial statements, Sino stated: "As a result, ***the majority*** of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi" [emphasis added]; and

(g) In the 2010 financial statements, Sino stated: "As a result, ***the majority*** of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi" [emphasis added].

H. *Misrepresentations relating to Sino's GAAP Compliance and the Auditors' GAAS Compliance*

(i) Sino, Chan and Horsley misrepresent that Sino complied with GAAP

201. In each of its Class Period financial statements, Sino represented that its financial reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein.

202. In particular, Sino misrepresented in those financial statements that it was GAAP-compliant as follows:

(a) In the annual financial statements filed on March 31, 2006, at Note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles";

(b) In the annual financial statements filed on March 19, 2007, at Note 1: "These consolidated financial statements Sino-Forest Corporation (the "Company") have been prepared in United States dollars in accordance with Canadian generally accepted accounting principles";

(c) In the annual financial statements filed on March 18, 2008, at Note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles";

(d) In the annual financial statements filed on March 16, 2009, at note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles";

(e) In the annual financial statements filed on March 16, 2010, at note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company")

have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles"; and

(f) In the annual financial statements filed on March 15, 2011, at note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles".

203. In each of its Class Period MD&As, Sino represented that its reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein.

204. In particular, Sino misrepresented in those MD&As that it was GAAP-compliant as follows:

(a) In the annual MD&A filed on March 19, 2007: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";

(b) In the quarterly MD&A filed on May 14, 2007: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";

(c) In the quarterly MD&A filed on August 13, 2007: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";

(d) In the quarterly MD&A filed on November 12, 2007: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";

(e) In the annual MD&A filed on March 18, 2008: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";

(f) In the amended annual MD&A filed on March 28, 2008: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";

(g) In the quarterly MD&A filed on May 13, 2008: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";

(h) In the quarterly MD&A filed on August 12, 2008: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";

(i) In the quarterly MD&A filed on November 13, 2008: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";

(j) In the annual MD&A filed on March 16, 2009: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";

(k) In the amended annual MD&A filed on March 17, 2009: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";

(l) In the quarterly MD&A filed on May 11, 2009: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";

(m) In the quarterly MD&A filed on August 10, 2009: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";

(n) In the quarterly MD&A filed on November 12, 2009: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")";

(o) In the annual MD&A files on March 16, 2010: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")";

(p) In the quarterly MD&A filed on May 12, 2010: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")";

(q) In the quarterly MD&A filed on August 10, 2010: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")";

(r) In the quarterly MD&A filed on November 10, 2010: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")"; and

(s) In the annual MD&A filed on March 15, 2011: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")."

205. In the Offerings, Sino represented that its reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein.

206. In particular, Sino misrepresented in the Offerings that it was GAAP-compliant as follows:

(a) In the July 2008 Offering Memorandum: "We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada ("Canadian GAAP")[...]," "Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada" and "Each of the foregoing reports or financial statements will be prepared in accordance with Canadian generally accepted accounting principles

other than for reports prepared for financial periods commencing on or after January 1, 2011 [...]";

(b) In the June 2009 Offering Memorandum: "We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada ("Canadian GAAP")[...]," "Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada," "The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP," "Our audited and consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 and our unaudited interim consolidated financial statements for the three-month periods ended March 31, 2008 and 2009 have been prepared in accordance with Canadian GAAP";

(c) In the June 2009 Offering Memorandum: "We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada ("Canadian GAAP")[...]," "Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada" and "The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP"; and

(d) In the October 2010 Offering Memorandum: "We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada ("Canadian GAAP")[...]," "Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada," "The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP," "Our audited and consolidated financial statements for the years ended December 31, 2007, 2008 and 2009 and our unaudited interim consolidated financial statements for the six-month periods ended June 30, 2009 and 2010 have been prepared in accordance with Canadian GAAP."

207. In the Class Period Management's Reports, Chan and Horsley represented that Sino's reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein.

208. In particular, Chan and Horsley misrepresented in those Management's Reports that Sino's financial statements were GAAP-compliant as follows:

(a) In respect of the annual financial statements filed on March ~~19, 2007~~ 31, 2006, Chan and Hor~~l~~sley stated in the 2005 Annual Report: "The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles";

(b) In respect of the annual financial statements filed on March ~~18, 2008~~ 19, 2007, Chan and Hor~~l~~sley stated in the 2006 Annual Report: "The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles";

(c) In respect of the annual financial statements filed on March 18, 2008, Chan and Horsley stated in the 2007 Annual Report: "The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles";

(d) In respect of the annual financial statements filed on March 16, 2009, Chan and Hor~~l~~sley stated in the 2008 Annual Report: "The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles";

(e) In respect of the annual financial statements filed on March 16, 2010, Chan and Hor~~l~~sley stated in the 2009 Annual Report: "The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles"; and

(f) In <u>respect of</u> the annual financial statements filed on March 15, 2011, Chan and Hor~~l~~sley <u>stated in the 2010 Annual Report</u>: "The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles."

(ii) E&Y and BDO misrepresent that Sino complied with GAAP and that they complied with GAAS

209. In each of Sino's Class Period annual financial statements, E&Y or BDO, as the case may be, represented that Sino's reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein. In addition, in each such annual financial statement, E&Y and BDO, as the case may be, represented that they had conducted their audit in compliance with GAAS, which was a misrepresentation because they did not in fact conduct their audits in accordance with GAAS.

210. In particular, E&Y and BDO misrepresented that Sino's financial statements were GAAP-compliant and that they had conducted their audits in compliance with GAAS as follows:

(a) <u>In Sino's annual financial statements filed on March 31, 2006, BDO stated: "We conducted our audit in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles";</u>

(b) In Sino's annual financial statements filed on March 19, 2007, BDO stated: "We conducted our audit in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows

for the years then ended in accordance with Canadian generally accepted accounting principles";

(c) In the June 2007 Prospectus, BDO stated: "We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents";

(d) In Sino's annual financial statements filed on March 18, 2008, E&Y stated: "We conducted our audit in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. The financial statements as at December 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 19, 2007";

(e) In the July 2008 Offering Memorandum, BDO stated: "We conducted our audit in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles" and E&Y stated "We conducted our audit in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles";

(f) In Sino's annual financial statements filed on March 16, 2009, E&Y stated: "We conducted our audits in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present

fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles";

(g) In Sino's annual financial statements filed on March 16, 2010, E&Y stated: "We conducted our audits in accordance with Canadian generally accepted auditing standards" and "In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles"; and

(h) In Sino's annual financial statements filed on March 15, 2011, E&Y stated: "We conducted our audits in accordance with Canadian generally accepted auditing standards." and "In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sino-Forest corporation as at December 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles."

(iii) The Market Relied on Sino's Purported GAAP-compliance and E&Y's and BDO's purported GAAS-compliance in Sino's Financial Reporting

211. As a public company, Sino communicated the results it claimed to have achieved to the Class Members via quarterly and annual financial results, among other disclosure documents. Sino's auditors, E&Y and BDO, as the case may be, were instrumental in the communication of Sino's financial information to the Class Members. The auditors certified that the financial statements were compliant with GAAP and that they had performed their audits in compliance with GAAS. Neither was true.

212. The Class Members invested in Sino's securities on the critical premise that Sino's financial statements were in fact GAAP-compliant, and that Sino's auditors had in fact conducted their audits in compliance with GAAS. Sino's reported financial results were also followed by analysts at numerous financial institutions. These analysts promptly reported to the market at large when Sino made earnings announcements, and incorporated into their Sino-related analyses and reports Sino's purportedly GAAP-compliant financial results. These analyses and reports, in turn, significantly affected the market price for Sino's securities.

213. The market, including the Class Members, would not have relied on Sino's financial reporting had the auditors disclosed that Sino's financial statements were not reliable or that they had not followed the processes that would have amply revealed that those statements were reliable.

VII. CHAN'S AND HORSLEY'S FALSE CERTIFICATIONS

214. Pursuant to National Instrument 52-109, the defendants Chan, as CEO, and Horsley, as CFO, were required at the material times to certify Sino's annual and quarterly MD&As and Financial Statements as well as the AIFs (and all documents incorporated into the AIFs). Such certifications included statements that the filings "do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made" and that the reports "fairly present in all material respects the financial condition, results of operations and cash flows of the issuer."

215. As particularized elsewhere herein, however, the Impugned Documents contained the Representation, which was false, as well as the other misrepresentations alleged above.

Accordingly, the certifications given by Chan and Horsley were false and were themselves misrepresentations. Chan and Horsley made such false certifications knowingly or, at a minimum, recklessly.

VIII. THE TRUTH IS REVEALED

216. On June 2, 2011, Muddy Waters issued its initial report on Sino, and stated in part therein:

> Sino-Forest Corp (TSE: TRE) is the granddaddy of China RTO frauds. It has always been a fraud – reporting excellent results from one of its early joint ventures – even though, because of TRE's default on its investment obligations, the JV never went into operation. TRE just lied.
>
> The foundation of TRE's fraud is a convoluted structure whereby it claims to run most of its revenues through "authorized intermediaries" ("AI"). AIs are supposedly timber trader customers who purportedly pay much of TRE's value added and income taxes. At the same time, these AIs allow TRE a gross margin of 55% on standing timber merely for TRE having speculated on trees.
>
> The sole purpose of this structure is to fabricate sales transactions while having an excuse for not having the VAT invoices that are the mainstay of China audit work. If TRE really were processing over one billion dollars in sales through AIs, TRE and the AIs would be in serious legal trouble. No legitimate public company would take such risks – particularly because this structure has zero upside.
>
> [...]
>
> On the other side of the books, TRE massively exaggerates its assets. TRE significantly falsifies its investments in plantation fiber (trees). It purports to have purchased $2.891 billion in standing timber under master agreements since 2006 [...]
>
> [...]
>
> Valuation
>
> Because TRE has $2.1 billion in debt outstanding, which we believe exceeds the potential recovery, we value its equity at less than $1.00 per share.

217. Muddy Waters' report also disclosed that (a) Sino's business is a fraudulent scheme; (b) Sino systemically overstated the value of its assets; (c) Sino failed to disclose various related party transactions; (d) Sino misstated that it had enforced high standards of governance; (e) Sino misstated that its reliance on the AIs had decreased; (f) Sino misrepresented the tax risk associated with the use of AIs; and (g) Sino failed to disclose the risks relating to repatriation of earnings from PRC.

218. After Muddy Waters' initial report became public, Sino shares fell to $14.46, at which point trading was halted (a decline of 20.6% from the pre-disclosure close of $18.21). When trading was allowed to resume the next day, Sino's shares fell to a close of $5.23 (a decline of 71.3% from June 1).

219. On November 13, 2011 Sino released the Second Report in redacted form. Therein, the Committee summarized its findings:

> B. Overview of Principal Findings
>
> The following sets out a very high level overview of the IC's principal findings and should be read in conjunction with the balance of this report.
>
> Timber Ownership
>
> [...]
>
> ***The Company does not obtain registered title to BVI purchased plantations***. In the case of the BVIs' plantations, the IC has visited forestry bureaus, Suppliers and AIs to seek independent evidence to establish a chain of title or payment transactions to verify such acquisitions. The purchase contracts, set-off arrangement documentation and forestry bureau confirmations constitute the documentary evidence as to the Company's contractual or other rights. ***The IC has been advised that the Company's rights to such plantations could be open to challenge. However, Management has advised that, to date, it is unaware of any such challenges that have not been resolved*** with the Suppliers in a manner satisfactory to the Company.
>
> Forestry Bureau Confirmations and Plantation Rights Certificates

Registered title, through Plantation Rights Certificates is not available in the jurisdictions (i.e. cities and counties) examined by the IC Advisors for standing timber that is held without land use/lease rights. ***Therefore the Company was not able to obtain Plantation Rights Certificates for its BVIs standing timber assets in those areas.*** In these circumstances, the Company sought confirmations from the relevant local forestry bureau acknowledging its rights to the standing timber.

The IC Advisors reviewed forestry bureau confirmations for virtually all BVIs assets and non-Mandra WFOE purchased plantations held as at December 31, 2010. The IC Advisors, in meetings organized by Management, met with a sample of forestry bureaus with a view to obtaining verification of the Company's rights to standing timber in those jurisdictions. The result of such meetings to date have concluded with the forestry bureaus or related entities having issued new confirmations as to the Company's contractual rights to the Company in respect of 111,177 Ha. as of December 31, 2010 and 133,040 Ha. as of March 31, 2011, and have acknowledged the issuance of existing confirmations issued to the Company as to certain rights, among other things, in respect of 113,058 Ha. as of December 31, 2010.

Forestry bureau confirmations are not officially recognized documents and are not issued pursuant to a legislative mandate or, to the knowledge of the IC, a published policy. It appears they were issued at the request of the Company or its Suppliers. The confirmations are not title documents, in the Western sense of that term, although the IC believes they should be viewed as comfort indicating the relevant forestry bureau does not dispute SF's claims to the standing timber to which they relate and might provide comfort in case of disputes. The purchase contracts are the primary evidence of the Company's interest in timber assets.

In the meetings with forestry bureaus, the IC Advisors did not obtain significant insight into the internal authorization or diligence processes undertaken by the forestry bureaus in issuing confirmations and, as reflected elsewhere in this report, the IC did not have visibility into or complete comfort regarding the methods by which those confirmations were obtained. It should be noted that several Suppliers observed that SF was more demanding than other buyers in requiring forestry bureau confirmations.

Book Value of Timber

Based on its review to date, the IC is satisfied that the book value of the BVIs timber assets of $2.476 billion reflected on its 2010 Financial Statements and of SP WFOE standing timber assets of $298.6 million reflected in its 2010 Financial Statements reflects the purchase prices for such assets as set out in the BVIs and WFOE standing timber purchase contracts reviewed by the IC Advisors. Further, the purchase prices for such BVIs timber assets have been reconciled to the Company's financial statements based on set-off documentation relating to such contracts that were reviewed by the IC. However, ***these comments are also***

subject to the conclusions set out above under "Timber Ownership" on title and other rights to plantation assets.

The IC Advisors reviewed documentation acknowledging the execution of the set-off arrangements between Suppliers, the Company and AIs for the 2006-2010 period. ***However, the IC Advisors were unable to review any documentation of AIs or Suppliers which independently verified movements of cash in connection with such set-off arrangements between Suppliers, the Company and the AIs used to settle purchase prices paid to Suppliers by AIs on behalf of SF***. We note also that the independent valuation referred to in Part VIII below has not yet been completed.

Revenue Reconciliation

As reported in its First Interim Report, the IC has reconciled reported 2010 total revenue to the sales prices in BVIs timber sales contracts, together with macro customer level data from other businesses. However, ***the IC was unable to review any documentation of AIs or Suppliers which independently verified movements of cash in connection with set-off arrangements used to settle purchase prices paid, or sale proceeds received by, or on behalf of SF.***

Relationships

• Yuda Wood: The IC is satisfied that Mr. Huang Ran is not currently an employee of the Company and that Yuda Wood is not a subsidiary of the Company. However, ***there is evidence suggesting close cooperation (including administrative assistance, possible payment of capital at the time of establishment, joint control of certain of Yuda Wood's RMB bank accounts and the numerous emails indicating coordination of funding and other business activities).*** Management has explained these arrangements were mechanisms that allowed the Company to monitor its interest in the timber transactions. Further, ***Huang Ran (a Yuda Wood employee) has an ownership and/or directorship in a number of Suppliers*** (See Section VI.B). The IC Advisors have been introduced to persons identified as influential backers of Yuda Wood but were unable to determine the relationships, if any, of such persons with Yuda Wood, the Company or other Suppliers or AIs. ***Management explanations of a number of Yuda Wood-related emails and answers to E&Y's questions are being reviewed by the IC and may not be capable of independent verification***.

• Other: The IC's review has identified other situations which require further review. ***These situations suggest that the Company may have close relationships with certain Suppliers, and certain Suppliers and AIs may have cross-ownership and other relationships with each other***. The IC notes that in the interviews conducted by the IC with selected AIs and Suppliers, all such parties represented that they were independent of SF. Management has very recently provided information and analysis intended to explain these situations. The IC is reviewing this material from Management and intends to report its findings in this

regard in its final report to the Board. Some of such information and explanations may not be capable of independent verification.

• Accounting Considerations: ***To the extent that any of SF's purchase and sale transactions are with related parties for accounting purposes, the value of these transactions as recorded on the books and records of the Company may be impacted.***

[...]

BVI Structure

The BVI structure used by SF to purchase and sell standing timber assets could be challenged by the relevant Chinese authorities as the undertaking of "business activities" within China by foreign companies, which may only be undertaken by entities established within China with the requisite approvals. However, there is no clear definition of what constitutes "business activities" under Chinese law and there are different views among the IC's Chinese counsel and the Company's Chinese counsel as to whether the purchase and sale of timber in China as undertaken by the BVIs could be considered to constitute "business activities" within China. In the event that the relevant Chinese authorities consider the BVIs to be undertaking "business activities" within China, they may be required to cease such activities and could be subject to other regulatory action. As regularization of foreign businesses in China is an ongoing process, the government has in the past tended to allow foreign companies time to restructure their operations in accordance with regulatory requirements (the cost of which is uncertain), rather than enforcing the laws strictly and imposing penalties without notice. See Section II.B.2

C. Challenges

Throughout its process, the IC has encountered numerous challenges in its attempts to implement a robust independent process which would yield reliable results. Among those challenges are the following:

(a) Chinese Legal Regime for Forestry:

• national laws and policies appear not yet to be implemented at all local levels;

• in practice, none of the local jurisdictions tested in which BVIs hold standing timber appears to have instituted a government registry and documentation system for the ownership of standing timber as distinct from a government registry system for the ownership of plantation land use rights;

• the registration of plantation land use rights, the issue of Plantation Rights Certificates and the establishment of registries, is incomplete in some jurisdictions based on the information available to the IC;

• as a result, ***title to standing timber, when not held in conjunction with a land use right, cannot be definitively proven by reference to a government maintained register***; and

• Sino-Forest has requested confirmations from forestry bureaus of its acquisition of timber holdings (excluding land leases) as additional evidence of ownership. Certain forestry bureaus and Suppliers have indicated the confirmation was beyond the typical diligence practice in China for acquisition of timber holdings.

(b) Obtaining Information from Third Parties: For a variety of reasons, all of them outside the control of the IC, it is very difficult to obtain information from third parties in China. These reasons include the following:

• ***many of the third parties from whom the IC wanted information (e.g., AIs, Suppliers and forestry bureaus) are not compellable by the Company or Canadian legal processes***;

• third parties appeared to have concerns relating to disclosure of information regarding their operations that could become public or fall into the hands of Chinese government authorities: ***many third parties explained their reluctance to provide requested documentation and information as being "for tax reasons" but declined to elaborate***; and

• awareness of MW allegations, investigations and information gathering by the OSC and other parties, and court proceedings; while not often explicitly articulated, third parties had an awareness of the controversy surrounding SF and a reluctance to be associated with any of these allegations or drawn into any of these processes.

[...]

(e) Corporate Governance/Operational Weaknesses: ***Management has asserted that business in China is based upon relationships.*** The IC and the IC Advisors have observed this through their efforts to obtain meetings with forestry bureaus, Suppliers and AIs and their other experience in China. The importance of relationships appears to have resulted in dependence on a relatively small group of Management who are integral to maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority or lack of segregation of duties has been previously disclosed by the Company as a control weakness. As a result and as disclosed in the 2010 MD&A, senior Management in their ongoing evaluation of disclosure controls and procedures and internal controls over financial reporting, recognizing the disclosed weakness, determined that the design and controls were ineffective. The Chairman and Chief Financial Officer provided annual and quarterly certifications of their regulatory filings. Related to this weakness the following challenges presented themselves in the examination by the IC and the IC Advisors:

• operational and administration systems that are generally not sophisticated having regard to the size and complexity of the Company's business and in relation to North American practices; including:

- ***incomplete or inadequate record creation and retention practices;***

- contracts not maintained in a central location;

- significant volumes of data maintained across multiple locations on decentralized servers;

- ***data on some servers in China appearing to have been deleted on an irregular basis, and there is no back-up system;***

- no integrated accounting system: accounting data is not maintained on a single, consolidated application, which can require extensive manual procedures to produce reports; and

- a treasury function that was centralized for certain major financial accounts, but was not actively involved in the control or management of numerous local operations bank accounts;

• ***no internal audit function*** although there is evidence the Company has undertaken and continues to assess its disclosure controls and procedures and internal controls over financial reporting using senior Management and independent control consultants;

• ***SF employees conduct Company affairs from time to time using personal devices and non-corporate email addresses*** which have been observed to be shared across groups of staff and changed on a periodic and organized basis; this complicated and delayed the examination of email data by the IC Advisors; and

• lack of full cooperation/openness in the ICs examination from certain members of Management.

(f) Complexity, Lack of Visibility into, and Limitations of BVIs Model: ***The use of AIs and Suppliers as an essential feature of the BVIs standing timber business model contributes to the lack of visibility into title documentation, cash movements and tax liability since cash settlement in respect of the BVIs standing timber transactions takes place outside of the Company's books.***

(g) Cooperation and openness of the Company's executives throughout the process: From the outset, the IC Advisors sought the full cooperation and support of Allen Chan and the executive management team. Initially, the executive management team appeared ill-prepared to address the IC's concerns in an organized fashion and there was perhaps a degree of culture shock as Management adjusted to the IC Advisors' examination. ***In any event, significant amounts of material information, particularly with respect to the relationship***

with Yuda Wood, interrelationships between AIs and/or Suppliers, were not provided to the IC Advisors as requested. In late August 2011 on the instructions of the IC, interviews of Management were conducted by the IC Advisors in which documents evidencing these connections were put to the Management for explanation. As a result of these interviews (which were also attended by BJ) the Company placed certain members of Management on administrative leave upon the advice of Company counsel. At the same time the OSC made allegations in the CTO of Management misconduct.

[...]

(h) Independence of the IC Process: ***The cooperation and collaboration of the IC with Management (operating under the direction of the new Chief Executive Officer) and with Company counsel in completing certain aspects of the IC's mandate has been noted by the OSC and by E&Y. Both have questioned the degree of independence of the IC from Management as a result of this interaction.*** The IC has explained the practical impediments to its work in the context of the distinct business culture (and associated issues of privacy) in the forestry sector in China in which the Company operates. Cooperation of third parties in Hong Kong and China, including employees, depends heavily on relationships and trust. As noted above, the Company's placing certain members of Management on administrative leave, as well as the OSC's allegations in the CTO, further hampered the IC's ability to conduct its process. As a result, the work of the IC was frequently done with the assistance of, or in reliance on, the new Chief Executive Officer and his Management team and Company counsel. Given that Mr. Martin was, in effect, selected by the IC and BJ was appointed in late June 2011, the IC concluded that, while not ideal, this was a practical and appropriate way to proceed in the circumstances. As evidenced by the increased number of scheduled meetings with forestry bureaus, Suppliers and AIs, and, very recently, the delivery to the IC of information regarding AIs and Suppliers and relationships among the Company and such parties, it is acknowledged that Mr. Martin's involvement in the process has been beneficial. It is also acknowledged that in executing his role and assisting the IC he has had to rely on certain of the members of Management who had been placed on administrative leave.

[Emphasis added]

220. On January 31, 2012, Sino released the Final Report. In material part, it read:

This Final Report of the IC sets out the activities undertaken by the IC since mid-November, the findings from such activities and the IC's conclusions regarding its examination and review. The IC's activities during this period have been limited as a result of Canadian and Chinese holidays (Christmas, New Year and Chinese New Year) and the extensive involvement of IC members in the Company's Restructuring and Audit Committees, both of which are advised by different advisors than those retained by the IC. ***The IC believes that, notwithstanding there remain issues which have not been fully answered, the work of the IC is***

now at the point of diminishing returns because much of the information which it is seeking lies with non-compellable third parties, may not exist or is apparently not retrievable from the records of the Company.

In December 2011, the Company defaulted under the indentures relating to its outstanding bonds with the result that its resources are now more focused on dealing with its bondholders. This process is being overseen by the Restructuring Committee appointed by the Board. Pursuant to the Waiver Agreement dated January 18, 2012 between the Company and the holders of a majority of the principal amount of its 2014 Notes, the Company agreed, among other things, that the final report of the IC to the Board would be made public by January 31, 2012.

Given the circumstances described above, the IC understands that, with the delivery of this Final Report, its review and examination activities are terminated. the IC does not expect to undertake further work other than assisting with responses to regulators and the RCMP as required and engaging in such further specific activities as the IC may deem advisable or the Board may instruct. The IC has asked the IC Advisors to remain available to assist and advise the IC upon its instructions.

[...]

II. RELATIONSHIPS

The objectives of the IC's examination of the Company's relationships with its AIs and Suppliers were to determine, in light of the MW allegations, if such relationships are arm's length and to obtain, if possible, independent verification of the cash flows underlying the set-off transactions described in Section II.A of the Second Interim Report. ***That the Company's relationships with its AIs and Suppliers be arm's length is relevant to SF's ability under GAAP to:***

• ***book its timber assets at cost in its 2011 and prior years' financial statements, both audited and unaudited***

• ***recognize revenue from standing timber sales as currently reflected in its 2011 and prior years' financial statements, both audited and unaudited.***

A. Yuda Wood

Yuda Wood was founded in April 2006 and was until 2010 a Supplier of SF. Its business with SF from 2007 to 2010 totalled approximately 152,164 Ha and RMB 4.94 billion. Section VI.A and Schedule VI.A.2(a) of the Second Interim Report described the MW allegations relating to Yuda Wood, the review conducted by the IC and its findings to date. The IC concluded that Huang Ran is not currently an employee, and that Yuda Wood is not a subsidiary, of the Company. ***However, there is evidence suggesting a close cooperation between SF and Yuda Wood which the IC had asked Management to explain.*** At the time the Second Interim Report was issued, the IC was continuing to review Management's explanations

of a number of Yuda Wood-related emails and certain questions arising therefrom.

Subsequent to the issuance of its Second Interim Report in mid-November, the IC, with the assistance of the IC Advisors, has reviewed the Management responses provided to date relating to Yuda Wood and has sought further explanations and documentary support for such explanations. This was supplementary to the activities of the Audit Committee of SF and its advisors who have had during this period primary carriage of examining Management's responses on the interactions of SF and Yuda Wood. ***While many answers and explanations have been obtained, the IC believes that they are not yet sufficient to allow it to fully understand the nature and scope of the relationship between SF and Yuda Wood. Accordingly, based on the information it has obtained, the IC is still unable to independently verify that the relationship of Yuda Wood is at arm's length to SF.*** It is to be noted that Management is of the view that Yuda Wood is unrelated to SF for accounting purposes. The IC remains satisfied that Yuda is not a subsidiary of SF. Management continues to undertake work related to Yuda Wood, including seeking documentation from third parties and responding to e-mails where the responses are not yet complete or prepared. Management has provided certain banking records to the Audit Committee that the Audit Committee advises support Management's position that SF did not capitalize Yuda Wood (but that review is not yet completed). The IC anticipates that Management will continue to work with the Audit Committee, Company counsel and E&Y on these issues.

B. Other Relationships

Section VI.B.1 of the Second Interim Report described certain other relationships which had been identified in the course of the IC's preparation for certain interviews with AIs and Suppliers. ***These relationships include (i) thirteen Suppliers where former SF employees, consultants or secondees are or have been directors, officers and/or shareholders (including Yuda Wood); (ii) an AI with a former SF employee in a senior position; (iii) potential relationships between AIs and Suppliers; (iv) set-off payments for BVI standing timber purchases being made by companies that are not AIs and other setoff arrangements involving non-AI entities; (v) payments by AIs to potentially connected Suppliers; and (vi) sale of standing timber to an AI potentially connected to a Supplier of that timber. Unless expressly addressed herein, the IC has no further update of a material nature on the items raised above.***

On the instructions of the IC, the IC Advisors gave the details of these possible relationships to Management for further follow up and explanation. Just prior to the Second Interim Report, Management provided information regarding AIs and Suppliers relationships among the Company and such parties.

This information was in the form of a report dated November 10, 2011, subsequently updated on November 21, 2011 and January 20, 2012 (the latest

version being the "Kaitong Report") prepared by Kaitong Law Firm ("Kaitong"), a Chinese law firm which advises the Company. The Kaitong Report has been separately delivered to the Board. ***Kaitong has advised that much of the information in the Kaitong Report was provided by Management and has not been independently verified by such law firm or the IC.***

[...]

The Kaitong Report generally describes certain relationships amongst AIs and Suppliers and certain relationships between their personnel and Sino-Forest, either identified by Management or through SAIC and other searches. The Kaitong Report also specifically addresses certain relationships identified in the Second Interim Report. The four main areas of information in the Kaitong Report are as follows and are discussed in more detail below:

(i) Backers to Suppliers and AIs: The Kaitong Report explains the concept of "backers" to both Suppliers and AIs. The Kaitong Report suggests that backers are individuals with considerable influence in political, social or business circles, or all three. The Kaitong Report also states that such backers or their identified main business entities do not generally appear in SAIC filings by the Suppliers or AIs as shareholders thereof and, in most instances, in any other capacity.

(ii) ***Suppliers and AIs with Former SF Personnel: The appendices to the Kaitong Report list certain Suppliers that have former SF personnel as current shareholders.***

(iii) Common Shareholders Between Suppliers and AIs: The Kaitong Report states that there are 5 Suppliers and 3 AIs with current common shareholders but there is no cross majority ownership positions between Suppliers and AIs.

(iv) Transactions Involving Suppliers and AIs that have Shareholders in common: The Kaitong Report states that, where SF has had transactions with Suppliers and AIs that have certain current shareholders in common as noted above, the subject timber in those transactions is not the same; that is, the timber which SF buys from such Suppliers and the timber which SF sells to such AIs are located in different counties or provinces.

The IC Advisors have reviewed the Kaitong Report on behalf of the IC. The IC Advisors liaised with Kaitong and met with Kaitong and current and former Management. A description of the Kaitong Report and the IC's findings and comments are summarized below. By way of summary, the Kaitong Report provides considerable information regarding relationships among Suppliers and AIs, and between them and SF, but much of this information related to the relationship of each backer with the associated Suppliers and AIs is not supported by any documentary or other independent evidence. ***As such, some of the information provided is unverified and, particularly as it relates to the nature of the relationships with the backers, is viewed by the IC to be likely unverifiable by it.***

1. Backers to Suppliers and AIs

[...]

Given the general lack of information on the backers or the nature and scope of the relationships between the Suppliers or AIs and their respective backers and the absence of any documentary support or independent evidence of such relationships, the IC has been unable to reach any conclusion as to the existence, nature or importance of such relationships. ***As a result, the IC is unable to assess the implications, if any, of these backers with respect to SF's relationships with its Suppliers or AIs. Based on its experience to date, including interviews with Suppliers and AIs involving persons who have now been identified as backers in the Kaitong Report, the IC believes that it would be very difficult for the IC Advisors to arrange interviews with either the AIs or Suppliers or their respective backers and, if arranged, that such interviews would yield very little, if any, verifiable information to such advisors***. The IC understands Management is continuing to seek meetings with its AIs and Suppliers with the objective of obtaining information, to the extent such is available, that will provide further background to the relationships to the Audit Committee.

[...]

2. Suppliers and AIs with Former SF Personnel

The Appendices to the Kaitong Report list the Suppliers with former SF personnel as current shareholders. According to the information previously obtained by the IC Advisors, the identification of former SF personnel indicated in the Kaitong Report to be current shareholders of past or current Suppliers is correct.

(a) Suppliers with former SF personnel

The Kaitong Report, which is limited to examining Suppliers where ex-SF employees are current shareholders as shown in SAIC filings, does not provide material new information concerning Suppliers where former SF employees were identified by the IC in the Second Interim Report as having various past or present connections to current or former Suppliers except that the Kaitong Report provides an explanation of two transactions identified in the Second Interim Report. These involved purchases of standing timber by SF from Suppliers controlled by persons who were employees of SF at the time of these transactions. Neither of the Suppliers have been related to an identified backer in the Kaitong Report. The explanations are similar indicating that neither of the SF employees was an officer in charge of plantation purchases or one of SF's senior management at the time of the transactions. The employees in question were Shareholder #14 in relation to a RMB 49 million purchase from Supplier #18 in December 2007 (shown in SAIC filings to be 100% owned by him) and Shareholder #20 in relation to a RMB 3.3 million purchase from Supplier #23 (shown in SAIC filings to be 70% owned by him) in October 2007. ***The Kaitong***

Report indicates Shareholder #20 is a current employee of SF who then had responsibilities in SF's wood board production business.

The IC is not aware that the employees' ownership positions were brought to the attention of the Board at the time of the transactions or, subsequently, until the publication of the Second Interim Report and understands the Audit Committee will consider such information.

(b) AIs with former SF personnel

The Kaitong Report indicates that no SF employees are listed in SAIC filing reports as current shareholders of AIs. Except as noted herein, the IC agrees with this statement. The Kaitong Report does not address the apparent role of an ex-employee Officer #3 who was introduced to the IC as the person in charge of AI #2 by Backer #5 of AI Conglomerate #1. Backer #5 is identified in the Kaitong Report as a backer of two AIs, including AI#2. (The Kaitong Report properly does not include AI #14. as an AI for this purpose, whose 100% shareholder is former SF employee Officer #3. However, the IC is satisfied that the activities of this entity primarily relate to certain onshoring transactions that facilitated the transfer of SF BVI timber assets to SF WFOE subsidiaries.)

There was one other instance where a past shareholding relationship has been identified between an AI #10 and persons who were previously or are still shown on the SF human resources records, Shareholder #26 and Shareholder #27. Management has explained that such entity sold wood board processing and other assets to SF and that the persons associated with that company consulted with SF after such sale in relation to the purchased wood board processing assets. ***Such entity subsequently also undertook material timber purchases as an AI of SF in 2007-2008 over a time period in which such persons are shown as shareholders of such AI in the SAIC filing reviewed (as to 47.5% for Shareholder #26 and as to 52.5% for Shareholder #27). That time period also intersects the time that Shareholder #26 is shown in such human resources records and partially intersects the time that Shareholder #27 is shown on such records. Management has also explained that Shareholder #26 subsequent to the time of such AI sales became an employee of a SF wood board processing subsidiary. Management has provided certain documentary evidence of its explanations. The IC understands that the Audit Committee will consider this matter.***

3. Common Shareholders between Supplier and AIs

The Kaitong Report states that there are 5 Suppliers and 3 AIs that respectively have certain common current shareholders but also states that there is no cross control by those current shareholders of such Suppliers or AIs based on SAIC filings. The Kaitong Report correctly addresses current cross shareholdings in Suppliers and AIs based on SAIC filings but does not address certain other shareholdings. With the exception of one situation of cross control in the past, the IC has not identified a circumstance in the SAIC filings reviewed where the same

person controlled a Supplier at the time it controlled a different AI. ***The one exception is that from April 2002 to February 2006, AI #13 is shown in SAIC filings as the 90% shareholder of Supplier/AI #14. AI #13 did business with SF BVIs from 2005 through 2007 and Supplier/AI #14 supplied SF BVIs from 2004 through 2006. However, the IC to date has only identified one contract involving timber bought from Supplier/AI #14 that was subsequently sold to AI #13. It involved a parcel of 2,379 Ha. timber sold to AI #13 in December 2005 that originated from a larger timber purchase contract with Supplier/AI #14 earlier that year. Management has provided an explanation for this transaction. The IC understands that the Audit Committee will consider this matter.***

4. Transactions involving Suppliers and AIs with Current Shareholders in Common

The Kaitong Report states that where SF has had transactions with 5 Suppliers and 3 AIs that have current shareholders in common (but no one controlling shareholder) as shown in SAIC filings, the subject timber in the transactions they each undertook with SF is not the same; that is, the timber which SF buys from the Suppliers and the timber which SF sells to the AIs where the Supplier and AI have a current common shareholder were located in different areas and do not involve the same plots of timber. The Kaitong Report further states that where SF has had transactions with 5 Suppliers and 3 AIs with current shareholders in common as shown in SAIC filings, SF had transactions with those AIs prior to having transactions with those Suppliers, thus SF was not overstating its transactions by buying and selling to the same counterparties.

[...]

The Kaitong Report does not specifically address historical situations involving common shareholders and potential other interconnections between AIs and Suppliers that may appear as a result of the identification of backers. There is generally no ownership connection shown in SAIC filings between backers and the Suppliers and AIs associated with such backers in the Kaitong Report.

[...]

VI. OUTSTANDING MATTERS

As noted in Section I above, the IC understands that with the delivery of this report, its examination and review activities are terminated. The IC would expect its next steps may include only:

(a) assisting in responses to regulators and RCMP as required; and

(b) such other specific activities as it may deem advisable or the Board may instruct.

[Emphasis added]

IX. SINO REWARDS ITS EXPERTS

221. Bowland, Hyde and West are former E&Y partners and employees. They served on Sino's Audit Committee but purported to exercise oversight of their former E&Y colleagues. In addition, Sino's Vice-President, Finance (Corporate), Thomas M. Maradin, is a former E&Y employee.

222. The charter of Sino's Audit Committee required that Ardell, Bowland, Hyde and West "review and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the Auditor." Sino's practice of appointing E&Y personnel to its board – and paying them handsomely (for example, Hyde was paid $163,623 by Sino in 2010, $115,962 in 2009, $57,000 in 2008 and $55,875 in 2007, plus options and other compensation) – undermined the Audit Committee's oversight of E&Y.

223. E&Y's independence was impaired by the significant non-audit fees it was paid during 2008-2010, which total $712,000 in 2008, $1,225,000 in 2009 and $992,000 in 2010.

~~224. Further, Andrew Fyfe, the former Asia-Pacific President for Pöyry Forestry Industry Ltd, was appointed Chief Operating Officer of Greenheart, and is the director of several Sino subsidiaries. Fyfe signed the Pöyry valuation report dated June 30, 2004, March 22, 2005, March 23, 2006, March 14, 2008 and April 1, 2009.~~

225. George Ho, Sino's Vice President, Finance (China), is a former Senior Manager of the BDO.

X. THE DEFENDANTS' RELATIONSHIP TO THE CLASS

226. By virtue of their purported accounting, financial and/or managerial acumen and qualifications, and by virtue of their having assumed, voluntarily and for profit, the role of gatekeepers, the Defendants had a duty at common law, informed by the Securities Legislation and/or the *CBCA*, to exercise care and diligence to ensure that the Impugned Documents fairly and accurately disclosed Sino's financial condition and performance in accordance with GAAP.

227. Sino is a reporting issuer and had an obligation to make timely, full, true and accurate disclosure of material facts and changes with respect to its business and affairs.

228. The Individual Defendants, by virtue of their positions as senior officers and/or directors of Sino, owed a duty to the Class Members to ensure that public statements on behalf of Sino were not untrue, inaccurate or misleading. The continuous disclosure requirements in Canadian securities law mandated that Sino provide the Impugned Documents, including quarterly and annual financial statements. These documents were meant to be read by Class Members who acquired Sino's Securities in the secondary market and to be relied on by them in making investment decisions. This public disclosure was prepared to attract investment, and Sino and the Individual Defendants intended that Class Members would rely on public disclosure for that purpose. With respect to Prospectuses and Offering Memoranda, these documents were prepared for primary market purchasers. They include detailed content as mandated under Canadian securities legislation, national instruments and OSC rules. They were meant to be read by the Class Members who acquired Sino's Securities in the primary market, and to be relied on by them in making decisions about whether to purchase the shares or notes under the Offerings to which these Prospectuses and Offering Memoranda related.

229. Chan and Horsley had statutory obligations under Canadian securities law to ensure the accuracy of disclosure documents and provided certifications in respect of the annual reports, financial statements and Prospectuses during the Class Period. The other Individual Defendants were directors of Sino during the Class Period and each had a statutory obligation as a director under the *CBCA* to manage or supervise the management of the business and affairs of Sino. These Individual Defendants also owed a statutory duty of care to shareholders under section 122 of the *CBCA*. In addition, Poon, along with Chan, co-founded Sino and has been its president since 1994. He is intimately aware of Sino's operations and as a long-standing senior officer, he had an obligation to ensure proper disclosure. Poon authorized, permitted or acquiesced in the release of the Impugned Documents.

230. BDO and E&Y acted as Sino's auditors and provided audit reports in Sino's annual financial statements that were directed to shareholders. These audit reports specified that BDO and E&Y had conducted an audit in accordance with GAAS, which was untrue, and included their opinions that the financial statements presented fairly, in all material respects, the financial position of Sino, the results of operations and Sino's cash flows, in accordance with GAAP. BDO and E&Y knew and intended that Class Members would rely on the audit reports and assurances about the material accuracy of the financial statements.

231. Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD each signed one or more of the Prospectuses and certified that, to the best of its knowledge, information and belief, the particular prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby. These defendants knew that the Class Members who acquired Sino's Securities in the primary market would rely on these assurances and the trustworthiness that

would be credited to the Prospectuses because of their involvement. Further, those Class Members that purchased shares under these Prospectuses purchased their shares from these defendants as principals.

232. Credit Suisse USA, TD and Banc of America acted as initial purchasers or dealer managers for one or more of the note Offerings. These defendants knew that persons purchasing these notes would rely on the trustworthiness that would be credited to the Offering Memoranda because of their involvement. Further, Credit Suisse USA, TD and Banc of America had unique and specialized experience in respect of the note Offerings in which they were involved, in contrast to the Class Members. Credit Suisse USA, TD and Banc of America had access to and reviewed non-public information from Sino and they in fact conducted purported due diligence for these Offerings, albeit insufficient due diligence. These defendants expected the ultimate purchasers to rely on the Offering Memoranda.

233. Banc of America, TD, and Credit Suisse USA sold or exchanged the Notes as part of the distributions to Class Members who were not qualified to purchase the Notes as part of a private offering. Credit Suisse USA, TD and Banc of America had a direct or indirect relationship with the Class Members, who were the ultimate purchasers of the Notes, including Grant and DSA. Credit Suisse USA, TD and Banc of America sold Notes directly to some Class Members and had a client relationship with some Class Members. Credit Suisse USA, TD and Banc of America sold Notes to other Class Members, including DSA, through agents controlled by and authorized to act on behalf of Credit Suisse USA, TD and Banc of America. For other Class Members, Credit Suisse USA, TD and Banc of America sold indirectly to the Class Members through other investment dealers who were agents of Credit Suisse USA, TD and Banc of America. Credit Suisse USA, TD and Banc of America made arrangements with these

investment dealers, such that these dealers would purchase the Notes from Credit Suisse USA, TD and Banc of America and those dealers would within hours or days resell the Notes to the ultimate purchasers, including Grant. The entire chain of transactions constituted a distribution under Securities Legislation and under United States securities legislation and it was well within Credit Suisse USA, TD and Banc of America's contemplation – and it was their expectation – that the Notes would be distributed to others, including the Class Members who were not accredited investors or who otherwise were not entitled to purchase the Notes in accordance with the Securities Legislation and under U.S. securities legislation. Credit Suisse USA, TD and Banc of America actively solicited investors to purchase the Notes. They did so directly by contacting Class Members to purchase the Notes or through other investment dealers who directly contacted Class Members, including Grant, to recommend they purchase the Notes. Furthermore, Banc of America, TD, and Credit Suisse USA sold the Notes to investment dealers and other similar institutions with the expectation that these entities would transfer the Notes to others as part of the distributions, but they failed to take adequate and reasonable steps to ensure that the Notes would not be sold to Class Members who were not qualified to purchase the Notes.

XI. THE PLAINTIFFS' CAUSES OF ACTION

A. *Negligent Misrepresentation*

234. As against all Defendants except ~~Pöyry and~~ the Underwriters, and on behalf of all Class Members who acquired Sino's Securities in the secondary market, the Plaintiffs plead negligent misrepresentation for all of the Impugned Documents except the Offering Memoranda.

235. Labourers, DSA and Wong, on behalf of Class Members who purchased Sino Securities in one of the distributions to which a Prospectus related, plead negligent misrepresentation as against Sino, Chan, Horsley, Poon, Wang, Martin, Mak, Murray, Hyde, BDO, E&Y, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD for the Prospectuses.

236. Grant and DSA, on behalf of Class Members who purchased Sino Securities in one of the distributions to which an Offering Memorandum related, plead~~s~~ negligent misrepresentation as against Sino, BDO and E&Y for the Offering Memoranda.

237. In support of these claims, the sole misrepresentation that the Plaintiffs plead is the Representation. The Representation is contained in the language relating to GAAP particularized above, and was untrue for the reasons particularized elsewhere herein.

238. The Impugned Documents were prepared for the purpose of attracting investment and inducing members of the investing public to purchase Sino securities. The Defendants knew and intended at all material times that those documents had been prepared for that purpose, and that the Class Members would rely reasonably and to their detriment upon such documents in making the decision to purchase Sino securities.

239. The Defendants further knew and intended that the information contained in the Impugned Documents would be incorporated into the price of Sino's publicly traded securities such that the trading price of those securities would at all times reflect the information contained in the Impugned Documents.

240. As set out elsewhere herein, the Defendants ~~other than Pöyry, Credit Suisse USA and Banc of America,~~ had a duty at common law to exercise care and diligence to ensure that the Impugned Documents fairly and accurately disclosed Sino's financial condition and performance in accordance with GAAP.

241. These Defendants breached that duty by making the Representation as particularized above.

242. The Plaintiffs and the other Class Members directly or indirectly relied upon the Representation in making a decision to purchase the securities of Sino, and suffered damages when the falsity of the Representation was revealed on June 2, 2011. The Plaintiffs and other Class Members relied on the defendants' obligation to make timely disclosure of all material facts, to comply with securities law and to prepare quarterly and annual reports in accordance with generally accepted accounting principles. The defendants violated these obligations.

243. The Labourers and the Operating Engineers retained the services of professional investment managers for the purposes of providing professional investment services, including, but not limited to, purchasing, acquiring and managing investments on their behalf. As agents, these investment managers invested in Sino shares relying on the Representation in the Impugned Documents. They reviewed Sino's public disclosure and relied on the Representation.

244. DSA and Wong also invested in Sino shares relying on the Representation in the Impugned Documents. They reviewed Sino's public disclosure and relied on the Representation.

245. Grant retained the services of an investment advisor for the purposes of providing investment services on his behalf. As agent, Grant's investment advisor invested in Sino notes relying on the Representation in the October 2010 Offering Memorandum and the documents incorporated by reference. He reviewed these documents and relied on the Representation.

246. Alternatively, the Plaintiffs and the other Class Members relied upon the Representation by the act of purchasing Sino securities in an efficient market that promptly incorporated into the price of those securities all publicly available material information regarding the securities of Sino. As a result, the repeated publication of the Representation in these Impugned Documents caused the price of Sino's shares to trade at inflated prices during the Class Period, thus directly resulting in damage to the Plaintiffs and Class Members.

247. The Plaintiffs relied upon the Representation to their detriment, resulting in damages to the Plaintiffs and other class members.

B. *Statutory Claims, Negligence, ~~Oppression,~~ Unjust Enrichment and Conspiracy*

(i) Statutory Liability– Secondary Market under the Securities Legislation

248. The Plaintiffs plead the claim found in Part XXIII.1 of the *OSA*, and, if required, the equivalent sections of the Securities Legislation other than the *OSA*, against all Defendants except the Underwriters. For greater clarity, the Plaintiffs plead the claim found in Part XXIII.1 of the *OSA* in respect of all of Sino's Securities that traded in the secondary market during the Class Period, including Sino's common shares and the Notes.

249. Each of the Impugned Documents except for the December 2009 and October 2010 Offering Memoranda is a "Core Document" within the meaning of the Securities Legislation.

250. Each of these Impugned Documents contained one or more misrepresentations as particularized above. Such misrepresentations and the Representation are misrepresentations for the purposes of the Securities Legislation.

251. Each of the Individual Defendants was an officer and/or director of Sino at material times. Each of the Individual Defendants authorized, permitted or acquiesced in the release of some or all of these Impugned Documents.

252. Sino is a reporting issuer within the meaning of the Securities Legislation.

253. E&Y is an expert within the meaning of the Securities Legislation. E&Y consented to the use of its statements particularized above in these Impugned Documents.

254. BDO is an expert within the meaning of the Securities Legislation. BDO consented to the use of its statements particularize above in these Impugned Documents.

~~255. Pöyry is an expert within the meaning of the Securities Legislation. Pöyry consented to the use of its statements particularized above in these Impugned Documents.~~

256. At all material times, each of Sino, Chan, Poon, ~~and~~ Horsley, BDO and E&Y knew or, in the alternative, was wilfully blind to the fact, that the Impugned Documents contained the Representation and that the Representation was false, and that the Impugned Documents contained other of the misrepresentations that are alleged above to have been contained therein.

(ii) Statutory Liability – Primary Market for Sino's Shares under the Securities Legislation

257. As against Sino, Chan, Horsley, Wang, Martin, Mak, Murray, Hyde, ~~Pöyry,~~ BDO, E&Y, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD, and on behalf of those Class Members who purchased Sino shares in one of the distributions to which the June 2009 or December 2009 Prospectuses related, Labourers, ~~and~~ Wong and DSA assert the ~~cause~~ right of action set forth in s. 130 of the *OSA* and, if necessary, the equivalent provisions of the Securities Legislation other than the *OSA*.

258. Sino issued the June 2009 and December 2009 Prospectuses, which contained the Representation and the other misrepresentations that are alleged above to have been contained in those Prospectuses or in the Sino disclosure documents incorporated therein by reference.

(iii) Statutory Liability – Primary Market for Sino's Notes under the Securities Legislation

259. As against Sino, and on behalf of those Class Members who purchased or otherwise acquired Sino's ~~n~~Notes in one of the offerings to which the July 2008, June 2009, December 2009, and October 2010 Offering Memoranda related, Grant and DSA assert~~s~~ the ~~cause~~ right of action set forth in s. 130.1 of the *OSA* and, if necessary, the equivalent provisions of the Securities Legislation other than the *OSA*.

260. Sino issued the July 2008, June 2009, December 2009 and October 2010 Offering Memoranda, which contained the Representation and the other misrepresentations that are alleged above to have been contained in those Offering Memoranda or in the Sino disclosure documents incorporated therein by reference.

261. The Individual Defendants, other than Bowland and West, were directors and/or officers of Sino at the time one or more of the Offering Memoranda were issued.

262. BDO is an expert of Sino, and its opinions, containing one or more misrepresentations, appeared with its consent in the July 2008, July 2009 and December 2009 Offering Memoranda.

263. E&Y is an expert of Sino, and its opinions, containing one or more misrepresentations, appeared with its consent in the July 2008, June 2009, December 2009 and October 2010 Offering Memoranda.

264. Credit Suisse USA acted as a dealer/underwriter in the offering of Sino's Notes to which the July 2008, June 2009, December 2009 and October 2010 Offering Memoranda related.

265. Banc of America acted as a dealer/underwriter in the offering to which the October 2010 Offering Memorandum related.

266. TD acted as a dealer/underwriter in the offering to which the December 2009 Offering Memorandum related.

(iv) Negligence Simpliciter – Primary Market for Sino's Securities

267. Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, BDO, E&Y, ~~Pöyry~~ and the Underwriters (collectively, the "**Primary Market Defendants**") acted negligently in connection with one or more of the Offerings.

268. As against Sino, Chan, Horsley, Poon, Wang, Martin, Mak, Murray, Hyde, BDO, E&Y, ~~Pöyry,~~ Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD, and on behalf of those Class Members who purchased Sino's Securities in one of the distributions to which ~~those~~ the Prospectuses related, Labourers, DSA and Wong assert negligence simpliciter.

269. As against Sino, BDO, E&Y, ~~Pöyry,~~ Credit Suisse USA, Banc of America and TD, and on behalf of those Class Members who purchased Sino's ~~Securities~~ Notes in one of the distributions to which the Offering Memoranda related, Grant and DSA assert~~s~~ negligence simpliciter.

270. In the alternative, as against Sino, BDO, E&Y, ~~Pöyry,~~ Credit Suisse USA, Banc of America and TD, and on behalf of those Class Members who purchased Sino's Notes in one of the distributions to which the Offering Memoranda related, Grant and DSA assert these defendants are liable for the false or misleading statements and omissions in the Offering Memoranda in negligent misrepresentation under the common law of the State of New York or in the further alternative pursuant to section 12(a)(2) of the United States *Securities Act of 1933*.

271. To state a claim for negligent misrepresentation under the common law of the State of New York, a plaintiff must allege (1) a special relationship (which exists as to defendants who possess unique or specialized expertise, or who are in a special position of confidence and trust with the injured party) that creates a duty to exercise reasonable care toward the plaintiff (2) the transmittal of false information; and (3) justifiable, detrimental reliance on the false information.

272. Section 12(a)(2) states:

> (a) In general
>
> Any person who—

> (2) offers or sells a security (whether or not exempted by the provisions of section 77c of this title, other than paragraphs (2) and (14) of subsection (a) of said section), by the use of any means or instruments of transportation or communication in interstate commerce or of the mails, by means of a prospectus or oral communication, which includes an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading (the purchaser not knowing of such untruth or omission), and who shall not sustain the burden of proof that he did not know, and in the exercise of reasonable care could not have known, of such untruth or omission,
>
> shall be liable, subject to subsection (b) of this section, to the person purchasing such security from him, who may sue either at law or in equity in any court of competent jurisdiction, to recover the consideration paid for such security with interest thereon, less the amount of any income received thereon, upon the tender of such security, or for damages if he no longer owns the security.

273. To state a claim under Section 12(a)(2) of the United States *Securities Act of 1933*, a plaintiff must allege that the defendant (1) sold or offered the sale of a security; (2) by the use of any means of communication in interstate commerce; (3) through a prospectus or oral communication that contained a material misstatement or omission; and (4) that the plaintiff is entitled to rescission or damages. "Prospectus" means "any prospectus, notice, circular, advertisement, letter or communication, written or by radio or television, which offers any security for sale or confirms the sale of security..."

274. These defendants were in a special relationship with Grant, DSA and the Class Members and failed to make a reasonable and diligent investigation of the statements in the Offering Memoranda to ensure that the statements were true and correct and there were no omissions of material facts required to be stated in order to make the statements not misleading. The Class Members who purchased Sino's Notes in one of the distributions to which the Offering Memoranda related suffered losses and are entitled to damages in accordance with the common law of the State of New York or under section 12 of the *Securities Act of 1933*. Grant, DSA and

these Class Members obtained these Notes without knowledge of the facts concerning the misstatements or omissions. These Defendants are jointly and severally liable.

275. The Primary Market Defendants owed a duty of care to ensure that the Prospectuses and/or the Offering Memoranda they issued, or authorized to be issued, or in respect of which they acted as an underwriter, initial purchaser or dealer manager, made full, true and plain disclosure of all material facts relating to the Securities offered thereby, or to ensure that their opinions or reports contained in such Prospectuses and Offering Memoranda did not contain a misrepresentation.

276. At all times material to the matters complained of herein, the Primary Market Defendants ought to have known that such Prospectuses or Offering Memoranda and the documents incorporated therein by reference were materially misleading in that they contained the Representation and the other misrepresentations particularized above.

277. Chan, Poon, Horsley, Wang, Martin, Mak, Murray and Hyde were senior officers and/or directors at the time the Offerings to which the Prospectuses related. These Prospectuses were created for the purposes of obtaining financing for Sino's operations. Chan, Horsley, Martin and Hyde signed each of the Prospectuses and certified that they made full, true and plain disclosure of all material facts relating to the shares offered. Wang, Mak and Murray were directors during one or more of these Offerings and each had a statutory obligation to manage or supervise the management of the business and affairs of Sino. Poon was a director for the June 2007 share Offering and was president of Sino at the time of the June 2009 and December 2009 Offering. Poon, along with Chan, co-founded Sino and has been the president since 1994. He is intimately aware of Sino's business and affairs.

278. The Underwriters acted as underwriters, initial purchasers or dealer managers for the Offerings to which the Prospectuses and Offering Memoranda related. They had an obligation to conduct due diligence in respect of those Offerings and ensure that those Securities were offering at a price that reflected their true value or that such distributions did not proceed if inappropriate. In addition, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD signed one or more of the Prospectuses and certified that to the best of their knowledge, information and belief, the Prospectuses constituted full, true and plain disclosure of all material facts relating to the shares offered.

279. E&Y and BDO acted as Sino's auditors and had a duty to maintain or to ensure that Sino maintained appropriate internal controls to ensure that Sino's disclosure documents adequately and fairly presented the business and affairs of Sino on a timely basis.

~~280. Pöyry had a duty to ensure that its opinions and reports reflected the true nature and value of Sino's assets. Pöyry, at the time it produced each of the 2008 Valuations, 2009 Valuations, and 2010 Valuations, specifically consented to the inclusion of those valuations or a summary at any time that Sino or its subsidiaries filed any documents on SEDAR or issued any documents pursuant to which any securities of Sino or any subsidiary were offered for sale.~~

281. The Primary Market Defendants have violated their duties to those Class Members who purchased Sino's Securities in the distributions to which a Prospectus or an Offering Memorandum related.

282. The reasonable standard of care expected in the circumstances required the Primary Market Defendants to prevent the distributions to which the Prospectuses or the Offering Memoranda related from occurring prior to the correction of the Representation and the other misrepresentations alleged above to have been contained in the Prospectuses or the Offering

Memoranda, or in the documents incorporated therein by reference. Those Defendants failed to meet the standard of care required by causing the Offerings to occur before the correction of such misrepresentations.

283. In addition, by failing to attend and participate in Sino board and board committee meetings to a reasonable degree, Murray and Poon effectively abdicated their duties to the Class Members and as directors of Sino.

284. Sino, E&Y, BDO and the Individual Defendants further breached their duty of care as they failed to maintain or to ensure that Sino maintained appropriate internal controls to ensure that Sino's disclosure documents adequately and fairly presented the business and affairs of Sino on a timely basis.

285. Had the Primary Market Defendants exercised reasonable care and diligence in connection with the distributions to which the Prospectuses related, then securities regulators likely would not have issued a receipt for any of the Prospectuses, and those distributions would not have occurred, or would have occurred at prices that reflected the true value of Sino's shares.

286. Had the Primary Market Defendants exercised reasonable care and diligence in connection with the distributions to which the Offering Memoranda related, then those distributions would not have occurred, or would have occurred at prices that reflected the true value of Sino's notes.

287. The Primary Market Defendants' negligence in relation to the Prospectuses and the Offering Memoranda resulted in damage to Labourers, Grant, DSA and Wong, and to the other Class Members who purchased Sino's Securities in the related distributions. Had those Defendants satisfied their duty of care to such Class Members, then those Class Members would

not have purchased the Securities that they acquired under the Prospectuses or the Offering Memoranda, or they would have purchased them at a much lower price that reflected their true value.

(v) Unjust Enrichment of **Chan, Martin, Poon, Horsley, Mak and Murray**

288. As a result of the Representation and the other misrepresentations particularized above, Sino's shares traded, and were sold by Chan, Martin, Poon, Horsley, Mak and Murray, at artificially inflated prices during the Class Period.

289. Chan, Martin, Poon, Horsley, Mak and Murray were enriched by their wrongful acts and omissions during the Class Period, and the Class Members who purchased Sino shares from such Defendants suffered a corresponding deprivation.

290. There was no juristic reason for the resulting enrichment of Chan, Martin, Poon, Horsley, Mak and Murray.

291. The Class Members who purchased Sino shares from Chan, Martin, Poon, Horsley, Mak and Murray during the Class Period are entitled to the difference between the price they paid to such Defendants for such shares, and the price that they would have paid had the Defendants not made the Representation and the other misrepresentations particularized above, and had not committed the wrongful acts and omissions particularized above.

(vi) Unjust Enrichment of Sino

292. Throughout the Class Period, Sino made the Offerings. Such Offerings were made via various documents, particularized above, that contained the Representation and the misrepresentations particularized above.

293. The Securities sold by Sino via the Offerings were sold at artificially inflated prices as a result of the Representation and the others misrepresentations particularized above.

294. Sino was enriched by, and those Class Members who purchased the Securities via the Offerings were deprived of, an amount equivalent to the difference between the amount for which the Securities offered were actually sold, and the amount for which such securities would have been sold had the Offerings not included the Representation and the misrepresentations particularized above.

295. The Offerings violated Sino's disclosure obligations under the Securities Legislation and the various instruments promulgated by the securities regulators of the Provinces in which such Offerings were made. There was no juristic reason for the enrichment of Sino.

(vi) Unjust Enrichment of the Underwriters

296. Throughout the Class Period, Sino made the Offerings. Such Offerings were made via the Prospectuses and the Offering Memoranda, which contained the Representation and the other misrepresentations particularized above. Each of the Underwriters underwrote one or more of the Offerings.

297. The Securities sold by Sino via the Offerings were sold at artificially inflated prices as a result of the Representation and the other misrepresentations particularized above. The Underwriters earned fees from the Class, whether directly or indirectly, for work that they never performed, or that they performed with gross negligence, in connection with the Offerings, or some of them.

298. The Underwriters were enriched by, and those Class Members who purchased securities via the Offerings were deprived of, an amount equivalent to the fees the Underwriters earned in connection with the Offerings.

299. The Offerings violated Sino's disclosure obligations under the Securities Legislation and the various instruments promulgated by the securities regulators of the Provinces in which such Offerings were made. There was no juristic reason for the enrichment of the Underwriters.

300. In addition, some or all of the Underwriters also acted as brokers in secondary market transactions relating to Sino securities, and earned trading commissions from the Class Members in those secondary market transactions in Sino's Securities. Those Underwriters were enriched by, and those Class Members who purchased Sino securities through those Underwriters in their capacity as brokers were deprived of, an amount equivalent to the commissions the Underwriters earned on such secondary market trades.

301. Had those Underwriters who also acted as brokers in secondary market transactions exercised reasonable diligence in connection with the Offerings in which they acted as Underwriters, then Sino's securities likely would not have traded at all in the secondary market, and the Underwriters would not have been paid the aforesaid trading commissions by the Class Members. There was no juristic reason for that enrichment of those Underwriters through their receipt of trading commissions from the Class Members.

~~*(vii) Oppression*~~

~~302. The Plaintiffs and the other Class Members had a reasonable and legitimate expectation that Sino and the Individual Defendants would use their powers to direct the company for Sino's best interests and, in turn, in the interests of its security holders. More specifically, the Plaintiffs and the other Class Members had a reasonable expectation that:~~

~~(a) Sino and the Individual Defendants would comply with GAAP, and/or cause Sino to comply with GAAP;~~

~~(b) Sino and the Individual Defendants would take reasonable steps to ensure that the Class Members were made aware on a timely basis of material developments in Sino's business and affairs;~~

~~(c) Sino and the Individual Defendants would implement adequate corporate governance procedures and internal controls to ensure that Sino disclosed material facts and material changes in the company's business and affairs on a timely basis;~~

~~(d) Sino and the Individual Defendants would not make the misrepresentations particularized above;~~

~~(e) Sino stock options would not be backdated or otherwise mispriced; and~~

~~(f) the Individual Defendants would adhere to the Code.~~

~~303. Such reasonable expectations were not met as:~~

~~(a) Sino did not comply with GAAP;~~

~~(b) the Class Members were not made aware on a timely basis of material developments in Sino's business and affairs;~~

~~(c) Sino's corporate governance procedures and internal controls were inadequate;~~

~~(d) the misrepresentations particularized above were made;~~

~~(e) stock options were backdated and/or otherwise mispriced; and~~

~~(f) the Individual Defendants did not adhere to the Code.~~

~~304. Sino's and the Individual Defendants' conduct was oppressive and unfairly prejudicial to the Plaintiffs and the other Class Members and unfairly disregarded their interests. These defendants were charged with the operation of Sino for the benefit of all of its shareholders. The value of the shareholders' investments was based on, among other things:~~

~~(a) the profitability of Sino;~~

~~(b) the integrity of Sino's management and its ability to run the company in the interests of all shareholders;~~

~~(c) Sino's compliance with its disclosure obligations;~~

~~(d) Sino's ongoing representation that its corporate governance procedures met with reasonable standards, and that the business of the company was subjected to reasonable scrutiny; and~~

~~(e) Sino's ongoing representation that its affairs and financial reporting were being conducted in accordance with GAAP.~~

~~305. This oppressive conduct impaired the ability of the Plaintiffs and other Class Members to make informed investment decisions about Sino's securities. But for that conduct, the Plaintiffs and the other Class Members would not have suffered the damages alleged herein.~~

(vii) Conspiracy

306. Sino, Chan, Poon and Horsley conspired with each other and with persons unknown (collectively, the "**Conspirators**") to inflate the price of Sino's securities. During the Class Period, the Conspirators unlawfully, maliciously and lacking bona fides, agreed together to, among other things, make the Representation and other misrepresentations particularized above, and to profit from such misrepresentations by, among other things, issuing stock options in respect of which the strike price was impermissibly low.

307. The Conspirators' predominant purposes in so conspiring were to:

(a) inflate the price of Sino's securities, or alternatively, maintain an artificially high trading price for Sino's securities;

(b) artificially increase the value of the securities they held; and

(c) inflate the portion of their compensation that was dependent in whole or in part upon the performance of Sino and its securities.

308. In furtherance of the conspiracy, the following are some, but not all, of the acts carried out or caused to be carried out by the Conspirators:

(a) they agreed to, and did, make the Representation, which they knew was false;

(b) they agreed to, and did, make the other misrepresentations particularized above, which they knew were false;

(c) they caused Sino to issue the Impugned Documents which they knew to be materially misleading;

(d) as alleged more particularly below, they caused to be issued stock options in respect of which the strike price was impermissibly low; and

(e) they authorized the sale of securities pursuant to Prospectuses and Offering Memoranda that they knew to be materially false and misleading.

309. Stock options are a form of compensation used by companies to incentivize the performance of directors, officers and employees. Options are granted on a certain date (the 'grant date') at a certain price (the 'exercise' or 'strike' price). At some point in the future, typically following a vesting period, an options-holder may, by paying the strike price, exercise the option and convert the option into a share in the company. The option-holder will make money as long as the option's strike price is lower than the market price of the security at the moment that the option is exercised. This enhances the incentive of the option recipient to work to raise the stock price of the company.

310. There are three types of option grants:

(a) ‘in-the-money’ grants are options granted where the strike price is lower than the market price of the security on the date of the grant; such options are not permissible under the TSX Rules and have been prohibited by the TSX Rules at all material times;

(b) ‘at-the-money’ grants are options granted where the strike price is equal to the market price of the security on the date of the grant or the closing price the day prior to the grant; and

(c) ‘out-of-the-money’ grants are options granted where the strike price is higher than the market price of the security on the date of the grant.

311. Both at-the-money and out-of-the-money options are permissible under the TSX Rules and have been at all material times.

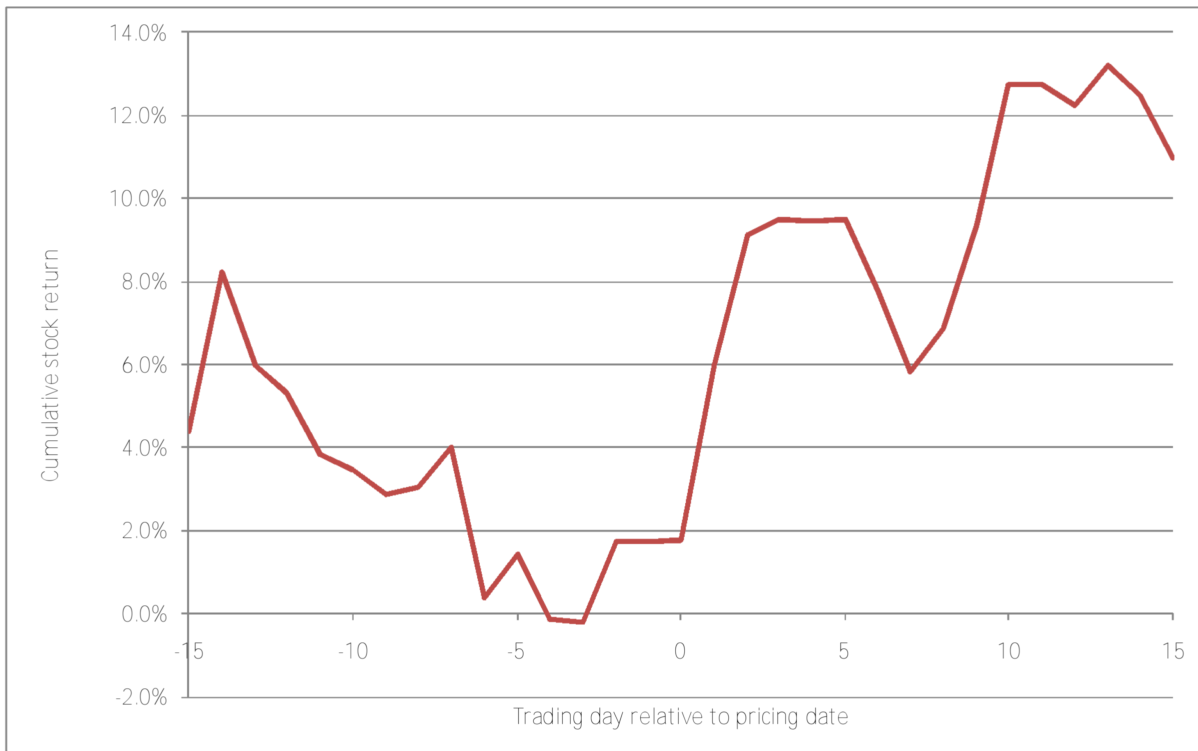
312. The purpose of both at-the-money and out-of-the-money options is to create incentives for option recipients to work to raise the share price of the company. Such options have limited value at the time of the grant, because they entitle the recipient to acquire the company’s shares at or above the price at which the recipient could acquire the company’s shares in the open market. Options that are in-the-money, however, have substantial value at the time of the grant irrespective of whether the company’s stock price rises subsequent to the grant date.

313. At all material times, the Sino Option Plan (the “**Plan**”) prohibited in-the-money options.

314. The Conspirators backdated and/or otherwise mispriced Sino stock options, or caused the backdating and/or mispricing of Sino stock options, in violation of, inter alia: (a) the *OSA* and the rules and regulations promulgated thereunder; (b) the Plan; (c) GAAP; (d) the Code; (e) the TSX Rules; and (f) the Conspirators’ statutory, common law and contractual fiduciary duties and duties of care to Sino and its shareholders, including the Class Members.

315. The Sino stock options that were backdated or otherwise mispriced included those issued on June 26, 1996 to Chan, January 21, 2005 to Horsley, September 14, 2005 to Horsley, June 4, 2007 to Horsley and Chan, August 21, 2007 to Sino insiders other than the Conspirators, November 23, 2007 to George Ho and other Sino insiders, and March 31, 2009 to Sino insiders other than the Conspirators.

316. The graph below shows the average stock price returns for fifteen trading days prior and subsequent to the dates as of which Sino priced its stock options to its insiders. As appears therefrom, on average the dates as of which Sino's stock options were priced were preceded by a substantial decline in Sino's stock price, and were followed by a dramatic increase in Sino's stock price. This pattern could not plausibly be the result of chance.



317. The conspiracy was unlawful because the Conspirators knowingly and intentionally committed the foregoing acts when they knew such conduct was in violation of, *inter alia*, the

OSA, the Securities Legislation other than the *OSA*, the Code, the rules and requirements of the TSX (the "**TSX Rules**") and the *CBCA*. The Conspirators intended to, and did, harm the Class by causing artificial inflation in the price of Sino's securities.

318. The Conspirators directed the conspiracy toward the Plaintiffs and the other Class Members. The Conspirators knew in the circumstances that the conspiracy would, and did, cause loss to the Plaintiffs and the other Class Members. The Plaintiffs and the Class Members suffered damages when the falsity of the Representation and other misrepresentations were revealed on June 2, 2011.

XII. THE RELATIONSHIP BETWEEN SINO'S DISCLOSURES AND THE PRICE OF SINO'S SECURITIES

319. The price of Sino's securities was directly affected during the Class Period by the issuance of the Impugned Documents. The Defendants were aware at all material times of the effect of Sino's disclosure documents upon the price of its Sino's securities.

320. The Impugned Documents were filed, among other places, with SEDAR and the TSX, and thereby became immediately available to, and were reproduced for inspection by, the Class Members, other members of the investing public, financial analysts and the financial press.

321. Sino routinely transmitted the documents referred to above to the financial press, financial analysts and certain prospective and actual holders of Sino securities. Sino provided either copies of the above referenced documents or links thereto on its website.

322. Sino regularly communicated with the public investors and financial analysts via established market communication mechanisms, including through regular disseminations of their disclosure documents, including press releases on newswire services in Canada, the United

States and elsewhere. Each time Sino communicated that new material information about Sino financial results to the public the price of Sino securities was directly affected.

323. Sino was the subject of analysts' reports that incorporated certain of the material information contained in the Impugned Documents, with the effect that any recommendations to purchase Sino securities in such reports during the Class Period were based, in whole or in part, upon that information.

324. At all material times during the Class Period, Sino's securities were ~~and are~~ traded, among other places, on the TSX, which is an efficient and automated market. The price at which Sino's securities traded promptly incorporated material information from Sino's disclosure documents about Sino's business and affairs, including the Representation, which was disseminated to the public through the documents referred to above and distributed by Sino, as well as by other means.

XIII. VICARIOUS LIABILITY

A. *Sino and the Individual Defendants*

325. Sino is vicariously liable for the acts and omissions of the Individual Defendants particularized in this Claim.

326. The acts or omissions particularized and alleged in this Claim to have been done by Sino were authorized, ordered and done by the Individual Defendants and other agents, employees and representatives of Sino, while engaged in the management, direction, control and transaction of the business and affairs of Sino. Such acts and omissions are, therefore, not only the acts and omissions of the Individual Defendants, but are also the acts and omissions of Sino.

327. At all material times, the Individual Defendants were officers and/or directors of Sino. As their acts and omissions are independently tortious, they are personally liable for same to the Plaintiffs and the other Class Members.

B. *E&Y*

328. E&Y is vicariously liable for the acts and omissions of each of its officers, directors, partners, agents and employees as set out above.

329. The acts or omissions particularized and alleged in this Claim to have been done by E&Y were authorized, ordered and done by its officers, directors, partners, agents and employees, while engaged in the management, direction, control and transaction of the business and affairs of E&Y. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of E&Y.

C. *BDO*

330. BDO is vicariously liable for the acts and omissions of each of its officers, directors, partners, agents and employees as set out above.

331. The acts or omissions particularized and alleged in this Claim to have been done by BDO were authorized, ordered and done by its officers, directors, partners, agents and employees, while engaged in the management, direction, control and transaction of the business and affairs of BDO. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of BDO.

~~**D. *Pöyry***~~

~~332. Pöyry is vicariously liable for the acts and omissions of each of its officers, directors, partners, agents and employees as set out above.~~

~~333. The acts or omissions particularized and alleged in this Claim to have been done by Pöyry were authorized, ordered and done by its officers, directors, partners, agents and employees, while engaged in the management, direction, control and transaction of the business and affairs of Pöyry. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of Pöyry.~~

E. *The Underwriters*

334. The Underwriters are vicariously liable for the acts and omissions of each of their respective officers, directors, partners, agents and employees as set out above.

335. The acts or omissions particularized and alleged in this Claim to have been done by the Underwriters were authorized, ordered and done by each of their respective officers, directors, partners, agents and employees, while engaged in the management, direction, control and transaction of the business and affairs such Underwriters. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of the respective Underwriters.

XIV. REAL AND SUBSTANTIAL CONNECTION WITH ONTARIO

336. The Plaintiffs plead that this action has a real and substantial connection with Ontario because, among other thing:

(a) Sino is a reporting issuer in Ontario;

(b) Sino’s shares trade on the TSX which is located in Toronto, Ontario;

(c) Sino’s registered office and principal business office is in Mississauga, Ontario;

(d) the Sino disclosure documents referred to herein were disseminated in and from Ontario;

(e) a substantial proportion of the Class Members reside in Ontario;

(f) Sino carries on business in Ontario; and

(g) a substantial portion of the damages sustained by the Class were sustained by persons and entities domiciled in Ontario.

XV. SERVICE OUTSIDE OF ONTARIO

337. The Plaintiffs may serve the Notice of Action and Statement of Claim outside of Ontario without leave in accordance with rule 17.02 of the *Rules of Civil Procedure*, because this claim is:

(a) a claim in respect of personal property in Ontario (para 17.02(a));

(b) a claim in respect of damage sustained in Ontario (para 17.02(h));

(c) a claim authorized by statute to be made against a person outside of Ontario by a proceeding in Ontario (para 17.02(n)); and

(d) a claim against a person outside of Ontario who is a necessary or proper party to a proceeding properly brought against another person served in Ontario (para 17.02(o)); and

(e) a claim against a person ordinarily resident or carrying on business in Ontario (para 17.02(p)).

XVI. RELEVANT LEGISLATION, PLACE OF TRIAL, JURY TRIAL AND HEADINGS

338. The Plaintiffs plead and rely on the *CJA*, the *CPA*, the Securities Legislation and *CBCA*, all as amended.

339. The Plaintiffs propose that this action be tried in the City of Toronto, in the Province of Ontario, as a proceeding under the *CPA*.

340. The Plaintiffs will serve a jury notice.

341. The headings contained in this Statement of Claim are for convenience only. This Statement of Claim is intended to be read as an integrated whole, and not as a series of unrelated components.

~~April 18, 2012~~ Date: ●

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Lawyers for the Plaintiffs

Trustees of the Labourers' Pension Fund of Central and Eastern Canada, *et al.*
Plaintiffs

and

Sino-Forest Corporation, *et al.*
Defendants

Court File No.: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

Proceeding under the *Class Proceedings Act, 1992*

SECOND FRESH AS AMENDED STATEMENT OF CLAIM

(NOTICE OF ACTION ISSUED JULY 20, 2011)

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Lawyers for the Plaintiffs

This is Exhibit "D" mentioned and referred to in the Affidavit of Charles M. Wright, sworn before me at the City of London, in the County of Middlesex, this 4th day of July, 2014.

A Commissioner, etc.

montréal · ottawa · toronto · hamilton · waterloo region · calgary · vancouver · beijing · moscow · london

January 21, 2013

Jennifer Stam
Direct 416-862-5697
jennifer.stam@gowlings.com

SENT TO EMAIL

THE SERVICE LIST

Dear Sirs/Mesdams:

Re: Sino-Forest Corporation ("SFC"): Court File #CV-12-9667-00CL

We refer to SFC's plan of compromise and reorganization dated December 3, 2012 (as the same may be amended, varied or supplemented from time to time in accordance with its terms, the "**Plan**"), the Plan Sanction Order dated December 10, 2012 (the "**Sanction Order**") and our letter to the Service List dated January 11, 2013 (the "**January 11 Letter**") and hereby give notice to the Service List of the following matters concerning the Plan. Capitalized terms used herein but not defined have the meaning given to them in the Plan.

SFC today announced that the Plan Implementation Date, which was expected to be January 17, 2013, is expected to be January 23, 2013. This date has been selected by SFC with the consent of the Monitor and the Initial Consenting Noteholders.

In addition, pursuant to and in accordance with Section 11.2(a) of the Plan, David Horsley has become a "Named Third Party Defendant" under the Plan and a revised "Schedule A" to the Plan is attached to this letter. In accordance with Section 7.1(n) of the Plan, as a result of becoming a Named Third Party Defendant under the Plan, Mr. Horsley shall not be entitled to receive any distributions on account of Affected Claims under the Plan.

In addition, on the consent of SFC, the Monitor, the Initial Consenting Noteholders, counsel to the Ontario Class Action Plaintiffs, and in accordance with section 1.1 of the Plan, the "Indemnified Noteholder Class Action Limit" under the Plan, which had previously been reduced to $25 million as it relates to Mr. Horsley as set out in our January 11 Letter, has been returned to $150 million. The return of the the Indemnified Noteholder Class Action Limit to $150 million as it relates to Mr. Horsely has been incorporated into and forms a part of the Plan as approved by the Sanction Order.

With the addition of Mr. Horsley as a "Named Third Party Defendant", all affected defendants named in the Class Actions have now become Named Third Party Defendants under the Plan or otherwise waived their entitlement to receive distributions under the Plan. As such, the Unresolved Claims Reserve has been correspondingly, further reduced to eliminate any reserve for Class Action Indemnity Claims. The Unresolved Claims Reserve has now been set at an aggregate amount of $1.7 million, which consists of (a) certain unresolved Claims in respect of Defence Costs in the amount of $1.5 million; and (b) certain other Affected Creditor Claims that have been identified by the Monitor as Unresolved Claims in an amount up to $200,000. The reduction of the Unresolved

Claims Reserve to an aggregate amount of $1.7 million has occurred with the consent of the Monitor and the Initial Consenting Noteholders in accordance with section 1.1 of the Plan, and has been incorporated into and forms a part of the Plan as approved by the Sanction Order.

The establishment of the Unresolved Claims Reserve is not an admission by SFC, the Monitor or any other party (including the Initial Consenting Noteholders) as to the validity of any such Claims and all rights to dispute such Claims are reserved.

Sincerely,

GOWLING LAFLEUR HENDERSON LLP

Jennifer Stam

JS

SCHEDULE A

NAMED THIRD PARTY DEFENDANTS

1. The Underwriters, together with their respective present and former affiliates, partners, associates, employees, servants, agents, contractors, directors, officers, insurers and successors, administrators, heirs and assigns, excluding any Director or Officer and successors, administrators, heirs and assigns of any Director or Officer in their capacity as such.

2. Ernst & Young LLP (Canada), Ernst & Young Global Limited and all other member firms thereof, together with their respective present and former affiliates, partners, associates, employees, servants, agents, contractors, directors, officers, insurers and successors, administrators, heirs and assigns, excluding any Director or Officer and successors, administrators, heirs and assigns of any Director or Officer in their capacity as such, in the event that the Ernst & Young Settlement is not completed.

3. BDO Limited, together with its respective present and former affiliates, partners, associates, employees, servants, agents, contractors, directors, officers, insurers and successors, administrators, heirs and assigns, excluding any Director or Officer and successors, administrators, heirs and assigns of any Director or Officer in their capacity as such.

4. Allen Chan, together with his successors, administrators, heirs, assigns and insurers.

5. Kai Kit Poon, together with his successors, administrators, heirs, assigns and insurers.

6. David Horsley, together with his successors, administrators, heirs, assigns and insurers.

This is Exhibit "E" mentioned and referred to in the Affidavit of Charles M. Wright, sworn before me at the City of London, in the County of Middlesex, this 4th day of July, 2014.

A Commissioner, etc.

Sylvia Flower

From: Rob Staley <StaleyR@bennettjones.com>
Sent: Wednesday, May 21, 2014 11:07 AM
To: Charles M. Wright; A. Dimitri Lascaris; Serge Kalloghlian; Peter Wardle
Subject: Fw: Horsley Settlement

Fyi.

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From: Tay, Derrick <Derrick.Tay@gowlings.com>
Sent: Wednesday, May 21, 2014 10:20 AM
To: Rob Staley
Cc: greg.watson@fticonsulting.com; Stam, Jennifer
Subject: Horsley Settlement

Rob,

I refer to your emailed letter of May 20, 2014 to Jenny Stam with respect to the agreement that has been reached with Mr. Horsley to settle litigation claims arising from his involvement with Sino-Forest Corporation.

This will confirm that the Monitor consents to the contemplated Horsley settlement being a Named Third Party Defendant Settlement.

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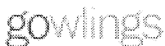

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This is Exhibit "F" mentioned and referred to in the Affidavit of Charles M. Wright, sworn before me at the City of London, in the County of Middlesex, this 4th day of July, 2014.

A Commissioner, etc.

Ontario Securities Commission | Commission des valeurs mobilières de l'Ontario | P.O. Box 55, 19th Floor 20 Queen Street West Toronto ON M5H 3S8 | CP 55, 19e étage 20, rue queen ouest Toronto ON M5H 3S8

IN THE MATTER OF THE *SECURITIES ACT*, R.S.O. 1990, c. S.5, AS AMENDED

- AND -

IN THE MATTER OF SINO-FOREST CORPORATION, ALLEN CHAN, ALBERT IP, ALFRED C.T. HUNG, GEORGE HO, SIMON YEUNG and DAVID HORSLEY

STATEMENT OF ALLEGATIONS

Further to a Notice of Hearing dated May 22, 2012, Staff ("Staff") of the Ontario Securities Commission (the "Commission") make the following allegations:

PART I. OVERVIEW AND SUMMARY OF ALLEGATIONS

A. Sino-Forest

1. Sino-Forest Corporation ("Sino-Forest" or the "Company")[1] is a reporting issuer in the province of Ontario as that term is defined in subsection 1(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act"). Until recently, the common shares of Sino-Forest were listed on the Toronto Stock Exchange ("TSX").

2. Sino-Forest purportedly engaged primarily in the purchase and sale of Standing Timber in the People's Republic of China (the " PRC").

[1] Sino-Forest or the Company includes all of Sino-Forest's subsidiaries and companies that it controls as set out in its public disclosure record and as the context within this Statement of Allegations requires.

3. From February of 2003 until October of 2010, Sino-Forest raised approximately $3.0 billion (US)[2] in cash from the issuance of equity and debt securities to investors (the "Investors")[3].

4. From June 30, 2006 to March 31, 2011, Sino-Forest's share price grew from $5.75 (Can) to $25.30 (Can), an increase of 340%.[4] By March 31, 2011 Sino-Forest's market capitalization was well over $6 billion.

5. In early June of 2011, the share price of Sino-Forest plummeted after a private analyst made allegations of fraud against Sino-Forest.

6. On November 15, 2011, Sino-Forest announced that it was deferring the release of its interim financial report for the third quarter of 2011.[5] Sino-Forest has never filed this interim financial report with the Commission.

7. On January 10, 2012, Sino-Forest issued a news release cautioning that its historic financial statements and related audit reports should not be relied upon.

8. Sino-Forest was required to file its 2011 audited annual financial statements with the Commission by March 30, 2012. That very day, Sino-Forest initiated proceedings in front of the Superior Court of Justice (Ontario) requesting protection from its creditors. Sino-Forest has never filed its 2011 audited annual financial statements with the Commission.

9. On April 4, 2012, the auditors of Sino-Forest resigned.

10. On May 9, 2012, the TSX delisted the shares of Sino-Forest.

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[2] Unless otherwise stated, all amounts presented in this Statement of Allegations and the attached Schedules are in United States Dollars.
[3] The Glossary attached as Schedule A contains a list of certain of the defined terms used in the Statement of Allegations and the paragraph where they are located within the Statement of Allegations.
[4] Attached as Schedule B is selected data from its audited annual financial statements for 2005 to 2010.
[5] The financial year end of Sino-Forest is December 31.

11. As set out below, Sino-Forest and its former senior executives, including Allen Chan ("Chan"), Albert Ip ("Ip"), Alfred C.T. Hung ("Hung"), George Ho ("Ho") and Simon Yeung ("Yeung"), engaged in a complex fraudulent scheme to inflate the assets and revenue of Sino-Forest and made materially misleading statements in Sino-Forest's public disclosure record related to its primary business.

12. Chan, former Chairman of the Board and Chief Executive Officer ("CEO") of Sino-Forest until August 28, 2011, also committed fraud in relation to Sino-Forest's purchase of a controlling interest in a company now known as Greenheart Group Limited ("Greenheart"). By concealing Chan's substantial interest in this transaction, Chan and Sino-Forest made materially misleading statements in Sino-Forest's public disclosure record.

13. Chan, Ip, Hung, Ho and Yeung (together, "Overseas Management") all materially misled Staff during the investigation of this matter.

14. David Horsley ("Horsley"), former Senior Vice President and Chief Financial Officer ("CFO") of Sino-Forest, did not comply with Ontario securities law and acted contrary to the public interest.

B. The Standing Timber Fraud

15. From June 30, 2006 until January 11, 2012 (the "Material Time"), Sino-Forest and Overseas Management engaged in numerous deceitful and dishonest courses of conduct (the "Standing Timber Fraud") that ultimately caused the assets and revenue derived from the purchase and sale of Standing Timber (that constituted the majority of Sino-Forest's business) to be fraudulently overstated, putting the pecuniary interests of Investors at risk contrary to Ontario securities law and contrary to the public interest.

16. The Standing Timber Fraud was primarily comprised of three elements:

i) Sino-Forest dishonestly concealed its control over Suppliers, AIs and other nominee companies in the BVI Network. Sino-Forest established a collection of "nominee"/"peripheral" companies that were controlled, on

its behalf, by various "caretakers".[6] Sino-Forest conducted a significant level of its business with these companies, the true economic substance of which was misstated in Sino-Forest's financial disclosure;

ii) Sino-Forest falsified the evidence of ownership for the vast majority of its timber holdings by engaging in a deceitful documentation process. This dishonest process included the fraudulent creation of deceitful Purchase Contracts and Sales Contracts, including key attachments and other supplemental documentation. Sino-Forest then relied upon these documents to evidence the purported purchase, ownership and sale of Standing Timber in the BVI Model; and

iii) Sino-Forest dishonestly concealed internal control weaknesses/failures that obscured the true nature of transactions conducted within the BVI Network and prevented the detection of the deceitful documentation process. Sino-Forest's statements in its public disclosure record regarding the extent of its internal control weaknesses were wholly inadequate and misleading.

17. Each of the above dishonest and deceitful courses of conduct by Sino-Forest and Overseas Management put the pecuniary interests of Investors at risk, constituting fraud. Together, these courses of conduct made the public disclosure record of Sino-Forest so misleading that it was fraudulent.

18. As set out in paragraph 47, the vast majority of the Sino-Forest's Standing Timber assets were held in the BVI Model. The available underlying documentation for these Standing Timber assets did not provide sufficient evidence of legal ownership of these assets. As of this date, Sino-Forest has not been able to confirm full legal ownership of the Standing Timber assets that it claims to hold in the BVI Model.

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.

20. The following are four illustrative examples of the fraudulent courses of conduct that Sino-Forest and Overseas Management perpetrated within the Standing Timber Fraud. These

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[6] These "nominee"/"peripheral" companies and "caretakers" are described in greater detail in paragraph 57.

four examples, described in detail below, illustrate how Sino-Forest and Overseas Management materially inflated assets and revenue in Sino-Forest's public disclosure record:

i) the Dacheng Fraud;

ii) the 450,000 Fraud;

iii) Gengma Fraud #1; and

iv) Gengma Fraud #2.

21. Schedule C illustrates the primary elements of the Standing Timber Fraud as introduced in paragraph 16 and the fraudulently overstated revenue arising from the four illustrative examples introduced in the previous paragraph.

22. The allegations regarding the Standing Timber Fraud are set out in paragraphs 53 to 119 below.

C. Materially Misleading Statements Related to the Standing Timber Fraud

23. Given the three elements of the Standing Timber Fraud introduced in paragraph 16, the public disclosure record of Sino-Forest required by Ontario securities law was materially misleading, contrary to Ontario securities law and contrary to the public interest.

24. The assets and revenue recorded as a result of the Standing Timber Fraud caused Sino-Forest's public disclosure record, including its audited annual financial statements, annual information forms ("AIFs") and management's discussion and analysis ("MD&A"), to be materially misleading during the Material Time.

25. Sino-Forest's statements in its public disclosure, including its AIFs and its MD&A filed with the Commission during the Material Time, regarding the extent of its internal control weaknesses and deficiencies were wholly inadequate and misleading.

26. The allegations regarding these materially misleading statements related to the Standing Timber Fraud are set out in paragraphs 120 to 141 below.

D. The Greenheart Transaction - Fraud by Chan and Materially Misleading Statements by Chan and Sino-Forest

27. In 2010, following a complex series of transactions, Sino-Forest completed the purchase of a controlling interest in Greenheart, a public company listed on the Hong Kong Stock Exchange (the "Greenheart Transaction"). Greenheart holds natural forest concessions, mostly in Suriname.

28. Chan secretly controlled companies that received over $22 million as a result of the purchase by Sino-Forest of this controlling interest in Greenheart. The Greenheart Transaction was significant to Sino-Forest's business and cost the Company approximately $120 million.

29. Chan fraudulently concealed his involvement in the Greenheart Transaction and the substantial benefit he secretly received. Chan and Sino-Forest misled the public through Sino-Forest's continuous disclosure. Chan falsely certified the accuracy of Sino-Forest's AIFs for 2008, 2009 and 2010 as these documents did not disclose his interest in the Greenheart Transaction.

30. Chan's course of conduct relating to the Greenheart Transaction constituted fraud and the making of misleading statements, contrary to Ontario securities law and contrary to the public interest. Chan and Sino-Forest made materially misleading statements related to the Greenheart Transaction, contrary to Ontario securities law and contrary to the public interest.

31. The allegations regarding fraud and materially misleading statements related to the Greenheart Transaction are set out in paragraphs 142 to 154 below.

E. Overseas Management of Sino-Forest Misled Staff during the Investigation

32. During the investigation by Staff, numerous members of Sino-Forest's management were interviewed by Staff. Overseas Management materially misled Staff in their interviews, contrary to Ontario securities law and contrary to the public interest.

33. The allegations that Overseas Management materially misled Staff are set out in paragraphs 155 to 167 below.

PART II. THE RESPONDENTS

34. Sino-Forest is a Canadian company with its principal executive office located in Hong Kong and its registered office located in Mississauga, Ontario.

35. During the Material Time, as set out above, Chan was Chairman of the Board of Directors and CEO of Sino-Forest.

36. During the Material Time, Ip was Senior Vice President, Development and Operations North-east and South-west China of Sino-Forest.

37. During the Material Time, Hung was Vice-President, Corporate Planning and Banking of Sino-Forest.

38. During the Material Time, Ho was Vice-President, Finance (China) of Sino-Forest.

39. During the Material Time, Yeung was Vice President - Operation within the Operation /Project Management group of Sino-Panel (Asia) Inc. ("Sino-Panel"), a subsidiary of Sino-Forest.

40. During the Material Time, Horsley was Senior Vice President and CFO of Sino-Forest.

PART III. STANDING TIMBER - THE PRIMARY BUSINESS OF SINO-FOREST

A. Introduction

41. In its AIF for 2010, Sino-Forest stated that its operations were comprised of two core business segments which it titled "Wood Fibre Operations" and "Manufacturing and Other

Operations". Wood Fibre Operations had two subcomponents entitled "Plantation Fibre" and "Trading of Wood Logs".

42. According to Sino-Forest, the Plantation Fibre subcomponent of its business was derived from the purported acquisition, cultivation and sale of either "standing timber" or "logs" in the PRC. For the purpose of this Statement of Allegations, the Plantation Fibre subcomponent of Sino-Forest's business will be referred to as "Standing Timber" as most, if not all, of the revenue from the sale of Plantation Fibre was derived from the sale of "standing timber".

B. Standing Timber - Sino-Forest's Main Source of Revenue

43. From 2007 to 2010, Sino-Forest reported Standing Timber revenue totalling approximately $3.56 billion, representing about 75% of its total revenue of $4.77 billion. The following table provides a summary of Sino-Forest's stated revenue for the period from 2007 to 2010 and illustrates the importance of the revenue derived from the sale of Standing Timber:

	$ (millions)				
	2007	**2008**	**2009**	**2010**	**Total**
Plantation Fibre (defined as Standing Timber herein)	521.5	685.4	954.2	1,401.2	3,562.3
Trading of Wood Logs	154.0	153.5	237.9	454.0	999.4
Wood Fibre Operations	*675.5*	*838.9*	*1,192.1*	*1,855.2*	*4,561.7*
Manufacturing and Other Operations	*38.4*	*57.1*	*46.1*	*68.3*	*209.9*
Total Revenue	**713.9**	**896.0**	**1,238.2**	**1,923.5**	**4,771.6**

C. The BVI and WFOE Models - Revenue and Holdings

44. Standing Timber was purchased, held and sold by Sino-Forest in two distinct legal structures or models: the "BVI Model" and the "WFOE Model".

45. In the BVI Model, Sino-Forest's purchases and sales of Standing Timber in the PRC were conducted using wholly owned subsidiaries of Sino-Forest incorporated in the British Virgin Islands (the "BVI Subs"). The BVI Subs purported to enter into written purchase contracts ("Purchase Contracts") with suppliers in the PRC ("Suppliers") and then purported to enter into written sales contracts ("Sales Contracts") with customers called "authorized intermediaries" in the PRC ("AIs").

46. In the WFOE Model, Sino-Forest used subsidiaries incorporated in the PRC called Wholly Foreign Owned Enterprises ("WFOEs") to acquire, cultivate and sell the Standing Timber. The Sino-Forest WFOEs also entered into Purchase Contracts and Sales Contracts with other parties in the PRC.

47. At December 31, 2010, Sino-Forest reported total timber holdings of $3.1 billion comprising 799,700 hectares. About $2.5 billion or approximately 80% of the total timber holdings (by value) was held in the BVI Model, comprising approximately 467,000 hectares of Standing Timber. The WFOE Model purportedly held approximately 97,000 hectares of Standing Timber valued at $295.6 million or approximately 10% of the total timber holdings (by value). The timber holdings in the BVI Model and the WFOE Model comprised approximately 90% of the total timber holdings (by value) of Sino-Forest as at December 31, 2010.

48. The cash-flows associated with the purchase and sale of Standing Timber executed in the BVI Model took place "off-book" pursuant to a payables/receivables offsetting arrangement (the "Offsetting Arrangement"), whereby the BVI Subs would not directly receive the proceeds on the sale of Standing Timber from the purchasing AI. Rather, Sino-Forest disclosed that it would direct the AI that purchased the timber to pay the sales proceeds to a new Supplier in order to

buy additional Standing Timber. Consequently, Sino-Forest also did not make payment directly to Suppliers for purchases of Standing Timber.

49. Sino-Forest did not possess the bank records to confirm that these "off-book" cash-flows in the Offsetting Arrangement actually took place. This lack of transparency within the BVI Model meant that independent confirmation of these "off-book" cash-flows was reliant on the good faith and independence of Suppliers and AIs.

50. Further, pursuant to the terms of Sales Contracts entered into between a BVI Sub and an AI, the AI assumed responsibility for paying any PRC taxes associated with the sale that were owed by the BVI Sub. This obligation purportedly included paying the income tax and valued added tax on behalf of Sino-Forest.

51. Sino-Forest dealt with relatively few Suppliers and AIs in the BVI Model. For example, in 2010, six Suppliers accounted for 100% of the Standing Timber purchased in the BVI Model and five AIs accounted for 100% of Sino-Forest's revenue generated in the BVI Model.

52. From 2007 to 2010, revenue from the BVI Model totalled $3.35 billion, representing 94% of Sino-Forest's reported Standing Timber revenue and 70% of Sino-Forest's total revenue. The importance of the revenue from the BVI Model is demonstrated in the following table:

			$ (millions)		
	2007	**2008**	**2009**	**2010**	**Total**
BVI Model Revenue	501.4	644.9	882.1	1,326.0	3,354.4
WFOE Model Revenue	20.1	40.5	72.1	75.2	207.9
Standing Timber Revenue	**521.5**	**685.4**	**954.2**	**1,401.2**	**3,562.3**
Total Revenue	**713.9**	**896.0**	**1,238.2**	**1,923.5**	**4,771.6**
BVI Model as % of Total Revenue	70%	72%	71%	69%	70%

PART IV. THE STANDING TIMBER FRAUD

53. As introduced in paragraph 16, the Standing Timber Fraud was primarily comprised of three elements:

i) Undisclosed control over parties within the BVI Network;

ii) The undisclosed dishonest process of creating deceitful Purchase Contracts and Sales Contracts and their key attachments used in both the BVI Model and the WFOE Model to inflate Standing Timber assets and revenue; and

iii) Undisclosed internal control weaknesses/deficiencies that facilitated and concealed the fraudulent conduct within the BVI Network, and the dishonest creation of Purchase Contracts and Sales Contracts, including their key attachments.

54. On this basis, Sino-Forest then created transactions to fraudulently inflate assets and revenue in its public disclosure record.

A. Undisclosed Control over Parties within the BVI Network

55. Almost all of the buying and selling of Standing Timber in the BVI Model was generated through transactions between BVI Subs and a small number of Suppliers and AIs. Sino-Forest also conducted a significant level of this buying and selling with companies that are described in various Sino-Forest documents and correspondence as "peripheral" companies. Sino-Forest established a network of "nominee" companies that were controlled, on its behalf, by various so-called "caretakers".

56. For the purpose of this Statement of Allegations, the BVI Subs, Suppliers, AIs, "nominee" companies and "peripheral" companies involved in the buying and selling of Standing Timber in the BVI Model are collectively referred to as the "BVI Network". Some of the companies within the BVI Network were also involved in the buying and selling of Standing Timber within the WFOE Model.

57. One Sino-Forest document (the "Caretaker Company List") lists more than 120 "peripheral" (nominee) companies that are controlled by 10 "caretakers" on behalf of Sino-Forest. The "caretakers" include Person #1 (legal representative of Huaihua City Yuda Wood Ltd. ("Yuda Wood"), described in greater detail in paragraphs 61 to 65 below), Person #2 (a relative of Chan), Person #3 (a former Sino-Forest employee), Person #4 (an acquaintance of Chan and Chan's nominee in the Greenheart Transaction as outlined in paragraphs 145 to 147

below), Person #5 (a former shareholder of Greenheart Resources Holdings Limited ("GRHL") and a shareholder of Greenheart) and Person #6 (an individual associated with some of Sino-Forest's Suppliers).

58. The control and influence that Sino-Forest exerted over certain Suppliers, AIs and peripheral companies within the BVI Network brings the *bona fides* of numerous contracts entered into in the BVI Model into question, thereby placing the pecuniary interests of Investors at risk. Sino-Forest wielded this control and influence through Overseas Management. As well, certain transactions recorded in the BVI Model do not reflect the true economic substance of the underlying transactions. Sino-Forest's control of, or influence over, certain parties within the BVI Network was not disclosed to Investors.

59. Some of the counterparties to the Dacheng Fraud, the 450,000 Fraud, Gengma Fraud #1 and Gengma Fraud #2 are companies that are included in the Caretaker Company List, as outlined in more detail in paragraphs 90 to 115 below.

60. Sino-Forest did not disclose the true nature of the relationship between itself and the following two key companies in the BVI Network: Yuda Wood and Dongkou Shuanglian Wood Company Limited ("Dongkou"). This was dishonest.

1) <u>Sino-Forest Controlled Yuda Wood, a Major Supplier</u>

61. Yuda Wood was a Supplier secretly controlled by Sino-Forest during a portion of the Material Time.

62. From 2007 to 2010, Yuda Wood was purportedly Sino-Forest's largest Supplier, accounting for 18% of all purchases in the BVI Model. Sino-Forest claimed to have paid Yuda Wood approximately $650 million during that time.

63. Yuda Wood was registered and capitalized by members of Overseas Management, who also controlled bank accounts of Yuda Wood and key elements of its business.

64. The legal representative of Yuda Wood is Person #1, a former employee of Sino-Forest and also a shareholder and director of Hong Kong Sonic Jita Engineering Co., Ltd. ("Sonic Jita"), the sole shareholder of Yuda Wood. In addition, Person #1 had significant interests in other Suppliers of Sino-Forest and was identified as the "caretaker" of several nominee/peripheral companies.

65. Yuda Wood and other companies controlled by Sino-Forest through Person #1 were used to perpetrate portions of the Standing Timber Fraud including the Dacheng Fraud, the 450,000 Fraud, Gengma Fraud #1 and Gengma Fraud #2.

2) Sino-Forest Controlled Dongkou, a Major AI

66. Dongkou was an AI secretly controlled by Sino-Forest during a portion of the Material Time.

67. In 2008, Dongkou was Sino-Forest's most significant AI, purportedly purchasing approximately $125 million in Standing Timber from Sino-Forest, constituting about 18% of Sino-Forest's Standing Timber revenue for that year.

68. Sino-Forest controlled Dongkou through one of its WFOE subsidiaries Shaoyang Jiading Wood Products Co. Ltd. ("Shaoyang Jiading"). Correspondence indicates that, according to an agreement dated November 18, 2006, Shaoyang Jiading purchased Dongkou for RMB[7] 1.38 million (approximately $200,000).

69. By November 2006, the six original shareholders of Dongkou had been replaced with two Sino-Forest employees: Person #7 and Person #8. These two persons became the sole Dongkou shareholders, with Person #7 holding 47.5% and Person #8 holding 52.5%.

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[7] RMB is the Chinese unit of currency. During the Material Time, the conversion rate was approximately 7 RMB = 1 US$.

70. Also, in 2007, at the direction of Ip and others, employees of Sino-Forest drafted purchase contracts to be entered into by Dongkou and its suppliers (other than Sino-Forest). Essentially, Sino-Forest, through Overseas Management, controlled Dongkou's business with certain counterparties.

B. Dishonest Process to Create Deceitful Purchase Contracts and Sales Contracts in the BVI Model - Concealment of this Dishonest Process

1) <u>Purchase Contracts in the BVI Model</u>

71. As set out in paragraph 47, approximately 80% (by value) of Sino-Forest's timber assets were held in the BVI Model as of December 31, 2010.

72. Sino-Forest used the Purchase Contracts to acquire and evidence ownership of Standing Timber in the BVI Model. The Purchase Contracts purported to have three attachments:

i) Plantation Rights Certificates ("Certificates") or other ownership documents;

ii) Farmers' Authorization Letters ("Farmers' Authorizations"); and

iii) Timber Survey Reports ("Survey Reports").

73. The Purchase Contracts and their attachments were fundamentally flawed in at least four ways, making the public disclosure record of Sino-Forest materially misleading, thus placing the pecuniary interests of Investors at risk.

74. First, Sino-Forest did not hold Certificates to evidence ownership of the Standing Timber allegedly purchased by the BVI Subs. Instead, Sino-Forest claimed that, since the BVI Subs could not obtain Certificates from the PRC government to evidence ownership, it purported to rely on confirmations issued by the forestry bureaus in the PRC as evidence of ownership ("Confirmations"). However, Confirmations are not legally recognized documents evidencing ownership of timber assets in the PRC. These Confirmations were purportedly granted to Sino-Forest as favours by the PRC forestry bureaus. According to Sino-Forest, the PRC forestry bureaus did not intend that these Confirmations would be disclosed to third parties. Also, certain

PRC forestry bureau employees obtained gifts and cash payments from Suppliers of Sino-Forest, further undermining the value of the Confirmations as evidence of ownership.

75. Second, during the Material Time, Sino-Forest employed a deceitful systematic quarterly documentation process in the BVI Model whereby the purported Purchase Contacts were not drafted and executed until the quarter after the date on which the purchase allegedly occurred and was included in the public financial disclosure.

76. Like the Purchase Contracts, the Confirmations were also created by Sino-Forest and deceitfully dated to the previous quarter. These Confirmations were created contemporaneously with the creation of the corresponding Purchase Contracts. These Confirmations were then allegedly provided to the relevant PRC forestry bureau for verification and execution.

77. Third, the Purchase Contracts referred to Farmers' Authorizations. However, none were attached. In the absence of Farmers' Authorizations, there is no evidence that ownership to the Standing Timber was properly transferred to Sino-Forest or to the Supplier prior to the purported transfer of ownership to Sino-Forest. Ownership of the Standing Timber would have remained with the original Certificate holder.

78. Fourth, the Survey Reports, which purported to identify the general location of the purchased timber, were all prepared by a single firm during the Material Time. A 10% shareholder of this survey firm was also an employee of Sino-Forest. Drafts of certain Survey Reports purportedly prepared by this independent survey company were located on the computer of another employee of Sino-Forest. Like the Purchase Contracts and Confirmations, these drafts of the Survey Reports were deceitfully dated to the quarter prior to their creation.

79. In the absence of both Certificates and Farmers' Authorizations, Sino-Forest relies on the validity of the Purchase Contracts and the Confirmations as proof of ownership of the Standing Timber it held in the BVI Model. However, the Purchase Contracts and available attachments, including Confirmations, were prepared using the deceitful documentation process outlined

above, and do not constitute proof of ownership of the trees purported to have been bought by Sino-Forest in the BVI Model.

80. Moreover, the Purchase Contracts and readily available attachments, including the Confirmations, did not identify the precise location of the Standing Timber being purchased such that the existence of this Standing Timber could not be readily verified and valued independently.

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.

2) Sales Contracts in the BVI Model

82. Like the Purchase Contracts, all of the Sales Contracts purportedly entered into by the BVI Subs in the BVI Model were not actually created and executed until the quarter after the date of the alleged transaction.

83. Accordingly, the revenue from the Sales Contracts in the BVI Model was recognized in the quarter prior to the creation of the Sales Contracts. Therefore, the public disclosure of Sino-Forest regarding its revenue from Standing Timber was materially misleading and deceitful. During the Material Time, in its correspondence to Staff, Sino-Forest misled the Commission about its revenue recognition practice.

C. Undisclosed Internal Control Weaknesses/Failures

84. In its MD&A for 2010 dated March 15, 2011, Sino-Forest stated the following on page 27 regarding its "Disclosure Control and Procedures and Internal Controls Over Financial Reporting":

> The success of the Company's vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. **As such, senior management**

> **plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts.** This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. By taking additional steps in 2011 to address this deficiency, management will continue to monitor and work on mitigating this weakness. **[Emphasis added]**

85. Sino-Forest made similar disclosure in its annual MD&A from 2006 to 2009 regarding this concentration of authority or lack of segregation and the risk resulting from these weaknesses. These material weaknesses were not remedied during the Material Time by Sino-Forest, Overseas Management or Horsley.

86. Sino-Forest failed to disclose the extent of the concentration of duties in Overseas Management. It did not disclose that Overseas Management and their nominees had complete control over the operation of the BVI Model including the fraudulent creation and execution of the Purchase Contracts and Sales Contracts described in paragraphs 71 to 81 and the extent of the "off-book" cash flow set out in paragraphs 48 to 49. This concentration of control in the hands of Overseas Management facilitated the fraudulent course of conduct perpetrated in the BVI Model.

D. Four Examples of Fraudulent Transactions within the Standing Timber Fraud

87. During the Material Time, Sino-Forest and Overseas Management engaged in significant fraudulent transactions related to its purchase and sale of Standing Timber. These fraudulent transactions had the effect of overstating Sino-Forest's assets and revenue during the Material Time.

88. By way of example, four series of fraudulent transactions are detailed below: (i) the Dacheng Fraud; (ii) the 450,000 Fraud; (iii) Gengma Fraud #1, and (iv) Gengma Fraud #2.

89. In these transactions, Sino-Forest used certain Suppliers, AIs and other nominee companies that it controlled to falsify the financial disclosure of Sino-Forest, including the value of its Standing Timber assets and revenue.

1) The Dacheng Fraud

90. Sino-Forest and members of Overseas Management committed fraud (the "Dacheng Fraud") in a series of purported transactions commencing in 2008, related to purchases of timber plantations (the "Dacheng Plantations") from a Supplier called Guangxi Dacheng Timber Co. Ltd. ("Dacheng"). Companies controlled by Sino-Forest through Person #1 were used in the Dacheng Fraud.

91. The Dacheng Fraud involved duplicating the same Standing Timber assets within the Dacheng Plantations in the records of two Sino-Forest subsidiaries. Sino-Forest recorded the same assets once in the WFOE Model and again in the BVI Model.

92. In 2008, these Standing Timber assets were recorded at a value of RMB 47 million (approximately $6.3 million) in the WFOE Model and this amount was paid to Dacheng. These funds were then funnelled through Dacheng back to other subsidiaries of Sino-Forest, as the purported collection of receivables.

93. At the same time, Sino-Forest recorded these Standing Timber assets in the BVI Model at a value of approximately RMB 205 million (approximately $30 million). In 2009, Sino-Forest purported to sell the Standing Timber assets from the Dacheng Plantations held in the BVI Model for approximately RMB 326 million (approximately $48 million). This revenue was recorded in Q3 of 2009.

94. As a result of the Dacheng Fraud, in 2008, Sino-Forest overstated the value of certain Standing Timber assets by approximately $30 million and, in 2009, Sino-Forest overstated its revenue by approximately $48 million. The effect of this revenue overstatement on the public disclosure record of Sino-Forest is illustrated in paragraph 127 below.

2) The 450,000 Fraud

95. Sino-Forest and members of Overseas Management committed fraud (the "450,000 Fraud") in a complex series of transactions involving the purchase and sale of 450,000 cubic meters of timber in Q4 of 2009, again utilizing companies controlled by Sino-Forest through Person #1. In an email, Yeung described this purchase and sale of timber as "a pure accounting arrangement".

96. Three subsidiaries of Sino-Panel (the "Sino-Panel Companies") purported to purchase 450,000 cubic meters of Standing Timber at a cost of RMB 183 million (approximately $26 million) from Guangxi Hezhou City Yuangao Forestry Development Co. Ltd ("Yuangao") during October 2009.

97. In Q4 of 2009, the Sino-Panel Companies purportedly sold this Standing Timber to the following three customers:

i) Gaoyao City Xinqi Forestry Development Co., Ltd. ("Xinqi");

ii) Guangxi Rongshui Meishan Wood Products Factory ("Meishan"); and

iii) Guangxi Pingle Haosen Forestry Development Co., Ltd. ("Haosen").

98. The sale price for this Standing Timber was RMB 233 million (approximately $33 million), for an apparent profit of RMB 50 million (approximately $7.1 million).

99. The purported supplier (Yuangao) and the purported customers (Xinqi, Meishan and Haosen) are all so-called "peripheral" companies of Sino-Forest, i.e., they are nominee companies controlled by Person #1 on behalf of Sino-Forest. Xinqi, Meishan and Haosen are also companies included in the Caretaker Company List, and Person #1 is identified as the "caretaker" of each company.

100. This RMB 233 million sale of Standing Timber was recorded in Sino-Forest's WFOE Model, as opposed to its BVI Model. As noted in paragraph 48, the BVI Model employs the

Offsetting Arrangement where payables and receivables are made and collected "off-book". However, in the WFOE Model, Sino-Forest takes receipt of the sales proceeds directly or "on-book".

101. By July 2010, none of the sales proceeds had been collected and the receivable was long overdue. In order to evidence the "collection" of the RMB 233 million in sales proceeds, Sino-Forest devised two separate "on-book" payables/receivables offsetting arrangements, one in 2010 and one in 2011, whereby Sino-Forest made payments to various companies, including Yuangao and at least two other Sino-Forest nominee companies.[8]

102. To account for the purported profit of RMB 50 million, Sino-Forest had to "collect" more (RMB 233 million) than just the purchase price (RMB 183 million). Consequently, Sino-Forest created additional "payables" to complete the circular flow of funds needed to collect the sales proceeds of RMB 233 million. These "on-book" offsetting arrangements, therefore, included the purported settlement of various accounts payable, not just the Yuangao payable arising from the 450,000 Fraud.

103. The companies referred to paragraph 101 then funnelled the money to Xinqi, Meishan and Haosen who, in turn, repaid the money to the Sino-Panel Companies to achieve the purported collection of the RMB 233 million in revenue.

104. The "on-book" offsetting arrangements required that Suppliers and customers have bank accounts through which the funds could flow. In July and August 2010, Sino-Forest set up bank accounts for the suppliers and customers associated with the 450,000 Fraud to facilitate the circular cash flows. These bank accounts were overseen by Ip, Ho, Person #1 and/or Person #9 (a former Sino-Forest employee and associate of Person #1).

105. These circular cash-flows commenced in July 2010 and were finally concluded in February 2011.

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[8] Dao County Juncheng Forestry Development Co., Ltd. and Guangxi Rongshui Taiyuan Wood Co., Ltd.

106. The circular flow of funds underlying the 450,000 Fraud demonstrates that the sales contracts purportedly entered into between the Sino-Panel Companies and Xinqi, Meishan and Haosen are fraudulent and have no true economic substance. As a result of the 450,000 Fraud, Sino-Forest overstated the value of its revenue by approximately $30 million for Q4 of 2009. The effect of this revenue overstatement on the public disclosure record of Sino-Forest is illustrated in paragraph 129 below.

3) Gengma Fraud # 1

107. Sino-Forest and members of Overseas Management committed fraud ("Gengma Fraud #1") in 2007 related to Standing Timber assets purchased from Gengma Dai and Wa Tribe Autonomous Region Forestry Co., Ltd. ("Gengma Forestry") by Sino-Panel (Gengma) Co., Ltd. ("Sino-Panel Gengma"), a Sino-Forest subsidiary.

108. In 2007, Sino-Panel Gengma purchased certain land use rights and Standing Timber for RMB 102 million (approximately $14 million) from Gengma Forestry. These contracts were signed by Chan. However, this transaction between Sino-Panel Gengma and Gengma Forestry was not recorded. Instead, Sino-Forest purported to purchase the same assets from Yuda Wood, allegedly paying RMB 509 million (approximately $68 million) for the Standing Timber in 2007 and RMB 111 million (approximately $15 million) for certain land use rights during the period from June 2007 to March 2009. This purchase was recorded and these Standing Timber assets remained on the books of Sino-Forest until 2010.

109. Gengma Fraud #1 resulted in an overstatement of Sino-Forest's timber holdings for 2007, 2008 and 2009.

110. In 2010, this Standing Timber was then purportedly sold for RMB 1,579 million (approximately $231 million). However, these same Standing Timber assets were offered as collateral for a bank loan by Sino-Forest in 2011 so the sale of these assets in 2010 could not have taken place and been recorded as revenue in that year.

111. The effect of the revenue overstatement from Gengma Fraud #1 on the public disclosure record of Sino-Forest is illustrated in paragraph 131 below.

4) Gengma Fraud # 2

112. In 2007, Sino-Forest and members of Overseas Management committed fraud ("Gengma Fraud #2") in another series of transactions to artificially inflate its assets and revenue from the purchase and sale of Standing Timber.

113. In September 2007, Sino-Forest recorded the acquisition of Standing Timber from Yuda Wood at a cost of RMB 161 million (approximately $21.5 million) related to Standing Timber in Yunnan Province (the "Yunnan Plantation"). However, Yuda Wood did not actually acquire these assets in the Yunnan Plantation until September 2008.

114. In 2007, Sino-Forest had also purportedly purchased the land use rights to the Yunnan Plantation from Yuda Wood at a cost of RMB 53.4 million (approximately $7 million), RMB 52.9 million of which was paid to Yuda Wood during the period from January 2009 to April 2009. Sino-Forest then fabricated the sale of the land use rights to Guangxi Hezhou City Kun'an Forestry Co., Ltd. ("Kun'an") pursuant to a contract dated November 23, 2009. Kun'an was controlled by Sino-Forest through Person #1 and is a company included in the Caretaker Company List referred to in paragraph 57 above.

115. Sino-Forest then purported to sell the Standing Timber in the Yunnan Plantation in a series of transactions between March 2008 and November 2009 for RMB 338 million (approximately $49 million). As Yuda Wood did not own this Standing Timber asset until September 2008, Sino-Forest could not have recorded the sale of this Standing Timber prior to that time. The effect of this revenue overstatement on the public disclosure record of Sino-Forest is illustrated in paragraph 133 below.

D. Conclusion Regarding the Standing Timber Fraud

116. The effect of the above conduct is that Sino-Forest and Overseas Management engaged in deceitful or dishonest conduct related to Sino-Forest's Standing Timber assets and revenue that they knew or ought to have known constituted fraud, contrary to subsection 126.1(b) of the Act and the public interest.

117. Due to the chronic and pervasive nature of the systemic conduct set out above, neither the magnitude of the Standing Timber Fraud by Sino-Forest and Overseas Management nor the magnitude of the risk to the pecuniary interests of Investors can be quantified with certainty.

118. Given their positions as officers of Sino-Forest and/or Sino-Panel, Overseas Management authorized, permitted or acquiesced in the non-compliance with Ontario securities law by Sino-Forest and are deemed to have not complied with Ontario securities law pursuant to section 129.2 of the Act. This conduct was also contrary to the public interest.

119. As CFO of Sino-Forest, Horsley authorized, permitted or acquiesced in Sino-Forest's and Overseas Management's commission of the Standing Timber Fraud and therefore is deemed under section 129.2 of the Act to have not complied with Ontario securities law. This conduct was also contrary to the public interest.

PART V. MATERIALLY MISLEADING STATEMENTS RELATED TO THE STANDING TIMBER FRAUD

120. On January 10, 2012, Sino-Forest issued a news release which cautioned that its historic financial statements and related audit reports should not be relied upon.

121. By failing to properly disclose the elements of the Standing Timber Fraud set out above, Sino-Forest made statements in its filings to the Commission during the Material Time which were, in a material respect and at the time and in the light of the circumstances under which they were made, misleading or untrue or did not state facts that were required to be stated or that were

necessary to make the statements not misleading. Overseas Management participated in the conduct that made these statements materially misleading.

122. The misleading, untrue or incomplete statements related to Sino-Forest's description of its primary business were contained in (or absent from) Sino-Forest's continuous disclosure, including its audited annual financial statements, AIFs and MD&A filed with the Commission during the Material Time as required by Ontario securities law.[9] These misleading, untrue or incomplete statements related to Sino-Forest's description of its primary business were contained in (or absent from) Sino-Forest's short form prospectuses filed with the Commission during the Material Time, which incorporated by reference the relevant audited annual financial statements, AIFs and MD&A as required by Ontario securities law.

123. These misleading statements were related to Sino-Forest's primary business in the BVI Model and the WFOE Model, representing approximately 90% of Sino-Forest's stated timber assets as of December 31, 2010 and 75% of its stated revenue from 2007 to 2010.

A. Materially Misleading Statements Regarding Ownership of Assets and Revenue Recognition

124. Members of Overseas Management created and executed the Purchase Contracts in the BVI Model in the quarters after the assets related to those transactions were recognized. This made Sino-Forest's audited annual financial statements, AIFs and MD&A for the years 2006, 2007, 2008, 2009 and 2010 materially misleading.

125. Further, given that Sino-Forest did not have sufficient proof of ownership of the majority of its Standing Timber assets due to the courses of conduct set out above, the information regarding Sino-Forest's timber holdings in its audited annual financial statements, AIFs and MD&A for the years 2006, 2007, 2008, 2009 and 2010 was materially misleading. For the same reasons, the information regarding Sino-Forest's timber holdings in its short form prospectuses

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[9] By way of example, these misstatements include Sino-Forest's disclosure of "Plantation Rights Certificates for Our Purchased Plantations" on page 26 of its 2010 AIF and its disclosure of "Implementation and Issuance of new form Plantation Rights Certificate" on pages 46-47 of its 2010 AIF.

filed in 2007 and 2009 (which incorporated by reference the relevant audited annual financial statements, AIFs and MD&A as required by Ontario securities law) was materially misleading.

126. Sino-Forest and members of Overseas Management created and executed the Sales Contracts in the BVI Model in the quarter after the revenue related to those transactions was recognized. This was contrary to the revenue recognition process set out in Sino-Forest's continuous disclosure, including its MD&A and the notes to its audited annual financial statements.

B: Effect of the Dacheng Fraud, the 450,000 Fraud, Gengma #1 and Gengma #2 on the Reported Revenue of Sino-Forest

1) The Dacheng Fraud

127. The Dacheng Fraud resulted in Sino-Forest fraudulently overstating its revenue in Q3 of 2009 as set out in this table:

Approximate Effect of the Dacheng Fraud on Q3 of 2009 ($ millions)	
Quarterly Reported Revenue	367.0
Fraudulently Overstated Revenue	47.7
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	13.0%

128. Sino-Forest reported its revenue for Q3 of 2009 at page 20 of its annual MD&A for 2009 (dated March 16, 2010) and page 87 of its 2009 Annual Report, summarizing the "2009 Quarterly Highlights".

2) The 450,000 Fraud

129. The 450,000 Fraud resulted in Sino-Forest fraudulently overstating its revenue for Q4 of 2009 as set out in this table:

Approximate Effect of the 450,000 Fraud on Q4 2009 ($ millions)	
Quarterly Reported Revenue	469.6
Fraudulently Overstated Revenue	30.1
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	6.4%

130. Sino-Forest reported its revenue for Q4 of 2009 at page 20 of its annual MD&A for 2009 (dated March 16, 2010) and page 87 of its 2009 Annual Report, summarizing the "2009 Quarterly Highlights".

3) Gengma Fraud #1

131. Gengma Fraud #1 resulted in Sino-Forest fraudulently overstating its revenue for Q1 and Q2 of 2010 as set out in this table:

Approximate Effect of Gengma Fraud #1 on Q1 and Q2 2010 ($ millions)

	Q1 2010	Q2 2010
Quarterly Reported Revenue	251.0	305.8
Fraudulently Overstated Revenue	73.5	157.8
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	29.3%	51.6%

132. Sino-Forest reported its revenue for Q1 and Q2 of 2010 at page 20 of its annual MD&A for 2010 (dated March 15, 2011) and page 88 of its 2010 Annual Report, summarizing the "2010 Quarterly Highlights".

4) Gengma Fraud #2

133. Gengma Fraud #2 resulted in Sino-Forest fraudulently overstating its revenue for Q1, Q2 and Q3 of 2008 and Q4 of 2009 as set out in this table:

Approximate Effect of Gengma Fraud #2 on Q1, Q2 and Q3 of 2008 and Q4 of 2009 ($ millions)

	Q1 2008	Q2 2008	Q3 2008	Q4 2009
Quarterly Reported Revenue	136.1	187.1	295.5	469.6
Fraudulently Overstated Revenue	5.7	4.9	5.9	32.6
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	4.2%	2.6%	2.0%	6.9%

134. Sino-Forest reported its revenue for Q1, Q2 and Q3 of 2008 at page 19 of its annual MD&A for 2008 (dated March 16, 2009) and page 73 of its 2008 Annual Report summarizing the "2008 Quarterly Highlights". Revenue for Q4 of 2009 was reported as set out above in paragraph 130.

C. Materially Misleading Statements Regarding Internal Controls

135. Sino-Forest's disclosure in its AIFs and annual MD&A for 2006, 2007, 2008, 2009 and 2010 relating to the material weaknesses in its internal controls was misleading, untrue or incomplete. This disclosure was also contained in Sino-Forest's short form prospectuses filed in 2007 and 2009 (which incorporated by reference the relevant AIFs and MD&A as required by Ontario securities law).

136. Sino-Forest did disclose that the concentration of authority in Overseas Management and lack of segregation of duties created a risk in terms of measurement and completeness of transactions, as well as the possibility of non-compliance with existing controls.

137. However, as set out in paragraphs 84 to 86, this disclosure by Sino-Forest was wholly inadequate, failing to reveal the extent of the weaknesses in Sino-Forest's internal controls.

D. Conclusion Regarding Materially Misleading Statements Related to the Standing Timber Fraud

138. During the Material Time, given the Standing Timber Fraud, Sino-Forest consistently misled the public in the disclosure required to be made under Ontario securities law. The conduct of Sino-Forest, Chan, Ip, Hung and Ho was contrary to subsection 122(1)(b) of the Act and contrary to the public interest.

139. Further, due to the above conduct, Sino-Forest's audited annual financial statements did not comply with Canadian Generally Accepted Accounting Principles.

140. Given their positions as officers of Sino-Forest, Chan, Ip, Ho and Hung authorized, permitted or acquiesced in Sino-Forest's making of materially misleading statements and thereby committed an offence under subsection 122(3) of the Act This conduct was also contrary to the public interest.

141. As CFO of Sino-Forest, Horsley authorized, permitted or acquiesced in Sino-Forest's and Overseas Management's making of materially misleading statements and therefore is deemed under section 129.2 of the Act to have not complied with Ontario securities law. This conduct was also contrary to the public interest.

PART VI. THE GREENHEART TRANSACTION - FRAUD BY CHAN AND MATERIALLY MISLEADING STATEMENTS BY CHAN AND SINO-FOREST

142. Chan committed fraud in relation to Chan's undisclosed interest and substantial financial benefit in the Greenheart Transaction described below.

143. Chan and Sino Forest made materially misleading statements in Sino-Forest's AIFs for 2008, 2009 and 2010 by not disclosing Chan's interest in the Greenheart Transaction. These misleading statements were also contained in Sino-Forest's short form prospectuses filed in 2009 (which incorporated by reference the relevant AIFs and MD&A as required by Ontario securities law).

144. In 2010, through a complex series of transactions, Sino-Forest completed the purchase of a controlling interest in Greenheart, a public company listed on the Hong Kong Stock Exchange. In 2005, the primary assets of Greenheart's key subsidiary at the time, GRHL, were previously acquired by the original owners of GRHL for approximately $2 million. These assets consisted of natural forest concessions and operations located in Suriname. The total cost of the Greenheart Transaction to Sino-Forest was approximately $120 million, composed of a combination of cash and securities of Sino-Forest.

145. Two of the companies holding shares of GRHL, thus benefitting from the Greenheart Transaction, were Fortune Universe Ltd. ("Fortune Universe") and Montsford Ltd. ("Montsford"). Both Fortune Universe and Montsford were BVI shelf companies incorporated in 2004 and subsequently acquired by, or for the benefit of, Chan in 2005.

146. Person #10 was the sole director and shareholder of Fortune Universe and Person #4 was the sole director and shareholder of Montsford. However, Chan arranged for Person #10 and Person #4 to act as Chan's nominees. Chan was the true beneficial owner of Fortune Universe and Montsford.

147. Person #10 was the legal representative and director of one of Sino-Forest's largest Suppliers during the Material Time. Person #4 was an acquaintance of Chan based in the PRC.

148. As a result of the Greenheart Transaction, Fortune Universe and Montsford received over $22.1 million, comprised of approximately $3.7 million in cash and approximately $18.4 million in securities of Sino-Forest. The securities of Sino-Forest received by Fortune Universe and Montsford appreciated in value and were subsequently sold for a total of approximately $35 million. With the help of Person #11 (Chan's assistant), these securities were sold through brokerage accounts of Fortune Universe and Montsford which were opened at her direction, on the instructions of Chan.

149. While Sino-Forest disclosed that another director of Sino-Forest had an interest in the Greenheart Transaction in its AIFs for 2008, 2009 and 2010, it did not disclose that Chan benefitted directly or indirectly from the Greenheart Transaction through Fortune Universe and Montsford. Chan certified the AIFs for 2008, 2009 and 2010.

150. Chan knew that he was engaging in deceitful or dishonest conduct in relation to the Greenheart Transaction and knew that he was making deceitful or dishonest statements to Investors in Sino-Forest's continuous disclosure.

151. Chan placed the pecuniary interests of Investors at risk and committed fraud, contrary to subsection 126.1(b) of the Act and made materially misleading statements contrary to subsection 122(1)(b) of the Act. This conduct was also contrary to the public interest.

152. Through Chan, Sino-Forest made materially misleading statements contrary to subsection 122(1)(b) of the Act. This conduct was also contrary to the public interest.

153. Given his position as Chairman of the Board and CEO of Sino-Forest, Chan, authorized, permitted or acquiesced in Sino-Forest's making of materially misleading statements and thereby committed an offence under subsection 122(3) of the Act. This conduct was also contrary to the public interest.

154. As Chairman of the Board and CEO of Sino-Forest, Chan authorized, permitted or acquiesced in Sino-Forest's commission of fraud and therefore is deemed under section 129.2 of the Act to have not complied with Ontario securities law. This conduct was also contrary to the public interest.

PART VII. CHAN, IP, HUNG, HO AND YEUNG MATERIALLY MISLED STAFF

A. Chan Materially Misled Staff

155. During his examination by Staff, Chan made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or

untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

156. Chan was asked whether Sino-Forest had any control over certain Suppliers or whether these Suppliers were independent. Chan misled Staff, responding that they were independent companies. Chan repeatedly confirmed that Yuda Wood was an independent company and that it was not controlled by any employee of Sino-Forest. This information was false and misleading.

B. Ip Materially Misled Staff

157. During his examination by Staff, Ip made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

158. Ip misled Staff regarding the creation of Confirmations by Sino-Forest. Ip falsely informed Staff as to nature of the interaction between the PRC forestry bureaus and Sino-Forest personnel surrounding the issuance of the Confirmations. Ip also misled Staff about the timing of purported payments made by Sino-Forest to Suppliers. Ip stated that payments were only made once the Purchase Contracts were signed. This information was false and misleading.

C. Hung Materially Misled Staff

159. During his examination by Staff, Hung made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

160. Hung falsely described the creation of the Purchase Contracts, Sales Contracts and their attachments, including Confirmations, to Staff. Hung informed Staff that he confirmed the

accuracy of all the information in the Purchase Contracts. Hung also stated that he ensured that the attachments to the Purchase Contracts, including Confirmations and Survey Reports, would be "in place". This information was false and misleading.

161. Hung also misled Staff as to the timing of alleged payments made pursuant to the Purchase Contracts.

D. Ho Materially Misled Staff

162. During his examination by Staff, Ho made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

163. Ho was specifically asked about what role he took "in the whole BVI process." Ho replied, "None whatsoever", further stating, "No, I'm not at all involved in the BVI whatsoever." This information was false and misleading.

164. Ho also denied that he was copied on any emails or communications involving the BVI Model. This information was false and misleading.

165. Ho also asserted that Yuda Wood was independent of Sino-Forest and that he had no control over any aspect of its business. This information was false and misleading.

E. Yeung Materially Misled Staff

166. During his examination by Staff, Yeung made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

167. Yeung was specifically asked about his involvement in the creation of Yuda Wood. Yeung stated that he assisted with the application process as a favour to his friend, Person #1. He denied that Sino-Forest supplied the registration capital for Yuda Wood. Yeung also denied any knowledge of Sino-Forest creating fraudulent transactions involving the purchase and sale of Standing Timber. This information was false and misleading.

168. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

DATED at Toronto, Ontario, this 22nd day of May 2012.

SCHEDULE "A"

GLOSSARY OF CERTAIN DEFINED TERMS AND LOCATION IN THE STATEMENT OF ALLEGATIONS

"AIs" means the authorized intermediaries to whom Sino-Forest purported to sell assets in the PRC, including Standing Timber (paragraph 45).

"BVI Model" means the business model employed by Sino-Forest to buy and sell assets through the BVI Subs in the PRC (paragraph 45).

"BVI Network" means the entire network of BVI Subs, Suppliers, AIs and other companies who bought and sold assets in the BVI Model in the PRC (paragraph 56).

"BVI Subs" means wholly owned subsidiaries of Sino-Forest incorporated in the British Virgin Islands (paragraph 45).

"Caretaker Company List" means the document listing the "peripheral" or "nominee" companies controlled by "caretakers" on behalf of Sino-Forest (paragraph 57).

"Certificates" means Plantation Rights Certificates issued by the PRC government (paragraph 72).

"Company" means Sino-Forest Corporation including all of its subsidiaries and companies it controls as set out in its public disclosure record and as the context within this Statement of Allegations requires (paragraph 1).

"Confirmations" means the confirmations purportedly executed by forestry bureaus that Sino-Forest relied upon to evidence ownership of Standing Timber assets in the BVI Model in the absence of Certificates (paragraph 74).

"Dacheng" means Guangxi Dacheng Timber Co. Ltd. (paragraph 90).

"Dacheng Plantations" means the timber plantations purchased from Dacheng commencing in 2008 (paragraph 90).

"Dongkou" means Dongkou Shuanglian Wood Company Limited (paragraph 60).

"Farmers' Authorizations" means farmers' authorization letters (paragraph 72).

"Fortune Universe" means Fortune Universe Ltd. (paragraph 145).

"Gengma Forestry" means Gengma Dai and Wa Tribe Autonomous Region Forestry Co., Ltd. (paragraph 107).

"Greenheart" means the company now known as Greenheart Group Limited (paragraph 12).

"Greenheart Transaction" means the series of transactions where Sino-Forest purchased a controlling interest in Greenheart (paragraph 27).

"GRHL" means Greenheart Resources Holdings Limited (paragraph 57).

"Haosen" means Guangxi Pingle Haosen Forestry Development Co., Ltd. (paragraph 97).

"Investors" means the securityholders of Sino-Forest (paragraph 3).

"Kun'an" means Guangxi Hezhou City Kun'an Forestry Co., Ltd. (paragraph 114).

"Material Time" means the period from June 30, 2006 to January 11, 2012 (paragraph 15).

"Meishan" means Guangxi Rongshui Meishan Wood Products Factory (paragraph 97).

"Montsford" means Montsford Ltd. (paragraph 145).

"Offsetting Arrangement" means the payables/receivables arrangement used in the BVI Model by Sino-Forest to buy and sell Standing Timber (paragraph 48).

"Overseas Management" means Allen Chan, Albert Ip, Alfred C.T. Hung, George Ho and Simon Yeung (paragraph 13).

"Plantation Fibre" is one of the two subcomponents of Sino-Forest's core business segment called Wood Fibre Operation (paragraph 41).

"PRC" means the People's Republic of China (paragraph 2).

"Purchase Contracts" means the contracts used by Sino-Forest to purchase assets in the BVI Model (paragraph 45).

"Sales Contracts" means the contracts used by Sino-Forest to sell assets in the BVI Model (paragraph 45).

"Shaoyang Jiading" means Shaoyang Jiading Wood Products Co. Ltd. (paragraph 68).

"Sino-Forest" means Sino-Forest Corporation including all of its subsidiaries and companies it controls as set out in its public disclosure record and as the context within this Statement of Allegations requires (paragraph 1).

"Sino-Panel" means Sino-Panel (Asia) Inc., a subsidiary of Sino-Forest (paragraph 39).

"Sino-Panel Companies" means the three subsidiaries of Sino-Panel which purported to purchase Standing Timber from Yuangao (paragraph 96).

"Sino-Panel Gengma" means Sino-Panel (Gengma) Co., Ltd., a Sino-Forest subsidiary (paragraph 107).

"Sonic Jita" means Hong Kong Sonic Jita Engineering Co., Ltd. (paragraph 64).

"Standing Timber" means all of the Plantation Fibre subcomponent of Wood Fibre Operations and as the context within this Statement of Allegations requires (paragraph 42).

"Suppliers" means the parties from whom Sino-Forest purported to buy assets in the PRC, including Standing Timber (paragraph 45).

"Survey Reports" means timber survey reports (paragraph 72).

"WFOE Model" means the business model employed by Sino-Forest to buy and sell assets through its WFOEs (paragraph 46).

"WFOEs" means Wholly Foreign Owned Enterprises which were subsidiaries of Sino-Forest (paragraph 46).

"Xinqi" means Gaoyao City Xinqi Forestry Development Co., Ltd. (paragraph 97).

"Yuangao" means Guangxi Hexhou City Yuangao Forestry Development Co., Ltd. (paragraph 96).

"Yuda Wood" means Huaihua City Yuda Wood Ltd. (paragraph 57).

"Yunnan Plantation" means the Standing Timber plantations in Yunnan Province purportedly purchased in 2007 from Yuda Wood (paragraph 113).

SCHEDULE "B"

SELECTED INFORMATION FROM THE 2005-2010 AUDITED ANNUAL FINANCIAL STATEMENTS OF SINO-FOREST

Reported Revenue

December 31, 2010	$1,923,536,000
December 31, 2009	1,238,185,000
December 31, 2008 (restated amount)	896,045,000
December 31, 2007	713,866,000
December 31, 2006 (restated amount)	555,480,000
December 31, 2005	493,301,000

Reported Total Assets

December 31, 2010	$5,729,033,000
December 31, 2009	3,963,899,000
December 31, 2008	2,603,924,000
December 31, 2007	1,837,497,000
December 31, 2006	1,207,255,000
December 31, 2005	895,271,000

Reported Timber Assets (with % of total assets)

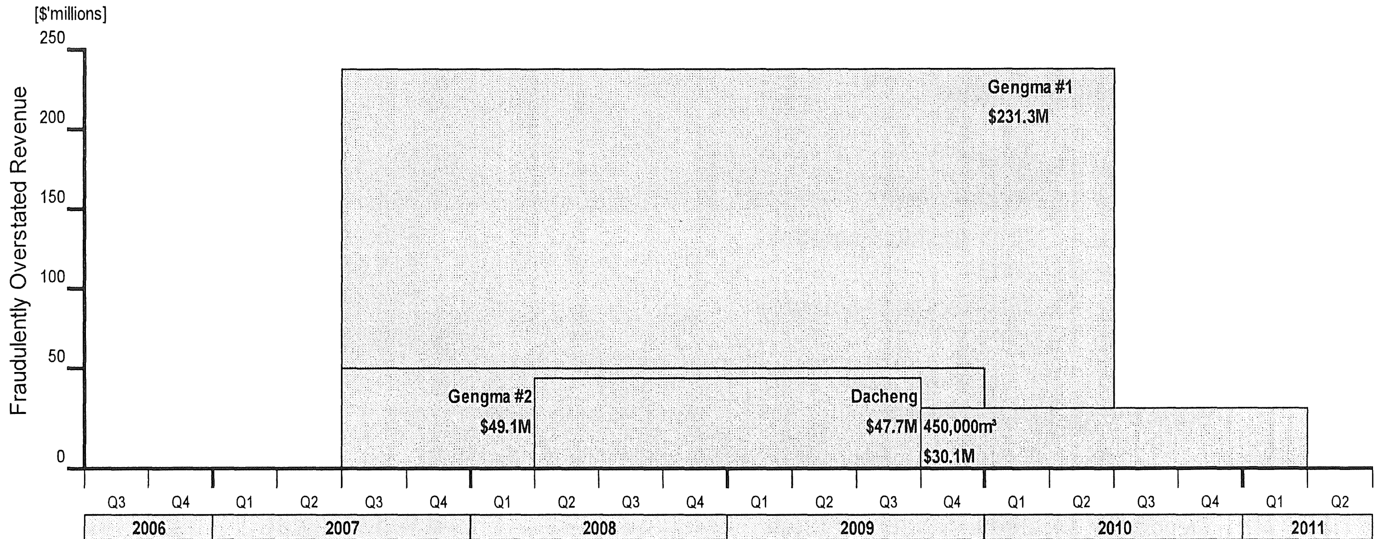
December 31, 2010	$3,122,517,000 (55%)
December 31, 2009	2,183,489,000 (55%)
December 31, 2008	1,653,306,000 (63%)
December 31, 2007	1,174,153,000 (64%)
December 31, 2006	752,783,000 (62%)
December 31, 2005	513,412,000 (57%)

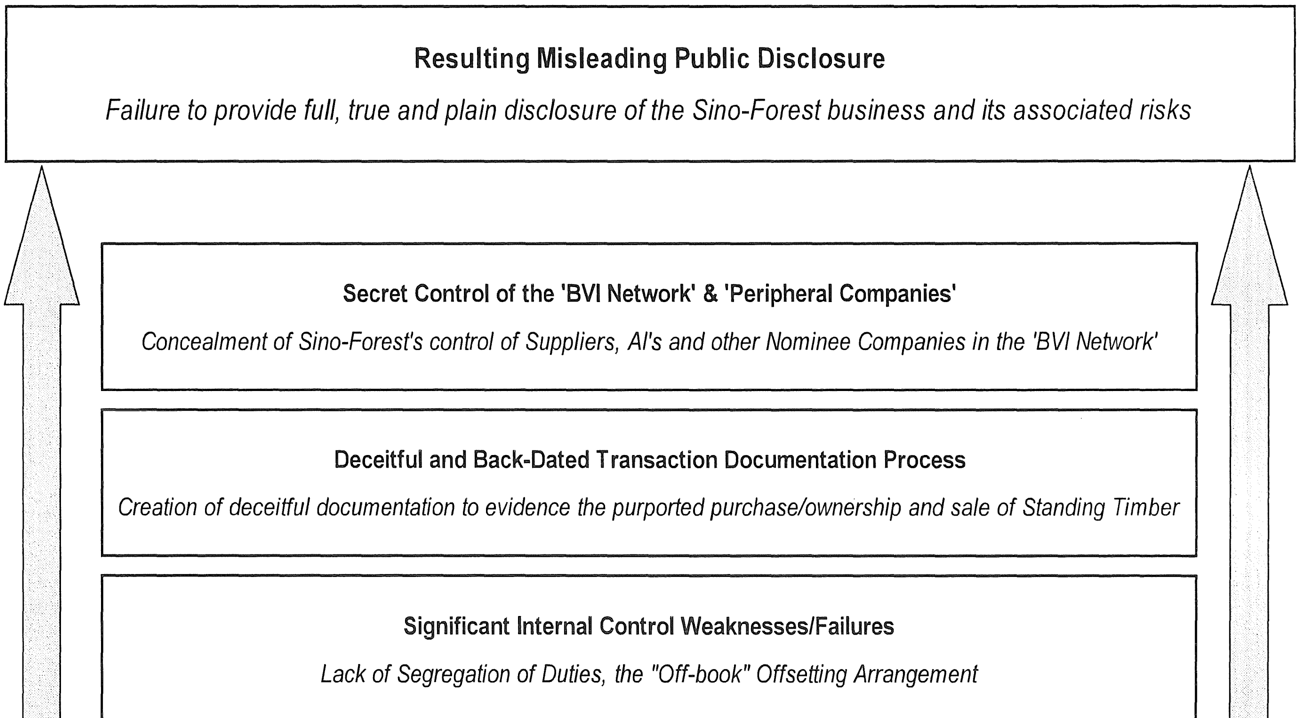
Number of Outstanding Common Shares

December 31, 2010	245,740,889
December 31, 2009	242,129,062
December 31, 2008	183,119,072
December 31, 2007	182,592,961
December 31, 2006	137,999,548
December 31, 2005	137,789,548

SCHEDULE "C"

Sino-Forest Corporation
Overview of the Standing Timber Fraud





This is Exhibit "G" mentioned and referred to in the Affidavit of Charles M. Wright, sworn before me at the City of London, in the County of Middlesex, this 4th day of July, 2014.

A Commissioner, etc.

Court File No. CV-13-481761

ONTARIO
SUPERIOR COURT OF JUSTICE

Cosimo Borrelli, in his capacity as trustee of the
SFC LITIGATION TRUST

Plaintiff

- and -

GEORGE HO, ALBERT IP, DAVID J. HORSLEY,
ALFRED C.T. HUNG, and SIMON YEUNG

Defendants

STATEMENT OF CLAIM

Notice of Action issued on May 31, 2013

1. The plaintiff, Cosimo Borrelli, claims in the capacity of a representative and/or trustee (the "**Trustee**") of the Sino-Forest Corporation ("**SFC**") Litigation Trust pursuant to a Litigation Trust Agreement dated January 30, 2013 (the "**Trust Agreement**") and pursuant to a plan of compromise and reorganization (the "**CCAA Plan**") and an Order of the Ontario Superior Court of Justice (Commercial List) (the "**CCAA Court**") dated December 10, 2012 (the "**CCAA Plan Sanction Order**"):

   a. damages in an amount to be specified prior to trial for losses suffered as a result of breach of contract, breach of duty (contractual, tortious, equitable, fiduciary, statutory, regulatory and/or other duties), misrepresentation, conspiracy, breach of trust, fraud, and/or duty of care and skill by, negligence by and/or unjust

enrichment of the Defendants, including as knowing recipients and/or knowing assistors or de facto directors, officers or agents;

b. punitive damages in the amount to be specified prior to trial;

c. an order for an accounting of profit and tracing of profits made by the defendants in connection with their relationship with SFC;

d. an order for restitution and/or such other equitable remedy for the breaches of duties and other tortious conduct referred to in subparagraph 1(a);

e. pre-judgment and post-judgment interest on a compound basis or alternatively in accordance with the Courts of Justice Act, R.S.O. 1990, c. C-34;

f. payment of applicable Harmonized Sales Tax on any sums awarded in favour of the plaintiff, including costs;

g. costs of this action on a substantial indemnity scale; and

h. such further and other relief as this Honourable Court deems just.

2. The claims asserted herein relate to the defendants' activities as directors and officers of SFC and its subsidiaries and are claims that belonged to and could have been advanced by SFC and its subsidiaries, prior to those claims being transferred pursuant to the CCAA Plan as described below. The claims asserted herein are not claims of the trustees in connection with the notes issued by SFC.

I. OVERVIEW

3. Until June 2011, SFC was one of Canada's most valuable forestry companies, and the

largest single forestry company throughout the People's Republic of China (the "**PRC**"). Ultimately, the company's market capitalization grew to $6 billion, based in large part on SFC's remarkable year-over-year growth in revenues. In less than six years, SFC's annual revenues increased from US$20.5 million to US$1.9 billion. Its asset base grew from roughly US$30 million to almost US$6 billion in that same timeframe.

4. SFC's remarkable story came to a dramatic conclusion in the summer of 2011. A short seller hedge fund, in concert with other similar hedge funds, published a report in June of 2011 that contained sensational allegations of fraud, corruption, and illegal activity at SFC. The report alleged, among other things, that SFC was a "multi-billion dollar ponzi scheme ... accompanied by substantial theft."

5. SFC, through the work of an independent committee (the "**IC**") and a dedicated board of directors, sought to investigate and if possible dispute the allegations made by the short sellers. At the same time, SFC was required to respond to investigations brought by the Ontario Securities Commission (the "**OSC**"), the Royal Canadian Mounted Police, and ultimately proceedings brought by the OSC.

6. SFC was unable to issue its third quarter 2011 financial statements because of the many questions that had been raised by the hedge funds' report, the IC, SFC's auditors, Ernst & Young ("**E&Y**"), the OSC, and others. In March 2012, SFC filed for protection under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 (the "**CCAA**"). After fully canvassing the market, SFC determined that it was unable to find a buyer willing to purchase its assets for an amount equal to its outstanding debt. Pursuant to the CCAA Plan Sanction Order, SFC's assets were effectively transferred to its creditors, with roughly $6 billion in equity value having been wiped out.

7. George Ho, Albert Ip, Alfred C.T. Hung and Simon Yeung (the "**Overseas Management**") are responsible for the demise of SFC. Overseas Management was part of an inner circle of Hong Kong and China-based management who, through a combination of activities that ran the gamut ranging from sloppy record keeping to more general mismanagement, through to outright fraud and theft, caused SFC to materially overstate the value of SFC's revenues and assets and to conceal personal profits made in connection therewith. Among other things, Overseas Management:

(a) had operational and *de facto* control over allegedly arms-length purchasers of SFC's timber known as "authorized intermediaries" ("**AIs**") and the Suppliers of that timber ("**Suppliers**"), which control had not been disclosed to SFC, its auditors, or its directors;

(b) knew that certain of SFC's AIs and supplier counterparties were incapable of performing the obligations required of them by their contracts with SFC;

(c) withheld and/or hid information from SFC's auditors;

(d) prepared, certified and/or published false or materially misleading financial statements (including interim financial statements) and public disclosure documents of SFC and/or its subsidiaries (the "**Subsidiaries**");

(e) concealed their unlawful activities from SFC through the use of personal non-company e-mail accounts and by issuing instructions to hide certain transactions from SFC's accounting department in Hong Kong;

(f) forged SFC contracts to evade restrictions imposed by China's State Administration of Foreign Exchange ("**SAFE**") and/or to establish banking credit

that would not have otherwise been provided to SFC;

(g) entered into transactions that evidenced a circular flow of funds created for unknown or improper purposes;

(h) manipulated short term incentive program targets for SFC for the 2008 fiscal year, resulting in the payment of management bonuses beyond those properly due;

(i) entered into a number of transactions including transactions identified by the OSC that were suspicious if not outright fraudulent;

(j) failed to maintain SFC's records in a manner that would be expected of a publicly traded company, including by carrying out a practice of backdating contracts;

(k) caused moneys to be paid out by SFC and/or the Subsidiaries for no proper purpose; and

(l) prepared and/or published false information in connection with the debt or equity issues set out in Schedule 2 to the Notice of Action.

8. The plaintiff's claims against Overseas Management are for all losses and damages, equitable compensation and restitution necessary to compensate SFC for the losses caused in connection with or arising out of their acts or omissions in the direction and/or management of and/or dealings of SFC and/or its Subsidiaries.

9. In addition, the plaintiff claims against the defendant David Horlsey ("**Horsley**") for his role in contributing to the collapse of SFC. These claims, particularized below, flow from Horsley's acts and omissions as Chief Financial Officer of SFC.

II. THE PARTIES

10. The plaintiff, Cosimo Borrelli, is an individual resident in Hong Kong. Pursuant to the Trust Agreement, Mr. Borrelli was appointed as the Trustee of the SFC Litigation Trust.

11. Under the Trust Agreement and the CCAA Plan Sanction Order, the Litigation Trust Assets (as defined therein) of SFC, which included the Litigation Trust Claims (as defined therein), the Litigation Funding Amount (as defined therein), and any other assets acquired by the Litigation Trust on or after the effective date pursuant to the Trust Agreement or the CCAA Plan, were transferred to the SFC Litigation Trust.

12. The Litigation Trust Claims consist of any and all claims or causes of action which have been or may be asserted by or on behalf of (a) SFC against any and all third parties; or (b) the trustees (on behalf of the former noteholders in SFC) against any and all persons in connection with the notes issued by SFC, other than in either case (i) any claim, right or cause of action against any person that is released pursuant to Article 7 of the CCAA Plan; or (ii) any Excluded Litigation Trust Claim (as defined in the CCAA Plan).

13. Under the CCAA Plan Sanction Order, the CCAA Court ruled that there had been good and sufficient notice and service of the Plan Filing and Meeting Order and the Meeting Materials (as defined therein), which materials described the nature of the trust assets being transferred. The CCAA Plan Sanction Order further deemed effective the transfer, assignment and delivery of the Litigation Trust Claims, which effected by means of legal assignment the transfer of the litigation claims asserted herein.

14. All of the members of Overseas Management were de jure or de facto directors and/or officers of SFC. At all relevant times, SFC was a reporting issuer in the province of Ontario

whose shares traded on the Toronto Stock Exchange (the "**TSX**"). SFC was incorporated under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44. At all relevant times, SFC's registered office was located in Mississauga Ontario, and its executive office was located in Hong Kong.

15. The defendant George Ho ("**Ho**") is an individual resident of Hong Kong. Prior to joining SFC, Ho obtained a degree in accounting from Simon Fraser University. From at least 2008 until his employment was terminated by SFC in 2012, Ho was the Vice President, Finance (China) of SFC. Along with all of the other Overseas Management, Ho was alleged by Staff of the Ontario Securities Commission (the "**OSC**") to have engaged in a complex fraudulent scheme to inflate the assets and revenue of SFC and was alleged to have made materially misleading statements in SFC's public disclosure record related to its primary business.

16. The defendant Albert Ip ("**Ip**") is an individual resident of Hong Kong. From 1997 to April 17, 2012, Ip was the Senior Vice President, Development and Operations North-east and South-west China of SFC. Ip received an Enforcement Notice from Staff of the OSC in 2012 in relation to his involvement in the alleged massive fraud at SFC. Ip resigned from SFC for health reasons on March 30, 2012.

17. The defendant Horsley is a Canadian citizen and resident of the Greater Toronto Area. Horsley was the Senior Vice President and Chief Financial Officer of SFC from October 2005 to April 2012. On April 17, 2012 Horsley resigned as the Chief Financial Officer but continued to be employed by the Company in its restructuring efforts. On September 27, 2012, SFC terminated Horsley's employment.

18. The defendant Alfred C.T. Hung ("**Hung**") is a resident of Hong Kong. Hung was the Vice President, Corporate Planning and Banking of SFC from at least 2004 to April 17, 2012. In

late August 2011, Hung was placed on administrative leave by SFC, and on April 17, 2012, his employment was terminated by SFC. Hung received an Enforcement Notice from Staff of the OSC in 2012 in relation to his involvement in the alleged massive fraud at SFC.

19. The defendant Simon Yeung ("**Yeung**") is a resident of Hong Kong. Yeung was the Vice President – Operations within the Operations/Project Management Group of Sino-Panel (Asia) Inc., a subsidiary of SFC from at least June 30, 2006 to April 17, 2012. In late August 2011, Yeung was placed on administrative leave by SFC, and on April 17, 2012, his employment was terminated by SFC. Yeung received an Enforcement Notice from Staff of the OSC in 2012 in relation to his involvement in the alleged massive fraud at SFC.

III. OVERVIEW OF SINO-FOREST'S BUSINESS

A. General

20. SFC was an integrated forest plantation operator and forest products company, with assets predominantly in the PRC. Its stated principal businesses included the ownership and management of forest plantation trees, the sale of standing timber, wood logs and wood products and the complementary manufacturing of downstream engineered-wood products.

21. In addition, SFC held an indirect majority interest in the Greenheart Group, a Hong Kong listed investment holding company, which, together with its subsidiaries, owned certain rights and managed hardwood forest concessions in the Republic of Suriname and radiata pine plantation on freehold land in New Zealand.

22. As of March 30, 2011, a total of 137 entities made up the SFC group of companies: 67 PRC incorporated entities (with 12 branch companies), 58 BVI incorporated entities, 7 Hong Kong incorporated entities, 2 Canadian entities and 3 entities incorporated in other jurisdictions.

B. The Business Model

23. There are four types of rights associated with timber plantations in the PRC, namely (i) plantation land ownership, (ii) plantation land use rights, (iii) timber ownership, and (iv) timber use rights. All of these are separate rights and can be separately owned by different parties.

24. Generally, private enterprises cannot own plantation land in the PRC but may hold plantation land use rights for a specified duration (up to 70 years but typically 30 to 50 years), timber ownership and timber use rights. Foreign enterprises are not prohibited by law from acquiring timber ownership and timber use rights.

25. For its timber business in the PRC, SFC utilized two models, one involving BVI entities ("**BVIs**"), and the other involving subsidiaries incorporated in the PRC as wholly foreign owned enterprises ("**WFOEs**").

26. The BVI structure was the model primarily used by SFC for its forestry business in the PRC. By 2011, SFC had established 58 BVI companies. Not all of these BVIs were involved in the BVI model or standing timber business. Of the 58, there were 20 involved in the BVI standing timber business while the remaining BVIs were either holding companies or used in SFC's log trading business.

27. Overseas Management caused SFC to publicly state that the BVIs involved in the standing timber business acquired standing timber from "suppliers". The Suppliers were supposed to be third party aggregators who acquired the standing timber and, typically, land use rights from other Suppliers or from original timber owners. As non-PRC companies, the BVIs could not and did not acquire land use rights in the PRC, and instead only acquired the rights to timber in the PRC pursuant to the relevant standing timber purchase contracts.

28. The BVI model did not involve the BVIs concurrently acquiring the plantation land use rights or leases of the underlying plantation land with the purchase of standing timber, as the BVIs cannot legally acquire plantation use rights. However, the BVIs' supply contracts typically contained a right of first refusal for the BVIs to acquire, or nominate an affiliate to acquire, the plantation land use rights after the timber had been harvested.

29. The BVIs did not sell standing timber directly to customers. Instead, they conducted the sale of standing timber through AIs (which are also called "entrusted sales agents" in the BVI model) pursuant to "entrusted sales agreements". The AIs served as SFC's customers under the BVI model of its standing timber business.

30. The BVIs did not directly pay the Suppliers or receive payments from the AIs. Instead, the AIs were instructed by Overseas Management to make "set-off payments". Pursuant to the instructions of SFC, AIs were supposed to make payments directly or indirectly to SFC's Suppliers for amounts owed by the BVIs to those Suppliers. As a result, no cash actually flowed directly through the BVIs. SFC then received confirmations from the AIs and Suppliers confirming that payments had been made and received respectively.

31. The nature of the BVI model meant that SFC could not obtain cash from its BVI model operations or monetize its BVI model assets without engaging in a complicated and uncertain process.

32. The BVI model only made sense at all insofar as the AIs and Suppliers were arm's length third party purchasers or vendors. Absent that arm's length, the Board and SFC's auditors could have no assurance of the legitimacy of the BVI transactions, as opposed to simply being composed of circular paper transactions for the benefit of insiders.

33. The WFOE structure was created in or about 2004. Commencing in 2004, the PRC's Ministry of Commerce permitted foreign investors to invest in PRC-incorporated trading companies and to participate in most areas of the commodity distribution industry, including the purchase of standing timber and land use rights throughout the PRC. Prior to this time, WFOEs were prohibited from engaging in the commodity distribution industry.

34. Unlike BVIs, WFOEs could acquire land use rights or land leases as well as standing timber rights, and could have bank accounts in the PRC. Because of the WFOEs' direct presence in the PRC, they could more readily obtain financing from PRC banks to finance their operations. WFOEs could log the timber and sell both logs and standing timber to end customers, which means they did not need to use AIs. The WFOEs directly paid the Suppliers for the standing timber and directly received payment from end customers instead of utilizing the set-off arrangement used by SFC's BVI entities in the BVI model.

IV. SECRET CONTROL OVER AIs AND SUPPLIERS

35. Overseas Management fraudulently concealed their control and the control by other insiders at SFC over the Suppliers, AIs and other nominee companies, principally though not exclusively in the BVI side of SFC's business. Overseas Management established a collection of "nominee" or "peripheral" companies that were controlled by various "caretakers" who were employees of SFC or otherwise closely associated with the principals of SFC. By controlling the Suppliers, AIs, and peripheral companies, Overseas Management were carrying out transactions which either overstated the economic substance of the transactions, or which were entirely fictitious.

36. Moreover, these Suppliers, AIs and other nominee companies would have been considered to be "related parties" under generally accepted accounting principles ("**GAAP**") and

standards ("**GAAS**"). Related party transactions are considered to be not arm's length transactions that represent fair market value. The value of such transactions are susceptible to manipulation by insiders and therefore, under GAAP and GAAS, are not *per se* reliable for fair value determinations.

37. By falsely holding out these Suppliers, AIs, and other nominee companies as unrelated third party counterparties, Overseas Management exposed SFC to significant peril at the hands of regulators, shareholders, and other stakeholders. There was no legitimate business purpose either for carrying out transactions with such related parties, or for causing SFC to represent that such entities were unrelated third parties.

38. Overseas Management personally profited from their inside relationships with the related party Suppliers, AIs, and other nominee companies. The full particulars of the defendants' relationships with each of the related party Suppliers, AIs and peripheral companies, are known only to the defendants. Further particulars, including particulars of the secret profits made by Overseas Management in connection with such related party entities, will be provided prior to trial.

1. Kun'an

39. One of SFC's major Suppliers was Guangxi Hezhou City Kun'an Forestry Co., Ltd. ("**Kun'an**"). Kun'an was a PRC limited company that was established on January 20, 2009. Its registered office was located in Hezhou City, Guangxi, PRC. Over the years, SFC recorded and publicly disclosed that it had purchased hundreds of millions of dollars of timber assets from Kun'an. For example, in 2009, roughly 30% of all of SFC's plantation assets were purchased (by BVI entities) and leased (by Sino-Panel) from Kun'an.

40. Additionally, in March 2008 – nine months before the company even existed – Overseas Management caused SFC to record that Kun'an purchased $49 million worth of timber assets from SFC. Particulars of that transaction are described in the section entitled "Genga Fraud #2" below.

41. Contrary to Overseas Management representations to SFC, Kun'an was not an independent third party. The defendants Ip and Yeung helped to establish Kun'an. Its manager was Huang Ran, a former or perhaps current employee (the facts surrounding his employment are known only to Overseas Management) of SFC who was involved in numerous of the transactions referred to below.

42. By September 2009 – nine months after it was established and eighteen months after the company allegedly purchased $49 million of timber assets from SFC – the defendant Yeung urged Huang Ran to recruit "one or two clerks, tellers, or even merchandisers, to construct Kun'an to be a company with certain scale, instead of a one-person shell company." Another SFC employee, Qianhui Wu, responded using a personal address, agreeing with Yeung.

43. Undisclosed to SFC by Overseas Management was that they actually controlled Kun'an. Overseas Management developed a spreadsheet entitled "Companies held by managers and/or nominee shareholders overview", which listed more than 120 of SFC's "suppliers", AIs and other counterparties. Kun'an's registered shareholders were nominees only, nominated by Overseas Management to make it appear that Kun'an (and other suppliers) were independent third parties, when they were not. At all material times, Overseas Management, through the use of "caretakers", owned, managed, controlled and directed Kun'an.

2. Yuda Wood

44. Without limiting the generality of the foregoing, Overseas Management controlled Huaihua Yuda Wood Co. ("**Yuda Wood**"), which was allegedly SFC's largest supplier from 2007 to 2010. During that time period, SFC claimed to have paid Yuda Wood $650 million.

45. Unknown to SFC's board of directors or shareholders, in fact, Yuda Wood was registered and capitalized by Overseas Management, who also controlled bank accounts of Yuda Wood and key elements of its business. In or about July 1998, Overseas Management incorporated Sonic Jita Engineering Co. Ltd., the parent company of Yuda Wood. In or about 2006, the defendants Yeung and Ip assisted in the incorporation of Yuda Wood.

46. The defendant Ho had authority to supervise a Yuda bank account into which Sino-Panel deposited payments for timber assets allegedly purchased from Yuda Wood. At various times the defendants and other SFC personnel at their direction had access to Yuda's documents or chops.

47. Overseas Management controlled Yuda Wood through their relationship with Huang Ran, Yuda Wood's legal representative and SFC's former employee.

48. After Yuda Wood was identified and questioned by Muddy Waters in its report (described in the section entitled "Muddy Waters Report" below), Overseas Management and Huang Ran caused Yuda Wood to be deregistered. As quickly as Yuda Wood appeared and established a multi-hundred million dollar business, Yuda Wood disappeared entirely.

3. Dongkou

49. Dongkou Shuanglian Wood Company Limited ("**Dongkou**") was SFC's most significant AI, purportedly purchasing approximately $125 million in 2008, representing 14% of SFC's

revenue that year.

50. Undisclosed to the investing public or the Board of SFC was the fact that Overseas Management controlled Dongkou. Within 18 months of its incorporation in 2005, two SFC employees became the sole shareholders of Dongkou. Subsequently, the defendants controlled Dongkou through one of SFC's subsidiaries, Shaoyang Jiading Wood Products Co. Ltd. By 2007, at the direction of Ip and others, SFC employees drafted purchase contracts on Dongkou's behalf.

51. The fact that Dongkou was controlled by the inside management group of SFC meant that Dongkou was effectively a related party to SFC. By fraudulently holding Dongkou out as an independent third party and for causing SFC to treat Dongkou as a third party for accounting purposes, Overseas Management caused SFC's financial statements to be materially misstated.

4. Other Related Parties

52. As stated above, Overseas Management developed a "caretaker list", which set out a number of SFC's major Suppliers and AIs and their nominee shareholders. The full particulars of the related party status of all of SFC's Suppliers and AIs are known only to the defendants, and in all events further particulars will be provided prior to trial. Insofar as SFC recorded any transactions with parties that were in fact related parties at the direction of Overseas Management, such misrepresentations placed SFC in significant peril with securities regulators and all of its stakeholders. Such transactions undermined the accuracy of SFC's books and records and materially contributed to SFC's inability to issue audited financial results, as discussed below.

V. FRAUDULENT AND/OR QUESTIONABLE TRANSACTIONS

53. Overseas Management caused SFC and its subsidiaries to enter into a number of transactions (the "**Transactions**") that were fraudulent and/or devoid of any legitimate business purpose. Some of the Transactions were identified by the OSC as fraudulent transactions, and are *per se* unlawful beyond any related party aspect of them. All of the Transactions materially contributed to SFC's downfall.

54. In the alternative, if the Transactions were not outright fraudulent, they were sufficiently suspicious and devoid of legitimate business purpose that Overseas Management, as *de facto* officers of a public company, should have studiously avoided them. Entering into such transactions constituted a breach of the duty of care that Overseas Management owed to SFC both at common law and under the *CBCA*.

A. Absence of Evidence of Timber Asset Ownership

55. As a public company and a reporting issuer, SFC was expected to make complete and accurate disclosure about its assets. As the core management group at SFC, the defendants were responsible for internal and public reporting on operations, including SFC's acquisition of assets. At all material times, SFC had a reasonable expectation that assets Overseas Management purchased with company funds were accompanied with appropriate evidence of legal ownership. Such evidence of legal ownership was further required by GAAP and GAAS to be properly recorded as actual acquisitions by the company.

56. Overseas Management failed to obtain adequate supporting documentation and evidence of title for timber assets purchased and sold by SFC's BVI subsidiaries, which constituted most of SFC's timber assets and therefore the value of SFC. 80% by value of SFC's timber assets was

purportedly evidenced by purchase contracts entered into by the BVI subsidiaries ("**Purchase Contracts**"). The Purchase Contracts purported to have three attachments: plantation rights certificates ("**Certificates**") or other ownership documents; timber survey reports ("**Survey Reports**"); and farmer's authorization letters ("**Farmers' Authorizations**"). Additionally, Overseas Management purported to rely on PRC Forestry Bureau confirmations ("**Confirmations**") to evidence ownership.

57. Critical in any documents evidencing ownership is a sufficiently accurate description of what was being purchased. The Purchase Contracts and Confirmations did not sufficiently identify the trees or other timber assets purportedly purchased by SFC. It is not possible to identify approximately 80% of SFC's stated standing timber assets by reference to the Purchase Contracts and Confirmations.

58. The Confirmations were not legally recognized documents evidencing ownership or title of timber assets. The Confirmations were granted to Overseas Management as favours and were not intended by the Forestry Bureau to be disclosed to third parties and were not intended to be relied upon as legal evidence of title. Moreover, many of the Confirmations were in fact created by Overseas Management and employees working at their direction, and were backdated to suit Overseas Management's purposes.

59. The supporting documentation required to be attached to the Purchase Contracts were either insufficient or missing entirely. Without limiting the generality of the foregoing:

(a) none of the Purchase Contracts had any Farmers' Authorizations attached. Absent such authorizations, there was no evidence that title to timber was properly transferred to the "supplier" prior to the purported transfer to SFC; and

(b) the Survey Reports were conducted by a single firm who had a conflict of interest, Zhanjiang Southern Forestry Products Quality Supervision Co., Ltd. ("**Zhanjiang Southern**"). At all material times, Lu Qiding ("**Qiding**"), an SFC employee and a key member of its timber acquisition team, was a 10% shareholder of Zhanjiang Southern. At all material times, another 80% of the shares of Zhanjiang Southern were held by a former SFC employee. Drafts of these reports, which were held out to be drafted by an independent company, existed on computers of SFC employees who reported to Qiding and Overseas Management. These Survey Reports were relied upon by SFC's auditors, and Overseas Management intended for the auditors to rely on the Survey Reports.

60. The absence of sufficient legal evidence to demonstrate SFC's ownership of billions of dollars of timber assets was a material contributor to SFC's inability to obtain an audit opinion and to market the assets for sale to a third party in the Sales Process, defined and described below. The magnitude of this problem was aggravated by the serious questions raised about the independence of AIs and Suppliers and prior representations by Overseas Management, as described above.

B. Dacheng Frauds

61. The defendants committed a number of frauds through a series of transactions in 2008 involving Guangxi Dacheng Timber Co. Ltd. ("**Dacheng**"). Dacheng was ostensibly a "supplier" who sold timber assets to SFC at a price of RMB 47 million (approximately CAD $8 million). The purchase price was funneled through Dacheng's bank accounts and returned back to SFC's subsidiaries, shown to be revenue collected by those subsidiaries.

62. Further, Overseas Management caused SFC to record these timber assets "purchased"

from Dacheng twice in the books and for inflated amounts. In addition to recording these assets at the purchase price in the WFOE books, the defendants caused SFC to record these same assets at a value of RMB 205 million (approximately CAD $34 million) on the BVI books, notwithstanding that the BVI entities had nothing to do with the purchase of these assets and the assets had already been recorded on the WFOE subsidiaries' books.

63. Then, in 2009, the defendants caused the BVI entities to record a "sale" of these standing timber assets that the BVI entities did not actually purchase (and which had already been double counted on the books) for RMB 326 million – a one-year gain of RMB 121 million from the fictious numbers created on the BVI books, or RMB 279 million (approximately CAD $46 million) from the actual purchase price paid by the WFOE entities before the money was funneled back to SFC.

64. The Dacheng fraud gave the appearance that SFC was engaging in legitimate business activity, and in fact, highly lucrative activity through the purchase and sale of timber assets for a quick and virtually cost-free return on investment. The defendants caused SFC's own funds to be circulated within the SFC enterprise, giving the illusion not only of building an asset base, but also building revenues for the operating arms of SFC.

65. The Dacheng fraud was emblematic of the brazen frauds committed by Overseas Management, with multiple levels of fraud often occurring within a single transaction or series of transactions. The "proceeds" of the Dacheng transaction were then further employed in the purported acquisition of additional timber assets, resulting in a further compounding of the effects of the original fraud(s).

C. The "450,000 Fraud"

66. In 2009, the defendants secretly used a number of companies to create a fictitious purchase and subsequent sale of 450,000 cubic metres of timber assets (the "**450,000 Assets**"). Every aspect of this series of transactions was an abject fraud.

67. First, the defendants caused SFC, through three subsidiaries of Sino-Panel, to "purchase" the 450,000 Assets from Guangxi Hezhou City Yuangao Forestry Development Co. Ltd ("**Yuangao**") in or about October 2009. This "purchase" was recorded on SFC's books as being valued at RMB 183 million (CAD $31 million). But Yuangao was not, as was held out by Overseas Management, an independent third party, but rather, a company secretly controlled by Overseas Management through a former SFC employee, Huang Ran.

68. Only a few months later, SFC recorded a sale of the 450,000 Assets to three companies that were also held out by Overseas Management to be independent third party companies, Gaoyao City Xinqi Forestry Development Co., Ltd. ("**Xinqi**"), Guangxi Rongshui Meishan Wood Products Factory ("**Meishan**"), and Guangxi Pingle Haoseng Forestry Development Co., Ltd. ("**Haoseng**") But these companies were neither independent nor third parties. Instead, they were secretly controlled by the defendants, with Huang Ran again acting as Overseas Management's "caretaker".

69. In addition to the substratum of the 450,000 Asset transaction being completely fraudulent, Overseas Management compounded that fraud by creating a *gain* on the sale of the 450,000 Assets. In just a few short months, SFC had a gain of RMB 50 million on these assets – a 30% return over just two months. The RMB 233 million sale of standing timber was recorded in the books of SFC's WFOE subsidiaries and not its BVI subsidiaries that purportedly sold the assets.

70. Overseas Management then created a number of circular transactions designed to give the appearance of reality to the 450,000 Asset fraud. SFC made payments, purportedly to settle accounts payable, to various Suppliers (including Yuangao). Those Suppliers then funneled money to Xinqi, Meishan, and Hoaseng, who used money to "purchase" the assets back from SFC.

71. The net effect of the 450,000 Asset frauds was to overstate the revenues of SFC by at least $30 million, and to overstate the asset base of SFC by an amount that exceeded the value of the underlying assets, if any existed at all. The 450,000 Asset fraud had no economic substance and had no legitimate business purpose.

D. Gegma Fraud #1

72. In 2007, one of SFC's subsidiaries, Sino-Panel Gegma purchased certain land use rights and 105,750 Mu of standing timber from Gengma Dai and Wa Tribe Autonomous Region Forestry Co. ("**Gegma Forestry**") for a purchase price of RMB 102 million. This transaction was never recorded in the books and records of SFC or its subsidiaries.

73. Two months later, the defendants directed another of SFC's subsidiaries, Sino Panel Yunnan to purchase these same assets – including the 105,750 Mu of standing timber – from another party, Yuda Wood for a price of RMB 509.3 million – roughly five times the actual purchase price of the underlying assets as agreed four months earlier.

74. These assets – originally obtained for RMB 102 million but later papered up with a fictitious transaction with a related party – were then "sold" in 2010 for an alleged sales price of RMB 1.6 billion (approximately CAD $230 million).

75. The inflated price of the assets (RMB 509.3 million) was falsely recorded in SFC's public

disclosure documents and audited financial statements for three full fiscal years. And then after the purported sale, the defendants caused SFC to overstate its revenue by at least the differential of the real price to the artificially inflated price.

E. Gegma Fraud #2

76. In September 2007, SFC acquired certain standing timber located in the Yunnan Province (the "**Yunnan Plantation**") from Yuda Wood at a cost of $21.5 million. However, notwithstanding the public disclosure of this purchase in 2007, SFC did not actually acquire the Yunnan Plantation until September 2008.

77. Then, in 2008 and 2009, the defendants caused SFC to sell the Yunnan Plantation to Guangxi Hezhou City Kun'an Forestry Co., Ltd. ("**Kun'an**") for almost double the purchase price, $49 million. Certain of the transactions effective the sale were recorded as occurring in March 2008 – six months before the assets were actually acquired in the first place.

78. The Yunnan Plantation transaction, if not entirely fictitious, at the minimum resulted in inflating SFC's revenue by recording the sale of assets that it did not actually have, at least at the time of the sale if at all. Overseas Management personally debated who should be the "purchaser" of the Yunnan Plantation, originally contemplating Yuda Wood as being the purchaser. They instead decided on Kunan, which casts further doubt on the economic substance and/or reality of the transaction, as well as evidencing the control that Overseas Management held over both Suppliers that were purportedly arms length entities.

VI. OTHER MATTERS

A. Revenue Recognition

79. As an audited public company, SFC was required to accurately disclose the quantum of

revenue earned in the quarter in which it was actually earned. For the purchase and sale of standing timber, revenue is recognized in the quarter in which all of the following have occurred: (a) the Purchase Contract is entered into which establishes a fixed and determinable price: (b) collection is reasonably assured; and (c) the significant risks and rewards of ownership have been transferred to the customer.

80. For the BVI subsidiaries, an individual employee at SFC would create contracts in the quarter or quarters *after* the revenue was recognized through a mail merge function in a word processor. There is no evidence that these contracts were even sent to the counterparties with which SFC was ostensibly entering into the transactions, and in some cases, the contracts were created after payments under the contracts had allegedly been made.

81. At the minimum, this practice of creating contracts in quarters after the revenue was recognized was inconsistent with public disclosure made by SFC regarding its revenue recognition policies. Finally, this practice created substantial risk of inaccuracies and put into further question the legitimacy of the claim that SFC's AIs and Suppliers were independent third parties.

82. This practice of creating contracts in the quarter or quarters after the transactions actually occurred was known not only to Overseas Management, but also to Horsley. As CFO, it was Horsley's responsibility to ensure that SFC's financial statements accurately reflected the substance of the transactions being carried out by SFC. Notwithstanding his obligations to SFC, and SFC's continuous disclosure obligations, Horsley took no steps whatsoever to correct SFC's disclosure with respect to revenue recognition, even after he had learned that it had been materially misstated. To the contrary, in 2008, Horsley wrote to the OSC in response to continuous disclosure inquiries, and falsely stated that revenue was recognized by SFC when the

relevant sales agreement was signed.

B. Engineered Bonus to Horsley

83. As part of his compensation package for 2008, Horsley had a "bonus objectives achievement assessment" whereby SFC would pay Horsley a bonus if SFC brought 12 million cubic metres of fiber to market. An initial draft of SFC's year-end MD&A showed that for fiscal year 2008, SFC only sold a total of 11.1 million cubic metres of fiber to market. The consequence of missing this objective was a cumulative loss to applicable SFC management of $1.8 million.

84. After discussing the matter further with other SFC executives, within two days SFC had "discovered" another 1.2 million cubic metres of sales, and within four days, SFC realized that, in fact, SFC had sold 12.8 million cubic metres of fiber. This all occurred almost three months after year-end, and had the direct and intended consequence of having SFC meet its bonus objective; with Horsley and others being paid the bonus that Horsley originally feared would be met using the actual data from the company. This grossing up practice did not occur on any other year, demonstrating the unusual step taken in 2008.

VII. THE DEMISE OF SINO-FOREST

A. Muddy Waters Report and the IC Investigation

85. On June 2, 2011, a short seller of SFC, Carson Block and his "research" company, Muddy Waters LLC ("**Muddy Waters**"), released an incendiary report (the "**Muddy Waters Report**"). The Muddy Waters Report alleged that SFC committed several frauds and described SFC as a "multi-billion dollar ponzi scheme ... accompanied by substantial theft."

86. Among other things, the Muddy Waters Report alleged that SFC does not hold the full

amount of timber assets that it reports, that the timber assets actually held by SFC have been overstated, and that SFC overstated its revenue. In addition, the Muddy Waters Report alleged that SFC has engaged in unreported related-party transactions. In particular, both the Muddy Waters Report and two subsequent reports released by Muddy Waters alleged that Huaihua City Yuda Wood Limited ("**Yuda Wood**"), SFC's largest supplier of standing timber between 2007 and 2010, was secretly controlled by SFC insiders.

87. The same day that the Muddy Waters Report was released, SFC's board of directors appointed the IC to investigate the allegations made in the Muddy Waters Report. The IC, in turn, retained independent legal and financial advisors in Canada, Hong Kong and the PRC, to investigate the matters.

88. The scope of the IC's review was significant, reflecting the wide range of allegations contained in the Muddy Waters Report. The IC and its advisors worked to compile and analyze the vast amount of data required for their comprehensive review of SFC's operations and business, the relationships between SFC and other entities, and SFC's ownership of assets.

B. Regulatory Investigations

89. The Muddy Waters Report and the investigations arising therefrom had a ripple effect in causing substantial damage to SFC. As part of the fallout from the Muddy Waters Report, (i) SFC was sued in multiple class action proceedings across Canada and in the U.S., and (ii) SFC was the subject of an OSC investigation and was named in an OSC statement of allegations.

90. SFC attempted to cooperate with the OSC investigation. SFC made extensive production of documents including documents sourced from jurisdictions outside of the OSC's power to compel production. SFC also facilitated interviews by the OSC with SFC personnel. In

circumstances where OSC staff sought to examine SFC personnel resident in the PRC, SFC arranged to bring individuals to Hong Kong to be examined.

91. Subsequent to August 26, 2011, the IC's advisors identified additional documents that raised issues meriting comment and explanation from SFC's management. Also, SFC's external counsel, in response to requests from the OSC, also identified documents of a similar nature. Further documents meriting comment and explanation were identified by E&Y and in interviews conducted by OSC staff.

C. Efforts to Obtain an Audit Opinion

92. As SFC reached the November 15, 2011 deadline to release its 2011 third quarter financial statements (the "**Q3 Results**"), the Audit Committee recommended and the Board agreed that SFC should defer the release of the Q3 Results until certain issues could be resolved to the satisfaction of the Board and SFC's auditor. The issues included (i) determining the nature and scope of the relationships between SFC and certain of its AIs and Suppliers, as discussed in the Second Interim Report of the IC, and (ii) the satisfactory explanation and resolution of issues raised by certain documents identified by the IC's advisors, SFC's counsel, SFC's external auditors, and/or by OSC staff.

93. SFC's failure to file the Q3 Results and provide a copy of the Q3 Results to the trustee and to its noteholders under its senior and convertible note indentures on or before November 15, 2011 constituted a default under those note indentures. Pursuant to the indentures, an event of default would have occurred if SFC failed to cure that breach within 30 days in the case of the senior notes, and 60 days in the case of the convertible notes, after having received written notice of such default from the relevant indenture trustee or the holders of 25% or more in aggregate principal amount of a given series of notes.

94. On December 12, 2011, SFC issued a press release announcing that it would not be able to release the Q3 Results within the 30-day period originally indicated. SFC further announced in that press release that, in the circumstances, there was no assurance that it would be able to release the Q3 Results, or, if able, as to when such release would occur. The press release also explained the circumstances that caused SFC to be unable to release the Q3 Results also could impact SFC's historic financial statements and SFC's ability to obtain an audit for its 2011 fiscal year.

95. To issue an audit opinion, E&Y stated that SFC would be required to address a number of outstanding audit issues. These issues had never been imposed as preconditions to E&Y's audit engagements in previous years. The new issues identified by E&Y required SFC to provide satisfactory responses to questions arising in relation to, among other things,:

(a) SFC's relationship with Yuda Wood;

(b) the verification of certain issues surrounding SFC's relationships with AIs and Suppliers, including E&Y's ability to attend meetings with certain AIs and Suppliers;

(c) the completion of an asset verification exercise accompanied by the engagement of Stewart Murray and Indufor;

(d) a "proof of concept" exercise through which confirmations of the technology, methodology and reporting framework could be invoked for the wider area verification of the SFC estate;

(e) provision of legal opinions related to structure and tree title, among other things;

(f) chain of BVI timber title, including access to source documents;

(g) SFC's plan to remove funds from the PRC, including the provision of legal opinions as necessary;

(h) International Financial Reporting Standards reconciliation; and

(i) sales analysis of all BVI plantation sales by supplier to customers.

96. It was not possible for SFC to address these issues within an acceptable time period. Consequently, absent a resolution with the noteholders, the indenture trustees would have been in a position to enforce their legal rights as early as April 30, 2012.

D. Defaults Under the Bonds

97. SFC's failure to make the US$9.775 million interest payment on the 2016 convertible notes when due on December 15, 2011 constituted a default under that indenture. Under the terms of that indenture, SFC had 30 days to cure its default and make the required interest payment in order to prevent an event of default from occurring, which could have resulted in the acceleration and enforcement of the approximately US$1.8 billion in notes which have been issued by SFC and guaranteed by many of its subsidiaries outside of the PRC.

98. On December 18, 2011, SFC announced that it had received written notices of default dated December 16, 2011, in respect of its senior notes due 2014 and its senior notes due 2017. The notices, which were sent by the trustees under the senior note indentures, referenced SFC's previously-disclosed failure to release the Q3 Results on a timely basis. SFC reiterated in the December 18, 2011 press release that it did not expect to be able to file the Q3 Results and cure the default within the 30 day cure period.

99. In response to the receipt of the notices of default, among other considerations, on December 16, 2011, the Board established a Special Restructuring Committee of the Board comprised exclusively of directors independent of management of SFC, for the purpose of supervising, analyzing and managing strategic options available to SFC.

E. The Support Agreement and SFC Filed for CCAA Protection

100. Following extensive negotiations between SFC and its noteholders, the parties agreed on the framework for a consensual resolution of SFC's defaults and the restructuring of its business, and entered into a Support Agreement on March 30, 2012.

101. The Support Agreement requires SFC to pursue a plan of compromise on the terms set out in the Support Agreement in order to implement the agreed-upon restructuring transaction (the "**Restructuring Transaction**") and to simultaneously undertake a sales process (the "**Sales Process**") as an alternative to the Restructuring Transaction. As such, on March 30, 2012, SFC applied for protection from its creditors under the CCAA and the CCAA Court made an Initial Order granting a CCAA stay of proceedings against SFC and certain of its subsidiaries and appointing FTI Consulting Canada Inc. as the Monitor in the CCAA proceedings. The CCAA Court also granted an order approving the Sales Process and authorizing and directing SFC, the Monitor and Houlihan Lokey to do all things reasonably necessary to perform each of their obligations thereunder.

102. On April 13, 2012, the Court made an order extending the stay of proceedings contained in the Initial Order to June 1, 2012 and on May 31, 2012, the Court further extended the stay period to September 28, 2012.

F. The Sales Process

103. The Sales Process was intended to provide a "market test" by which third parties could propose to acquire SFC's business operations through a CCAA Plan as an alternative to the restructuring transaction provided pursuant to the Plan currently being pursued by SFC.

104. Following the bid deadline set out in the Sales Process, SFC, Houlihan Lokey and the Monitor determined that none of the letters of intent constituted a Qualified Letter of Intent as that term was defined in the Sale Process Order, which required amongst other things, cash consideration in an amount equal to 85% of the aggregate principal amount of the notes, plus all accrued and unpaid interest on the notes.

105. Even when cleansed of all of the Class Action and related Third Party Defendant indemnification claims, the Sales Process demonstrated that the realizable market value of SFC's business is less than the $1.8 billion that SFC owed its noteholders.

106. The difference between the value of SFC's assets as recorded in its financial statements and as publicly disclosed, and the reality of the Sales Process, was attributable to two factors, both of which were direct and foreseeable consequences of the defendants' conduct. First, as a company in distress and in insolvency proceedings, SFC by definition would not have realized fair value for its assets. Second, and more importantly, notwithstanding the thorough canvassing of the market and the openness of SFC to potential bidders through a comprehensive dataroom, bidders were unable to get sufficient comfort about the legitimacy or accuracy of SFC's financial statements and the value of SFC's assets.

G. The CCAA Plan and Plan Sanction Order

107. Given that the Sale Process was not successful, SFC developed a Plan with its creditors

that contemplated a new company and a further subsidiary ("Newco" and "Newco II", respectively) would be incorporated and SFC would transfer substantially all of its assets to Newco in compromise and satisfaction of all claims made against it. The result was that Newco would own, directly or indirectly, all of SFC's Subsidiaries and SFC's interest in Greenheart and its subsidiaries as well as any intercompany debts owed by the Subsidiaries to SFC. Pursuant to the Plan, the shares of Newco will be distributed to the Affected Creditors. Newco will immediately transfer the acquired assets to Newco II.

108. As the value of the assets was less than amounts owed to SFC's secured creditors, there was no residual equity value remaining for existing SFC shareholders. Accordingly, the Plan contemplated the extinguishment of all existing equity of SFC in return for no consideration at all.

109. A creditor meeting was held on December 3, 2012 at which an overwhelming majority of SFC's affected creditors approved the Plan. The Plan was sanctioned by Justice Morawetz on December 10, 2012. One set of shareholders sought leave to appeal the Plan Sanction Order, but leave to appeal was denied by the Court of Appeal on June 26, 2013.

VIII. LIABILITY TO SFC

110. Overseas Management is liable to SFC for breaching their duties as officers of SFC. At all relevant times, Overseas Management were either actual or ostensible officers of SFC, each of whom authorized, permitted or acquiesced in the wrongful conduct described above.

111. Under section 122 of the *CBCA*, each of the defendants owed a duty of care to SFC to (a) act honestly and in good faith with a view to the best interests of the corporation, and (b) to exercise the care, diligence and skill that a reasonably prudent person would exercise in

comparable circumstances. By reason of the facts described above, the defendants breached this duty of care and failed to act in a manner that was required of officers of a publicly traded company.

112. Overseas Management further breached section 241 of the *CBCA*, by carrying on the business or affairs of SFC in a manner that was oppressive or unfairly prejudicial or that unfairly disregarded the interests of all of SFC's securityholders and creditors. Such securityholders and creditors had a reasonable expectation that Overseas Management would carry out the affairs of SFC in a manner that was lawful and that would not have preferred the interests of insiders as described above.

113. By reason of the facts described above, the defendants breached express and implied terms of their employment agreements with SFC and its subsidiaries. Among other things, the defendants were required to conduct themselves and the operations of SFC in a manner that was lawful. The defendants were further required to comply with SFC Codes of Conduct, which the defendants breached by virtue of the facts described above.

114. The defendants further owed SFC fiduciary duties, as a result of the positions of trust and confidence held by the defendants. SFC was vulnerable to the unilateral exercise of discretion and power by the defendants. By reason of the facts described above, the defendants breached their fiduciary duties to SFC.

115. Overseas Management conspired with each other to overstate the value of SFC's revenue and assets and to cause SFC to release financial statements that were untrue. In certain instances, as described above, the predominant purpose of such conspiracy was for the defendants, or certain of them, to obtain pecuniary benefits. In other cases, the predominant purpose is unknown as a result of the clandestine nature of the conspiracy and the particular

opaqueness created by the overseas operations, the use of "shell" companies, nominee shareholders, among other things, but in all instances the predominant purpose was not to advance the legitimate business interests of SFC and its stakeholders. Overseas Management took steps in furtherance of the conspiracy as described above.

116. By virtue of the facts set out above, Overseas Management are liable to SFC for negligent and/or fraudulent misrepresentation. SFC relied on the representations described above to its detriment, and the damages SFC suffered in furtherance of such reliance was reasonably foreseeable and proximate.

117. By virtue of the facts set out above, the defendants have been unjustly enriched by their wrongful acts and omissions. SFC suffered a corresponding deprivation by reason of the wrongful acts of the defendants. There was no juristic reason for the resulting enrichment to the defendants. The plaintiff is entitled to a constructive trust with respect to such enrichment.

118. Overseas Management are alternatively liable to SFC as knowing recipients of trust moneys and/or knowing assistors of breaches of trust and fiduciary duty by others, for the reasons set out above. At all material times, Overseas Management, whether or not they personally owed fiduciary duties or trust obligations to SFC, knew that others in senior management had such trust and fiduciary obligations, and Overseas Management willfully assisted in the breach of such trust and fiduciary obligations, including through the handling and receipt of SFC moneys that had been impressed with a trust.

IX. DAMAGES

119. By virtue of the facts set out above, SFC has suffered damages. Such damages were reasonably foreseeable by the defendants, and proximate to the wrongful acts described above.

120. Overseas Management are jointly and severally liable for the acts relating to Overseas Management described above.

121. SFC has taken all reasonable steps to mitigate its damages.

122. The particulars of such damages are not yet fixed and will be provided prior to trial.

123. By virtue of the conduct described above, an award of punitive or exemplary damages is appropriate. The defendants' conduct was high handed and demonstrated reckless and wanton disregard for SFC and its stakeholders. Overseas Management's activities were particularly egregious and warranting punitive or exemplary damages.

124. In addition to the general, punitive and exemplary damages described above, by reason of the facts described above, the defendants have conducted themselves in a manner that disentitles them to retain the compensation that they received directly and indirectly from SFC, whether in the form of salary, bonuses, options, or otherwise. In light of all of the circumstances, SFC received no value for the services provided by the defendants in connection with their employment contracts, and such compensation should be returned to SFC.

X. STATUTORY REFERENCES

125. The plaintiff pleads and relies upon rules 17.02 (g), (h) and (o) of the *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, for service of this Notice of Action on the defendants outside of Ontario because it relates to torts committed in Ontario and the damage was sustained in Ontario arising from tort, breach of contract, breach of fiduciary duty or breach of confidence, wherever committed, and is against persons outside Ontario who are a necessary or proper party to a proceeding properly brought against another person served in Ontario (Horsley). Further,

the actions are asserted by the Trustee pursuant to the CCAA Court and the Plan, both of which were made in Ontario.

126. The plaintiff pleads and relies upon sections 122 and 241 of the *CBCA*.

XI. VENUE

127. The plaintiff proposes that this action be tried at the City of Toronto.

Dated: July 2, 2013

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Lawyers for the Plaintiff

SFC LITIGATION TRUST
Plaintiff

- and -

GEORGE HO et al.
Defendants

Court File No. CV-13-481761

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

STATEMENT OF CLAIM

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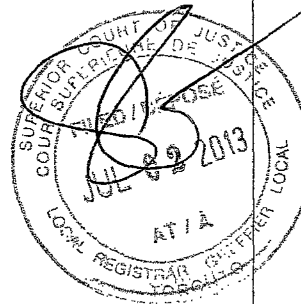

Lawyers for the Plaintiff

This is Exhibit "H" mentioned and referred to in the Affidavit of Charles M. Wright, sworn before me at the City of London, in the County of Middlesex, this 4th day of July, 2014.

A Commissioner, etc.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.	)	MONDAY, THE 30th
	)	
JUSTICE MORAWETZ	)	DAY OF JULY, 2012

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

ORDER

THIS MOTION made by the Ad Hoc Committee of Purchasers of the Applicant's Securities (the "**Moving Party**"), for the production of certain documents in the possession, control and power of the Applicant, was heard this day, at the courthouse at 330 University Avenue, Toronto, Ontario,

ON READING the Motion Record and factum of the Moving Party, and on hearing the submissions of counsel for the Moving Party, Sino-Forest Corporation, the Monitor, an ad hoc Committee of Bondholders, Ernst & Young, BDO, and certain underwriters named as defendants in the Ontario Class Action,

AND ON BEING ADVISED that the Applicant consents to the relief contained herein and that the Monitor supports the granting of relief contained herein;

1. **THIS COURT ORDERS** that further service of the Notice of Motion and Motion Record on any party not already served is hereby dispensed with, such that this motion is properly returnable today.

2. **THIS COURT ORDERS** the Applicant to make the documents listed in Schedule "A" hereto (the "Documents") available to the Moving Party and the other Mediation Parties (as defined in the order of this court dated July 25, 2012 (the "Mediation Order")), subject to: (i) the provisions of the Mediation Order applicable to information made available through the electronic data room referenced in the Mediation Order (the "Data Room"), including without limitation the requirement for confidentiality agreements; and (ii) any claims of privilege; and provided, for greater certainty, that the Applicant need not produce any audit-related documents created after June 2, 2011.

3. **THIS COURT ORDERS** that the Documents shall be added to the Data Room by the Applicant as and when they become available, but the Applicant shall make best efforts to add the Documents to the Data Room by August 16, 2012, and that, in any event, the Applicant shall add the Documents to the Data Room by no later than August 23, 2012.

4. **THIS COURT ORDERS** that, promptly following the addition of any Documents to the Data Room, the Applicant shall notify or shall cause to be notified, by email, those persons who have executed the Confidentiality Agreement pursuant to this Court's Mediation Order that such Documents have been added to the Data Room, but in no event shall the Applicant be required to provide such notification more than one time per day.

5. **THIS COURT ORDERS** that, to the extent that the Applicant withholds production of any Documents on the basis of a claim of privilege, the Applicant shall produce an itemized list describing each of the documents in the form of or substantially similar to a Schedule "B" of an affidavit of documents, with sufficient specificity to establish the Applicant's claim for privilege, including, without limitation, identifying information for each document, the nature of the privilege being asserted in respect of the document, and, if litigation privilege is being asserted, reasonable identifying

information regarding the litigation that gives rise to the privilege (the "Privilege Log"). The Applicant shall add the Privilege Log to the Data Room by August 27, 2012, unless the Court orders otherwise.

6. **THIS COURT ORDERS** that the Documents specified in clauses 1, 2(s), 3 and 4 of Schedule "A" hereto shall be in the English language.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

JUL 3 0 2012

PER/PAR:

Schedule "A"

1. the unconsolidated financial statements of Sino-Forest Corporation and its subsidiaries prepared prior to June 2, 2011;

2. the following documents relating to Sino-Forest audits, for each of the fiscal years 2006 through 2010, inclusive, for each audited entity:

   a) Information request list for each year's audit, detailing the documents to be provided by the company to the auditor;

   b) The Year End Communication or Report of the Auditor to the Audit Committee from BDO or E&Y, including:

      i) Audit scope and findings report;

      ii) Significant matters discussed with management;

      iii) Management's analysis and response;

      iv) Significant judgments and estimates;

      v) Audit risks encountered/identified and audit response; and

      vi) Summary of corrected and uncorrected financial statement misstatements;

   c) Communications between the auditors and the company regarding any disagreements with management;

   d) The unadjusted (pre-audit) trial balance;

   e) Proposed Adjustments presented by the auditor following each year's audit (listing adjusting journal entries, analysis and explanations);

   f) List of related parties provided to the auditor each year;

   g) Correspondence with the auditor concerning related parties and related party transactions;

   h) Accounting policy manuals or documented accounting policies of the company for each year;

i) Process and procedure manuals of the company for each year, particularly pertaining to the sales cycle and purchase/acquisition cycle;

j) Ledgers and subledgers for the following accounts;

  i) Cash;

  ii) Sales;

  iii) Timber Inventory; and

  iv) Cost of Goods Sold;

k) Sale transaction documents provided to (requested by) the auditors in respect of timber transactions:

  i) Sales order (or purchase order from customer) or Sales contract/agreement;

  ii) Invoice; and

  iii) Proof of collection;

l) Purchase transaction documents provided to (requested by) the auditors in respect of timber transactions:

  i) Purchase order (or contract/agreement);

  ii) Invoice; and

  iii) Proof of payment;

m) Transaction documents provided to auditor in respect of Sino's "set-off" agreements on timber transactions;

n) Correspondence with auditors regarding confirmation of transactions with authorized intermediaries and suppliers (or authorization provided to Auditors to confirm directly with the AIs and Suppliers);

o) Documentation concerning the auditors' procedures to independently examine timber assets, including on-site physical inspection, inventory counts, examination of transaction documentation, etc.;

p) Internal worksheets, analyses and calculations supporting the "related party transactions" disclosure in each year's financial statements (e.g., see Note 23 of the 2009 financial statements);

q) Any additional information provided to/requested by the auditor regarding related party transactions;

r) Drafts and correspondence regarding the preparation of the Cash Flow Statement;

s) A statement of the total fees paid to the Applicant's auditors in respect of each of the 2006-2010 fiscal years; in addition, the Applicant shall make best efforts to break down such fees by audit-related and non-audit-related work (if any), and if non-audit related work was performed by the Applicant's auditors in any such year, a reasonably detailed description of the non-audit-related work performed by the auditors in such year;

t) Minutes of all meetings in which the auditors and members of management participated; and

u) BDO and E&Y presentations to the board of directors and management.

3. a summary of the coverage positions of the insurers of the Applicant and its directors and officers, and an approximation of the remaining insurance coverage; and

4. the claims register as provided by the Monitor .

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERICIAL LIST
Proceedings commenced at
TORONTO

ORDER

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Lawyers for the Ad Hoc Committee of Purchasers of the Applicant's Securities, including the Representative Plaintiffs in the Ontario Class Action

This is Exhibit "I" mentioned and referred to in the Affidavit of Charles M. Wright, sworn before me at the City of London, in the County of Middlesex, this 4th day of July, 2014.

A Commissioner, etc.

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July 3, 2014

BY E-MAIL

Mr. Garth Myers
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900 - 20 Queen Street West
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Mr. Serge Kalloghlian
Siskinds LLP
302 - 100 Lombard Street
Toronto, ON M5C 1M3

Dear Messrs. Myers and Kalloghlian:

Re:		
	Insured:	**Sino-Forest Corporation**
	ACE Policy / Claim No.:	**DO024464 / C6010297023**
	Chubb Policy / Claim No:	**8209-4449 / 259358**
	Matter:	**Various**
	Our File Name:	**Sino-Forest Corp. et al ats Smith et al**
	Our File No.:	**1123674**

You have asked for a letter from this firm on behalf of our clients, ACE-INA Insurance Company ("ACE") and Chubb Insurance Company of Canada ("Chubb") (collectively "Our Clients"), addressing the provisions of the Draft Settlement Order ("Draft Order"), Schedule C to the Minutes of Settlement entered into between the Class Action Plaintiffs[1], the Litigation Trust and Mr. Horsley (the "Settlement"), being sought in the Class Action Plaintiffs' motion for approval of the Settlement (the "Settlement Approval Motion"). In particular, you, and counsel for Mr. Horsley, have asked that we address paragraphs 18-30 of the Draft Order insofar as these paragraphs address the requirements of the Insurers[2].

Paragraph 18 of the Draft Order includes a declaration that any amounts paid by Chubb toward the Settlement are fair and reasonable in all circumstances and for all purposes. Chubb's decision to contribute the amounts indicated toward the settlement of the Class Actions and the

[1] In this letter, unless separately defined herein, words in capital letters represent terms defined in the Settlement, in the ACE policy, or headings in the Declarations thereto and are used with that meaning.

[2] Lloyd's Underwriters' and Travelers' policies covering Sino-Forest are excess to Our Clients' policies, and may be engaged by the Effective Date. Lloyd's Underwriters and Travelers have reviewed and approved this letter. All references to the Insurers (not otherwise specific to ACE or Chubb) include Lloyd's Underwriters and Travelers.

Litigation Trust Action (the "Chubb Settlement Contribution[3]"), supported by all of the Insurers, was based upon recommendations of counsel for Mr. Horsley which, Our Clients were advised, resulted from extensive arms-length negotiations with Koskie Minsky, Siskinds, and Bennett Jones, counsel for the Litigation Trustee. Chubb accepted the recommendations made by Mr. Horsley's counsel in this regard.

Paragraph 19 of the Draft Order includes a declaration that payment by Chubb of the Chubb Settlement Contribution does not violate the interests of any party to the Class Actions, of any other party who might have a claim against any person or entity potentially covered under the Insurance Policies or the interests of any party potentially covered under the Insurance Policies.[4] The purpose of this language is to protect the Insurers from claims in the future by third parties with unsatisfied claims against Insured Persons or claims by Insured Persons who are or may be subject to third party claims for which no Limits of Liability under the Chubb policy remain, by reason of the Chubb Settlement Contribution.

Paragraph 20 of the Draft Order includes a declaration that that portion of the Chubb Settlement Contribution referable to settlement of the Litigation Trust Action shall constitute covered Loss, without prejudice to the Insurers' coverage position in relation to the Litigation Trust Action or any other action instituted by the Litigation Trust.

Loss[5] is defined to mean damages, judgments, any award of pre-judgment and post-judgment interest, settlements and Defense Costs which an Insured becomes legally obligated to pay on account of any Claim first made against any Insured for Wrongful Acts to which the Insurance Policies apply.

Mr. Horsley requested coverage for the allegations made against him by the Litigation Trustee in the Litigation Trust Action. The Insurers were concerned that the ACE policy exclusion IV E (the "Insured v. Insured exclusion") would exclude coverage for the Litigation Trust Action. In light of the risks and costs associated with potential coverage litigation, however, and the fact that the Insurers were advised that it would not be possible for Mr. Horsley to enter into a satisfactory settlement with the Class Action Plaintiffs absent a satisfactory settlement with the Litigation Trust, the Insurers agreed, on a wholly without prejudice basis, to make a contribution towards settlement of the Litigation Trust Action against Mr. Horsley. Because of the possibility, however, that other Insured Persons might later argue that Chubb's contribution to settlement of the Litigation Trust Action did not constitute covered Loss and therefore its Limits of Liability had not been exhausted, Chubb and the other Insurers require that, for purposes of the Settlement, Chubb's contribution to settlement of the Litigation Trust Action be declared to constitute covered Loss for all purposes. The Insurers agree that Chubb's contribution towards settlement of the Litigation Trust Action is reasonable in the circumstances.

Paragraphs 21 and 28 of the Draft Order include a declaration that Chubb's contribution towards the Settlement, together with amounts previously paid by Chubb and ACE as Defense Costs constitute Loss and thus reduce the Limits of Liability under the ACE Policy and the Chubb Policy

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3 In the event of exhaustion of the Chubb Policy prior to the Effective Date, we suggest that the Draft Order be amended where appropriate to reflect the possibility that Lloyd's Underwriters (or Travelers in the event of exhaustion of the Lloyd's Policy) may also be making a payment towards the Settlement.

4 The Draft Order erroneously refers to Schedule "D" to the Minutes of Settlement

5 As amended by Endorsement No. 13 to the Policy.

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for all purposes, regardless of whether any subsequent finding is made that Mr. Horsley engaged in conduct that would trigger any exclusion disentitling him to coverage. At paragraph 21 of the Minutes of Settlement, Mr. Horsley acknowledges the possibility that criminal charges may yet be laid against him as a result of an investigation being conducted by the Royal Canadian Mounted Police in relation to Sino-Forest. For as long as there are any unresolved investigations, Claims or allegations against Mr. Horsley there is a possibility, however remote, that findings of dishonesty, criminal conduct or the receipt of illegal profit or financial advantage may be made against Mr. Horsley. If any such finding were made, section X. E. of the Policy provides that any advancement of Defense Costs to him, or on his behalf, shall be repaid. Section X. E refers only to Defense Costs but, because Mr. Horsley is also asking Chubb to pay settlement amounts, Chubb has required as a condition of its agreement, that Mr. Horsley sign an Interim Funding Agreement committing to repay not only Defense Costs but also the Chubb Settlement Contribution, in the event that he were ultimately found not entitled to coverage.

If such an obligation were triggered and Mr. Horsley were to fail to repay the sums advanced on his behalf, the declaration sought in paragraph 21 of the Draft Order operates to protect the Insurers from claims by other Insureds or third parties with interests in the Insurers' Limits of Liability from asserting that the amounts paid to Mr. Horsley did not constitute Loss and that the Limits of Liability under the Insurance Policies have not been exhausted. The Insurers receiving any such repayment would unquestionably be required make those funds available to other Insureds for covered Claims.

These issues also underscore the importance of paragraphs 22 and 27 of the Draft Order, so as to protect the Insurers (and the remaining Insureds' interests) from those who may attempt to assert that by payment of the Chubb Settlement Contribution, the Insurers have waived the coverage defences which they have asserted to date against all Insureds (paragraph 22) and/or that they were not provided with notice of the Settlement Approval Motion (paragraph 27).

Paragraphs 23 and 24 of the Draft Order reflect the fact that all Insurers support the Settlement.

Paragraph 25 of the Draft Order contains a declaration that ACE be released from any and all claims against it in relation to the ACE Policy[6]. The ACE Policy had a $15M Limit of Liability. On or about January 7, 2014, the ACE Limit of Liability was confirmed exhausted in its entirety, solely by payment of Defense Costs incurred in defence of the Class Actions and the OSC Proceeding. All defence counsel (and experts') accounts submitted for coverage were reviewed by our firm and payment obligations determined based upon the ACE Policy wording, our firm's previous coverage advice, compliance with ACE's litigation management guidelines, and by applying the hourly rates agreed by ACE. No payments were made by ACE without our firm's recommendation for reimbursement on the basis that the expenses incurred were reasonable and necessary in the circumstances.

Paragraph 26 of the Draft Order contains a similar declaration pertaining to Chubb, i.e, that Chubb be released from any and all claims for amounts paid to date in relation to the Chubb Policy[7].

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6 Save and except for its obligations under Endorsement No. 16 to the ACE Policy, which affords a further $1,000,000 Limit of Liability to Independent Directors on terms specified in that Endorsement.

7 Save and except for remaining Limits of Liability and its obligations under Endorsement No. 2 to the Chubb Policy. Endorsement No. 2 affords a similar further $1,000,000 Limit of Liability to Independent Directors on terms specified in that Endorsement.

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The difference between paragraphs 25 and paragraph 26 are that (i) Chubb's Policy has not yet been exhausted and (ii) that Chubb is paying settlement amounts in addition to Defense Costs. The Chubb policy has a $15M Limit of Liability. As of the date of this letter, $7,002,379.82 remains payable. (The Chubb Settlement Contribution will reduce that amount by $5,000,000.00.) The amounts paid to date relate solely to payment of Defense Costs incurred in defence of the Class Actions and the OSC Proceeding. All defence counsel accounts submitted to Chubb for coverage have been reviewed by Chubb's Litigation Cost Management Group, and payment obligations determined based upon the ACE policy wording, our firm's previous coverage advice, compliance with Chubb's litigation management guidelines, and by applying the hourly rates agreed initially by ACE and/or subsequently by Chubb. No payments have been made by Chubb without confirmation of coverage for same by Chubb's professionals.

The Insurers were consulted with respect to certain provisions in the Plan addressing the Insurance Policies. Paragraphs 29 and 30 of the Draft Order confirm that, subject to those Plan provisions, the Settlement does not affect the plaintiffs' remaining claims against other Insureds or the Insurers' defences with respect thereto.

We will be in attendance on the hearing of the Settlement Approval Motion in the event that Justice Morawetz has any questions of the Insurers that have not been satisfied by this letter.

Yours very truly,

CLYDE & CO

per: Mary Margaret Fox

MMF/es

cc: Maria Di Pietro, CIP
Director, Claims
ACE INA Insurance

Paula Kargas
Senior Technical Specialist, Specialty Claims
Chubb Insurance Company of Canada

David Cherepacha
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Gary Luftspring / Sam Sasso
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Peter Wardle / Simon Bieber
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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 File No.: CV-12-9667-00-CL

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Proceeding under the *Class Proceedings Act, 1992*

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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

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MOTION RECORD OF THE PLAINTIFFS
(Settlement Approval – Horsley Settlement)

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