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*

COMPENDIUM OF THE AD HOC COMMITTEE OF PURCHASERS OF THE APPLICANT'S SECURITIES, INCLUDING THE CLASS ACTION PLAINTIFFS
Settlement Approval – Ernst & Young LLP Settlement
(Motion Returnable February 4, 2013)

February 2, 2013

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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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TAB 1

THIS DOCUMENT IS LOCATED AT

Affidavit of Charles Wright, sworn January 10, 2013,

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ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

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

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

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 -

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Defendants

Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF CHARLES M. WRIGHT

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 "Representative Plaintiffs") in the above-captioned class proceeding (the "Ontario Action").

2. Class Counsel have retained Paliare Roland Rosenberg Rothstein LLP for purposes of the above-captioned proceeding (the "Insolvency Proceeding") under the *Companies' Creditors Arrangement Act* ("*CCAA*"), who act for the Ad Hoc Committee of Purchasers of the Applicant's Securities (together with the Representative Plaintiffs, the "Ontario Plaintiffs").

3. Siskinds Demeules is counsel to the plaintiffs in the 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.

4. 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 I believe such information to be true.

NATURE OF THIS MOTION

5. On November 29, 2012, the Ontario Plaintiffs entered into Minutes of Settlement with the defendant, Ernst & Young LLP, in order to resolve all claims against Ernst & Young LLP, Ernst & Young Global Limited and any of its member firms, and any person or entity affiliated with or connected thereto ("Ernst & Young", as more fully defined in the Plan of Compromise and Reorganization of the Applicant under the *CCAA* dated December 3, 2012 (the "Plan")) including all claims that have been asserted or that could have been asserted against Ernst & Young in these class proceedings (the "Ernst & Young Claims", as more fully defined in the as

defined in the Plan). Along with the Minutes of Settlement, the framework of the proposed settlement and release of Ernst & Young is contained in the Plan, and in particular at Article 11.1 and the corresponding definitions (the "Ernst & Young Release" and the "Ernst & Young Settlement"). A copy of the Minutes of Settlement is attached hereto as **Exhibit "A."** Copies of the draft settlement approval orders are attached hereto as **Exhibits "B-1"** and **"B-2."** A copy of the Plan is attached hereto as **Exhibit "C"** and a copy of the order sanctioning the Plan dated December 10, 2012 (the "Sanction Order") is attached hereto as **Exhibit "D."** The endorsement and reasons of the Honourable Justice Morawetz sanctioning the Plan are attached hereto as **Exhibits "E-1"** and **"E-2."** Where I have used capitalized terms that I have not defined in this affidavit, those terms have the same meanings attributed to them in the draft settlement orders or the Plan.

6. I affirm this affidavit in support of the motion brought by the Ontario Plaintiffs for approval of the Ernst & Young Settlement.

OVERVIEW OF THE SETTLEMENT

7. Subject to the terms of the Ernst & Young Settlement, Ernst & Young has agreed to pay CAD$117,000,000.00 (the "Settlement Amount") to a Settlement Trust to be administered in accordance with orders of the court.

8. In consideration for the Settlement Amount, it is a condition of the Ernst & Young Settlement that Ernst & Young will receive a full and final release in respect of all claims relating to its relationship with Sino-Forest Corporation ("Sino"), its subsidiaries and affiliates, as more fully defined as the Ernst & Young Release in the Plan.

9. The Ernst & Young Settlement is also conditional on the approvals by courts in Ontario, Quebec and the United States and certain other conditions contained in the Minutes of Settlement, the Plan and the Sanction Order.

10. The draft settlement approval orders provide that the distribution of the net Settlement Amount[1] shall be made to the Securities Claimants.

BACKGROUND OF THE ACTION

11. Sino shares were publicly traded at all material times on the Toronto Stock Exchange (the "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. During the period from March 19, 2007 through June 2, 2011, approximately 93.4% of the aggregate global volume of trade in Sino common shares took place in Canada (82.9% on the TSX and 10.5% on other trading venues in Canada).

12. 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.

13. 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.

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1 The net Settlement Amount is the amount remaining from the Settlement Amount after payment of administration and notice costs, class counsel fees and expenses as approved by the Court and payment to Claims Funding International in accordance with the funding order of Justice Perell dated May 17, 2012, attached hereto as **Exhibit "F."**

14. 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).

15. A copy of the Muddy Waters report is attached hereto as **Exhibit "G."**

16. 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.

17. On June 3, 2011, Sino issued and filed on SEDAR a press release titled "Sino-Forest Comments on Share Price Decline," which is attached hereto as **Exhibit "H."**

18. On June 6, 2011, Sino issued and filed on SEDAR a press release titled "Sino-Forest Releases Supporting Evidence against Allegations from Short Seller," and announced that a committee of its Board of Directors (the "Independent Committee") had been established and had retained Osler, Hoskin & Harcourt LLP to conduct an investigation into Muddy Waters' allegations. Attached hereto as **Exhibit "I"** is a copy of that press release.

19. Also on June 6, 2011, Sino issued a press release titled "Sino-Forest Independent Committee Appoints PricewaterhouseCoopers," relating to the Independent Committee's investigation into Muddy Waters' allegations, which is attached hereto as **Exhibit "J."**

20. On June 13, 2011, Muddy Waters issued a document titled "Reaction to TRE Q1 Earnings Call," which is attached hereto as **Exhibit "K."**

21. On June 18, 2011, the *Globe and Mail* published an article titled "Key partner casts doubt on Sino-Forest claim," which is attached hereto as **Exhibit "L."**

22. On June 19, 2011, the *Globe and Mail* published an article titled "On the trail of the truth behind Sino-Forest," which is attached hereto as **Exhibit "M."**

23. On June 20, 2011, Sino issued and filed on SEDAR a press release titled "Sino-Forest Responds to the Globe and Mail Article," which is attached hereto as **Exhibit "N."**

24. On June 20, 2011, Muddy Waters issued a document titled "The Ties that Blind, Part 1: Huaihua Yuda," which is attached hereto as **Exhibit "O."**

25. On August 10, 2011, November 15, 2011 and January 31, 2012, the Independent Committee released three reports, reporting its findings.

26. On August 26, 2011, the Ontario Securities Commission ("OSC") issued a temporary cease-trade order in respect of Sino's securities, attached hereto as **Exhibit "P."** 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.

27. 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. Attached hereto as **Exhibit "Q"** is a copy of Sino's press release dated January 10, 2012.

28. As discussed further below, 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.

29. 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 Insolvency Proceeding (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 have been appointed. Copies of Sino's press releases announcing the resignation of Ernst & Young and the delisting of Sino shares from the TSX are attached hereto as **Exhibits "R"** and **"S."**

ACTIONS AGAINST ERNST & YOUNG RELATING TO SINO

30. On July 20, 2011, the Ontario Action was commenced under the *Class Proceedings Act, 1992* (the "*CPA*") against Sino, Ernst & Young LLP and other defendants on behalf of persons who had purchased Sino securities in the period from March 19, 2007 to June 2, 2011. In this action, the Ontario 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.

31. 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"). This firm retained Dacheng on the day after the Muddy Waters report was issued. Class Counsel's investigation into the Muddy Waters allegations has

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 measurement of damages in securities class actions.

32. On June 9, 2011, Siskinds Desmeules, a Quebec City law firm affiliated with Siskinds, commenced a parallel proceeding against Sino, Ernst & Young LLP and certain other defendants in the Quebec Superior Court. Class Counsel in Ontario and Quebec have been working together in a coordinated manner in both of these proceedings.

33. There were also two other proposed class proceedings commenced in Ontario relating to Sino. *Smith et al. v. Sino Forest Corporation et al.*, commenced on June 8, 2011 (the "*Smith Action*") and *Northwest & Ethical Investments L.P. et al. v. Sino-Forest Corporation et. al.*, commenced on September 26, 2011 (the "*Northwest Action*"). Rochon Genova LLP acted for the plaintiffs in the *Smith Action*, and Kim Orr LLP acted for the plaintiffs in the *Northwest Action*.

34. A copy of the Statement of Claim issued in the *Northwest Action* is attached hereto as **Exhibit "T."**

35. In the *Northwest Action*, the plaintiffs sought a declaration that the misrepresentations alleged were made by the defendants (including Ernst & Young) with knowledge, fraudulently, recklessly or negligently. The Statement of Claim made specific allegations of fraud against

each of the defendants (including Ernst & Young) at paragraphs 226-228 and allegations of knowing, reckless or willfully blind misrepresentations elsewhere.

36. 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, attached hereto as **Exhibit "U,"** the Honourable Justice Perell granted carriage to the Ontario Plaintiffs. His Honour stayed the *Smith Action* and the *Northwest Action*, and appointed Siskinds LLP and Koskie Minsky LLP to prosecute the Ontario Action on behalf of the proposed class. Following that decision, and pursuant to the Court's order, David Grant was added as a proposed representative plaintiff and the scope of the class was expanded to its current scope.

37. On January 27, 2012, the Washington, DC-based law firm of Cohen Milstein Sellers & Toll PLLC ("US Plaintiffs' Counsel") commenced a proposed class action against Sino, Ernst & Young LLP, Ernst & Young Global Limited and other defendants in the New York Supreme Court (the "US Action"). 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. United States securities class actions procedure features a process by which the "lead plaintiff" is selected. On October 18, 2012, US Plaintiffs' Counsel issued the press release required by that process. All parties that intended to seek lead plaintiff status were required to move the U.S. Court within 60 days (by December 17, 2012). A review of the electronic database indicates that David Leapard, IMF Finance SA and Myong Hyon Yoo, represented by US Plaintiffs' Counsel, moved for appointment as lead plaintiffs on December 17, 2012. No other parties filed motions for appointment as lead plaintiffs by the December 17, 2012 deadline.

39. 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 Hyon Yoo were appointed as the lead plaintiffs and US Plaintiffs' Counsel as lead counsel to represent the interests of the proposed class. The US action is presently ongoing, and asserts claims on behalf of a class of:

> i) all persons or entities who, from March 19, 2007 through August 26, 2011 (the "Class Period") purchased the common stock of Sino-Forest on the Over-the-Counter ("OTC") market and who were damaged thereby; and ii) all persons or entities who, during the Class Period, purchased debt securities issued by Sino-Forest other than in Canada and who were damaged thereby.

40. Class Counsel have had numerous interactions with US Plaintiffs' Counsel concerning developments in the Canadian and New York litigation.

41. On April 18, 2012, the plaintiffs filed a Fresh as Amended Statement of Claim, a copy of which is attached hereto and marked as **Exhibit "V."** A Proposed Fresh as Amended Statement of Claim was served on the defendants as part of the Ontario Plaintiffs' motion record in support of their motion seeking leave under Part XXIII.1 of the *Securities Act* (the "Leave Motion"). Attached and marked as **Exhibit "W"** is a copy of the Proposed Fresh as Amended Statement of Claim.

PLAINTIFFS' MOTIONS FOR CERTIFICATION AND LEAVE

42. In March and April 2012, the Ontario 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 Ontario *Securities Act* (the "*OSA*").

43. The Ontario 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 former 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 Dacheng law firm; and

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

44. Justice Perell set a schedule for the proceeding by way of Order dated March 26, 2012. The defendants entered into a tolling agreement with the Ontario Plaintiffs and a separate tolling agreement was entered into amongst the defendants to deal with any potential claims over or third party claims. The tolling agreement between the defendants and the Ontario Plaintiffs was made as of March 6, 2012, and suspended the running of time for the purpose of the proposed Part XXIII.1 claims of the Ontario Plaintiffs and members of the putative class until February 28, 2013. Following the *CCAA* stay of proceedings, a second tolling agreement between these parties was made as of May 8, 2012, wherein the parties agreed that the running of time for the purpose of the proposed Part XXIII.1 claims of the Ontario Plaintiffs and members of the putative class was to be suspended as of March 6, 2012 until the earlier of 12 months following the lifting of the *CCAA* stay or February 1, 2014. This tolling agreement was a result of the Ontario Plaintiffs agreeing to consent to the stay order.

45. The certification and leave motions were scheduled for November 21 to 30, 2012. Those motions were not heard in November 2012 as a result of Sino's insolvency.

SINO'S INSOLVENCY

46. On March 30, 2012, Sino commenced the Insolvency Proceeding 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 Ernst & Young. The Ontario Plaintiffs agreed not to oppose this order on condition that (a) there was an order permitting a settlement approval hearing and certification hearing relating to a settlement with the defendant Pöyry (Beijing) Consulting Company Limited (described below); and (b) the defendants execute the second tolling agreement reflecting the delay caused by the Insolvency Proceeding. The stay of proceedings is currently extended through to February 1, 2013.

47. From the outset, it was apparent to counsel to the Ontario Plaintiffs that the Insolvency Proceeding 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.

48. Consequently, Class Counsel immediately entered into negotiations with other stakeholders in the Insolvency Proceeding, 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 Insolvency Proceeding, 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 Insolvency Proceeding 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 Insolvency 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.

49. To further these objectives, Class Counsel took a number of steps in the Insolvency Proceeding, 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 Quebec Plaintiffs;

(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 to 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 Insolvency Proceeding, 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 Insolvency Proceeding, 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 Insolvency Proceeding;

(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 Insolvency Proceeding 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 Ernst & Young;

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

(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)

50. 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. In connection with the motion for court approval of the Pöyry settlement agreement, a notice was disseminated in the form marked and attached hereto as **Exhibit "X."** No one, including any potential Class Member, objected to the settlement with Pöyry (Beijing) at the motion to approve the settlement.

51. On September 25, 2012, this action was certified as a class proceeding as against Pöyry (Beijing) for the purposes of settlement and the Pöyry settlement was approved between the Class (as defined) and Pöyry (Beijing). A copy of the certification and settlement approval order is attached hereto as **Exhibit "Y."**

52. Notice of the certification and Pöyry settlement has been given in accordance with the order of the Honourable Justice Perell, dated September 25, 2012. A copy of this notice is marked and attached hereto as **Exhibit "Z."**

53. The notice states that "IF YOU CHOOSE TO OPT OUT OF THE CLASS, YOU WILL BE OPTING OUT OF THE **ENTIRE** PROCEEDING. THIS MEANS THAT YOU WILL BE UNABLE TO PARTICIPATE IN ANY FUTURE SETTLEMENT OR JUDGEMENT REACHED WITH OR AGAINST THE REMAINING DEFENDANTS." [emphasis and caps in original]. The opt-out deadline is January 15, 2013.

54. As of this date, I am advised by the administrators that only one retail investor who purchased Sino shares during the period of March 19, 2007 through June 2, 2011 has validly opted out. That person had purchased 700 Sino shares during that period and explained that he opted out because he has closed his LIRA accounts and gave up rights to Scotiabank, and does not wish to participate in the class action. There is one other retail investor (who did not submit information of the number of shares owned) that submitted invalid documentation, and it is possible that he or she purchased securities during the class period. This individual gave no reason for the decision to opt-out.

SETTLEMENT APPROVAL

Negotiation Process

55. The negotiations leading to the Ernst & Young Settlement were conducted on an adversarial, arm's-length basis.

56. On July 25, 2012, this Court ordered the various constituencies in the Insolvency Proceeding to attend a mediation. A copy of that order is attached hereto as **Exhibit "AA."**

57. On September 4 and 5, 2012, the Ontario Plaintiffs attended an all-parties mediation, which included Ernst & Young. 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 positions of the parties, including Ernst &

Young and the plaintiffs. The mediation did not result in a settlement with any of the parties, including Ernst & Young, at that time.

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

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

60. In mid-October 2012, the Ontario Plaintiffs began bilateral discussions with Ernst & Young. Several offers were exchanged between the Ontario Plaintiffs and Ernst & Young over a number of weeks. Those discussions did not result in a settlement at that time.

61. On October 18, 2012, the Honourable Justice Morawetz issued an endorsement scheduling the Company's motion to sanction the Plan for December 7 and 10, 2012. Attached hereto as **Exhibit "BB"** is a copy of the Endorsement of the Honourable Justice Morawetz dated October 18, 2012.

62. The Ontario Plaintiffs brought a motion returnable October 28, 2012 to have the scope of stay limited to exclude the Third Party Defendants, including Ernst & Young, and certain other parties. By way of Endorsement dated November 6, 2012, the Honourable Justice Morawetz denied the relief sought by the Ontario Plaintiffs to allow the parties to focus on the Plan and the *CCAA* proceedings. Justice Morawetz held that the motion could and should be re-evaluated following the sanction hearing, and in any event no later than December 10, 2012. Attached

hereto as **Exhibit "CC"** is copy of the Endorsement of the Honourable Justice Morawetz dated November 6, 2012.

63. In late November Ernst & Young and the Ontario Plaintiffs agreed to further formal mediation.

64. On November 27, 2012, Clifford Lax, Q.C. conducted a mediation between Ernst & Young and the Ontario Plaintiffs. The parties exchanged mediation briefs in advance of the mediation which were, in the main, the briefs previously filed for the September mediation. At the conclusion of the day, the parties had made progress, but a resolution had not been reached. The parties reconvened the next day and did reach agreement on quantum, but continued to aggressively negotiate other terms of the Minutes of Settlement until the early morning of November 29. At 4 a.m. on November 29, the parties took a four-hour break, and then came back to discuss the terms of the Minutes of Settlement which were finalized in the evening of November 29. The discussions were protracted and challenging.

65. The mediation session resulted in the Ernst & Young Settlement, which conditions include court approval of the Ernst & Young Settlement, and the Ernst & Young Release. Following satisfaction of all conditions precedent as set out in the Minutes of Settlement, Ernst & Young agreed to pay CAD$117,000,000.

66. The Minutes of Settlement reflect that Ernst & Young would not have entered into the settlement agreement with the Ontario Plaintiffs (and would not have offered the large Settlement Amount) but for the *CCAA* proceedings. Paragraph 10 and Schedule B of the Minutes of Settlement make it clear that the parties intend the settlement to be approved in the

Sino *CCAA* proceedings and that it is conditional upon the full and final release of Ernst & Young by order of the *CCAA* court.

67. Paragraph 11 and Schedule B of the Minutes of Settlement make it clear that the settlement is 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.

68. The framework of the Ernst & Young Settlement, as contemplated by the Minutes of Settlement, is contained in the Plan at Article 11.1, and includes the framework for the Ernst & Young Release.

69. A similar framework for Named Third Party Defendants, including the Underwriters and BDO, is contained at Article 11.2 of the Plan. The Ernst & Young Settlement was the template for the framework for the Named Third Party Defendant settlement provisions.

70. Article 11.2 in respect of Named Third Party Defendants provides the Ontario Plaintiffs (and the Underwriters and BDO) with the ability to complete further settlements within the context of the *CCAA* proceedings, subject to further court approval. Such settlements could have the benefit of a full release for the Underwriters or BDO, if ordered by the Court, and would likely result in those parties paying a premium for settlement to resolve all claims against them, to the benefit of the Class.

71. Ernst & Young and the Ontario Plaintiffs supported the Plan on the basis of the inclusion of the framework for the Ernst & Young Settlement and the Ernst & Young Release in the Plan. Ernst & Young, as a creditor of Sino, voted in favour of the Plan. Ernst & Young and the Ontario Plaintiffs supported the Plan at the sanction hearing.

THE ONTARIO PLAINTIFFS SUPPORT THE SETTLEMENT

72. 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 360,700 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 during the Class Period. As at the day before the issuance of the Muddy Waters report, the Labourers Fund held a total of 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. The OE Fund purchased 465,130 Sino common shares over the TSX during the Class Period, and held 436,300 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. AP7 purchased 139,398 common shares over the TSX during the Class Period, and held all of those shares as at the day before the issuance of the Muddy Waters report;

(d) David Grant, an individual resident in Calgary, Alberta. During the Class Period, 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, 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 Class Period, he purchased 896,400 Sino common shares in the secondary market over the TSX and 30,000 shares pursuant to a prospectus that Sino issued during the Class Period, for a total of 926,400 shares. Mr. Wong continued to hold 518,700 Sino common shares at the day before the issuance of the Muddy Waters report.

73. Collectively, the Ontario Plaintiffs owned 1,223,098 Sino 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 approximately $23.3 million.

74. I am advised by Jonathan Ptak of Koskie Minsky that the trustees of the Labourers Fund and the OE Fund are extremely pleased with the settlement with Ernst & Young and have instructed Class Counsel to seek approval of the Ernst & Young Settlement. I am advised by Dimitri Lascaris that Robert Wong, David Grant and AP7 are also very pleased with the settlement and have instructed Class Counsel to seek approval of the Ernst & Young Settlement.

75. In addition, I am advised by Mr. Lascaris that the proposed settlement with Ernst & Young is supported by the institutions that were the two largest shareholders of Sino, namely, New York-based Paulson & Co. Inc. ("Paulson") and Arizona-based Davis Selected Advisers LP ("Davis"). Paulson and Davis, respectively, owned approximately 14.1 % and 12.6% of Sino's outstanding common shares prior to the issuance of the Muddy Waters report, representing in aggregate a market value of more than $1.1 billion.

76. Class Counsel have been retained by Davis. Mr. Lascaris advises me that, since the commencement of the class action, he has had numerous and extensive discussions with responsible officials of both Davis and Paulson in regard to the progress generally of the class

action and the Insolvency Proceeding, and in regard in particular to negotiations with Ernst & Young and the terms of and rationale for the settlement.

FACTORS CONSIDERED IN ASSESSING THE FAIRNESS AND REASONABLENESS OF THE SETTLEMENT

Experience of Class Counsel

77. 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.

78. 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.

79. 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.

80. 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.

81. Koskie Minsky has acted for shareholders in securities class actions, including *Lawrence v Atlas Cold Storage Holdings Inc*, *Toevs v Yorkton*, and *Frohlinger v Nortel Networks Corp.*

82. 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.

83. As of December 14, 2012, Class Counsel, together with Paliare Roland, in aggregate had more than $5,701,546.50 in time and $950,205.51 in disbursements for a total of $6,651,752.01, exclusive of applicable taxes.

84. 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.

85. Class Counsel recommend the approval of the Ernst & Young Settlement. In our view, its terms, including the consideration available to the Class, are fair and reasonable in the circumstances. The Ernst & Young Settlement delivers a substantial, immediate benefit to Class Members on claims that faced significant risks.

86. I explain below our rationale for recommending to the Ontario Plaintiffs, and to this Court, the compromise of the claims advanced against Ernst & Young in this action.

Information supporting settlement

87. 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 Insolvency Proceeding 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 "DD"**;

(d) Ernst & Young LLP's responsive insurance policies;

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

(f) 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.

(g) the Statement of Allegations issued against Sino and certain officers and directors by the OSC, dated May 22, 2012, marked and attached hereto as **Exhibit "EE"**;

(h) the mediation briefs provided by the parties at the global mediation in September, 2012 and by Ernst & Young LLP at the mediation in November, 2012; and

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

88. On December 3, 2012, after the Ontario Plaintiffs had entered into the Ernst & Young Settlement and on the day of the creditors vote on the Plan, the OSC issued a Statement of Allegations against Ernst & Young relating to the matter of Sino, which is marked and attached hereto as **Exhibit "FF."** Although Class Counsel's recommendation and the Ontario Plaintiffs' approval of the Ernst & Young Settlement were grounded on numerous factors, the OSC Statement of Allegations against Ernst & Young provided further insight about the risks associated with litigating the claims as against Ernst & Young going forward. As explained below, the OSC Statement of Allegation has since become a further factor, alongside the other documents listed above and the considerations explained below, for Class Counsel to now recommend the approval of the Ernst & Young Settlement.

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 Ernst & Young.

90. It has always been Class Counsel's view that the claims against Ernst & Young have merit. However, a number of factors in this case presented a significant risk to the ultimate

success and recovery from Ernst & Young. These risks weighed in favour of settlement with Ernst & Young. It is Class Counsel's view that this Ernst & Young Settlement (and the Ernst & Young Release) are fair and reasonable and in the best interests of the Class. Class Counsel's assessment of the Ernst & Young Settlement and our recommendation of it rest primarily on the following factors, in addition to the general risks of proceeding with complex litigation.

Recoverable damages could be far lower than actual damages

91. The Class asserts the following causes of action as against Ernst & Young:

(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*; and

(c) common law claims for negligent misrepresentation, negligence *simpliciter* and knowing or willfully blind misrepresentation for all purchasers of Sino securities.

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 in securities fraud lawsuits for over 20 years.

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

94. It is also important to recognize that Mr. Torchio opines on the 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 the Class Members.

95. The damages alleged are for all losses suffered, including those attributable to Sino and the defendant directors and officers. Following the *CCAA* Proceedings, only the assets of certain of the defendants (Chan, Poon and Horsley) and the Director and Officer insurance proceeds following major draw-downs and hold-backs, are available to the Ontario Plaintiffs in respect of those claims.

96. Further, as part of the Plan, the Ontario Plaintiffs negotiated a cap of CAD$150,000,000 for claims by noteholders in the various class actions indemnifiable by the Company, including claims by the Third Party Defendants, including Ernst & Young, for indemnification in respect of any noteholder claims against them (the "Noteholder Class Action Cap"). The Company admitted all claims for indemnification of the Third Party Defendants, including Ernst & Young, for the purposes of the Noteholder Class Action Cap. Ernst & Young waived all distribution to it under the Plan in return for the inclusion of Article 11.1 in the Plan. Therefore, the maximum that may be recovered by all noteholders with regard to indemnifiable claims in all of the class actions against all defendants in the aggregate is CAD$150,000,000.

97. Moreover, the actual damages to be paid may only be for claims filed. For a variety of reasons, less than 100% of the Class Members generally file claims. Although claim 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 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.

98. Finally, and most significantly, irrespective of the scale of actual damages, the legal impediments to recovery for the claims against Ernst & Young weigh strongly in our recommendation of the Ernst & Young Settlement. In essence, while the damages alleged are in the billions of dollars, recovery against Ernst & Young may be less than the Settlement Amount if certain of Ernst & Young's defences and arguments are successful at trial.

Statutory claims on behalf of primary market share and note purchasers

99. The Ontario Action advances claims against Ernst & Young under s 130 of the *OSA*. Although no Statements of Defence have been delivered in the Ontario Action, the Ontario Plaintiffs understand that Ernst & Young denies that: (i) its auditors' reports contain the misrepresentation alleged; (ii) Sino's financial statements on which Ernst & Young opined were not GAAP-compliant; and (iii) Ernst & Young's audit work was not GAAS-compliant.

100. The Ontario Plaintiffs would be put to the proof that the auditors' reports contained the misrepresentations alleged. The Ontario Plaintiffs also understand that Ernst & Young asserts a due diligence defence under ss130(3) and (4) of the *OSA*. The Ontario Plaintiffs also understand that Ernst & Young takes issue with the damages calculations by Mr. Torchio. The damages for these claims are limited in the aggregate to approximately $77.8 million.

101. However, recovery from Ernst & Young could be smaller. It is very likely that if Ernst & Young is found liable, responsibility would also be borne by Sino, its officers and directors, BDO Limited, and, notably, the Underwriters. Although liability under section 138 of the *OSA* is joint and several, Ernst & Young would be able to claim contribution from the other co-defendants found responsible for the misconduct. Ernst & Young waives this right to contribution as part of the Ernst & Young Settlement. The Settlement Fund provides certainty of the amount to be paid by Ernst & Young to the Class.

102. 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 that Sino issued during the Class Period. However, the *OSA* does not provide for a statutory right of action relating to the offering memoranda in respect of any other defendant, including Ernst & Young, a fact that Class Counsel have taken into account in recommending the Ernst & Young Settlement.

Common law claims: auditors' duty and standard of care

103. The Ontario Action has asserted common law claims on behalf of secondary market share purchasers against Ernst & Young for negligent misrepresentation, negligence *simpliciter* and knowing or willfully blind misrepresentation.

104. As stated above, the Ontario Plaintiffs understand that Ernst & Young denies these claims.

105. A significant hurdle faced by the Class in asserting these claims is establishing that Ernst & Young, as auditor of Sino's financial statements, owed a duty of care to the Class. The Supreme Court of Canada held in *Hercules*[2] that the auditor in that case owed no duty of care to the shareholders of a corporation that it had audited. While Class Counsel believe that *Hercules* is distinguishable, a significant risk exists that a court would rely on the reasoning in *Hercules* and find that Ernst & Young did not owe a duty of care to the Class, thereby defeating the common law claims based on negligence against Ernst & Young.

106. Moreover, even if the Class is able to establish that Ernst & Young owed a duty of care to shareholders, there remains the possibility that we will be unable to prove that Ernst & Young breached the standard of care. Within the settlement context and on a privileged basis, Ernst &

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2 *Hercules Managements Ltd v Ernst & Young*, [1997] 2 SCR 165 ("*Hercules*").

Young has provided Class Counsel with the opinion of an auditing expert, who opines that Ernst & Young complied with Generally Accepted Auditing Standards ("GAAS") and was not negligent in the preparation of its 2010 audit report (Ernst & Young's counsel have advised us that, as of the date hereof, it expects to receive similar opinions with respect to audit reports for prior years, if necessary).

107. We anticipate that Ernst & Young will argue that it was itself the victim of a fraud by Sino's management, and appropriately relied on other experts during the conduct of its audits, including a major Chinese law firm, and the valuation reports of Pöyry (Beijing) and its affiliate entities. In its Statement of Allegations against Sino and certain of its former senior officers, staff of the OSC allege that Sino's auditors, including Ernst & Young, were not made aware of Sino's alleged falsified contracts.

108. Ernst & Young could also argue, and a court could find, that a negligence claim requires a showing of reliance by each individual class member. Depending on the process a court adopts, this may require active participation by Class Members in the litigation. The need to actively participate, and to prove reliance, is likely to reduce the total judgment ultimately rendered against Ernst & Young in this class proceeding and increase the length, complexity and cost of the proceedings.

109. Finally, to the extent proof of individual reliance is required as an element of these common law claims, it was by no means certain that a court would grant class certification in respect of these claims. Recent authority has been divided on this issue, and without doubt the certification order would be appealed by the losing party.

Part XXIII.1 liability limits

110. The Class asserts statutory secondary market misrepresentation claims against Ernst & Young under Part XXIII.1 of the *OSA*. The Ontario Plaintiffs understand that Ernst & Young denies these claims. The Ontario Plaintiffs understand that Ernst & Young asserts a reasonable investigation defence pursuant to s 138.4(6) of the *OSA*. The Ontario Plaintiffs also understand that Ernst & Young takes issue with the quantification of damages. Further, the Ontario Plaintiffs understand that it is Ernst & Young's position that s 138.7(1) of the *OSA* could limit recoverable damages to the fees that Ernst & Young earned while auditing Sino, being in the range of $4-$8.5 million. In other words, even though the damages of these secondary market purchasers is over $3 billion, the *OSA* could restrict recovery for the Part XXIII.1 claims to a relatively tiny amount.

111. The only exception to this potentially paltry recovery would be for the Ontario Plaintiffs to prove that Ernst & Young knowingly made the alleged misrepresentations. This could be a challenging standard to meet, one which Ernst & Young denies and which Ernst & Young asserts requires proof of fraud.

112. Class Counsel's view that establishing knowledge will be challenging is bolstered by the recent Statement of Allegations against Ernst & Young released by the OSC, more than 15 months after the cease-trade order. The OSC's Statement of Allegations does not include any allegations that amount to knowledge of or recklessness with regards to a representation.

Claims on behalf of purchasers of notes

113. The Ontario Action also advances common law claims against Ernst & Young on behalf of note purchasers (debt securities purchased pursuant to an offering memorandum).[3] Class Counsel are mindful that there are challenges to the prosecution of these claims in the circumstance of this case.

114. Recovery on behalf of noteholders in the class actions is limited, with respect to indemnifiable claims, by virtue of the Plan to a total of CAD$150,000,000, for both primary and secondary market purchasers, and as against all defendants.

115. Certification of the common law claims relating to Sino notes remains subject to certain risks, including those described above in respect of common law claims on behalf of shareholders. These claims are also subject to a number of unique defenses. For example, the trust indentures governing Sino notes restrict the right of individual noteholders to assert claims in relation to their notes. As such, the Ontario Plaintiffs understand that Ernst & Young may assert that anyone who is not a current noteholder, even if they sold their notes only recently, has no right of action. The defendants assert that those former noteholders transferred all of their rights in the notes, including any right to sue for misrepresentations. Further, to allow the common law claims may violate the rule against double proof; the claimants cannot sue both for trading losses and under the note covenants.

116. Ernst & Young has also raised the argument that the current noteholders have chosen to recover from Sino's assets pursuant to the *CCAA* Plan of Arrangement, and that any other remedy would amount to double recovery.

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3 As noted, the *OSA* does not provide for a statutory right of action against Ernst & Young in relation to the alleged misrepresentations in the offering memoranda by way of which the notes were distributed.

117. In assessing the noteholders' common law claims in the context of the settlement, Class Counsel have been cognizant of such risks and uncertainties.

Ernst & Young LLP's Insurance

118. Taking into account the available insurance and annual revenues of the firm, it is the view of plaintiffs' counsel that the amount of damages estimated by the plaintiffs' expert would not reasonably be recoverable against an organization such as Ernst & Young LLP.

Other Auditor Settlements in Securities Class Actions

119. Attached as **Exhibit "GG"** is a list titled "Top 50 Accounting Malpractice Settlements" prepared by Audit Analytics, an independent research provider focused on the accounting, insurance, regulatory, legal and investment communities.

120. Based on our assessment of the Audit Analytics document and other information available in the public domain, the Settlement Amount would represent the largest securities class action settlement paid by defendants involving a Canadian issuer, the shares of which were not listed on a U.S. stock exchange. Before this settlement, the largest such settlement was in the *YBM Magnex* case where the defendants collectively paid $85 million to settle the action, which claimed $875 million in damages, on a global basis.

121. Based on our assessment of the Audit Analytics document and other information available in the public domain, the Settlement Amount would also be the largest settlement paid by a Canadian auditing firm in a securities class action lawsuit. Previously, the largest recovery to shareholders by a Canadian auditing firm was a US$50.5 million settlement paid by the Canadian branch of Deloitte & Touche in *In Re Philip Services Corp Securities Litigation.*

122. Based on our assessment of the Audit Analytics document and other information available in the public domain, the Settlement Amount ranks as the fifth largest settlement paid by an auditing firm worldwide in a securities class action.

123. The other class action settlements were: i) the $335 million payment to Cendant shareholders in December 1999; ii) the $225 million payment to Tyco shareholders in November 2007; iii) the $210 million payment to Adelphia shareholders in August 2007; and iv) the $125 million payment to Rite Aid shareholders in March 2003.

124. The remaining settlements on the Audit Analytics list that rank above the Ernst & Young settlement relate to payments made by auditing firms to government regulators or the auditors' clients, or relate to non-securities litigation.

CONCLUSION

125. In light of all of the above considerations, it is Class Counsel's opinion that the Ernst & Young Settlement and Settlement Amount are fair and reasonable to the Class. Class Counsel have no hesitation in recommending to the Court that it approve this settlement.

SWORN before me at the City of Toronto, in the Province of Ontario, this 10th day ~~of January~~, 2013.

A Commissioner, etc.
LSUC # 62311 B
S. Sajjad Nematollahi

Charles M. Wright

The Trustees of the Labourers' Pension Fund of Central and Eastern Canada, et al.	Sino-Forest Corporation, et al.	Court File No: CV-11-431153-00CP
Plaintiffs	Defendants	

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceedings Under the *Class Proceedings Act, 1992*

Proceeding commenced at **Toronto**

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Lawyers for the Plaintiffs

TAB A

THIS DOCUMENT IS LOCATED AT

Pöyry (Beijing) Consulting Company Limited Settlement Agreement Notice

Exhibit “X” to the Affidavit of Charles Wright, sworn January 10, 2013, Plaintiff’s Motion Record, Vol.3, Tab 2X

SINO-FOREST CLASS ACTION

TO CURRENT AND FORMER SINO SHAREHOLDERS AND NOTEHOLDERS

Notice of Tentative Settlement with Pöyry (Beijing) Consulting Company Limited

This notice is for any person, including non-Canadians, who acquired Sino-Forest Corporation ("Sino-Forest") securities in Canada or in a Canadian market between March 19, 2007 and June 2, 2011.

Background of Sino-Forest Class Action

In June and July of 2011, class actions were commenced in the Ontario Superior Court of Justice (the "Ontario Proceeding") and the Québec Superior Court (the "Québec Proceeding") against Sino-Forest, its senior officers and directors, its auditors, its underwriters and a consulting company, Pöyry (Beijing) Consulting Company Limited ("Pöyry (Beijing)"). It is alleged that the public filings of Sino-Forest contained false and misleading statements about Sino-Forest's business and affairs.

Who Is Included In This Class Action

The proposed classes encompass the following individuals and entities:

> All persons and entities, wherever they may reside, who acquired Sino-Forest Corporation common shares, notes or other securities, as defined in the Ontario *Securities Act*, during the period from and including March 19, 2007 to and including June 2, 2011:
>
> > (a) by distribution in Canada or on the Toronto Stock Exchange or other secondary market in Canada, which includes securities acquired over-the-counter or
> >
> > (b) who are resident of Canada or were resident of Canada at the time of acquisition and who acquired Sino-Forest Corporation's securities outside of Canada,
>
> excluding 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.

Who Acts For The Proposed Class

Koskie Minsky LLP, Siskinds LLP, and Siskinds Desmeules, sencrl ("Class Counsel") jointly represent the proposed classes in this case. If you want to be represented by another lawyer, you may hire one to appear in court for you at your own expense.

You will not have to pay any fees and expenses to Class Counsel. However, if this action succeeds or there is a monetary settlement, Class Counsel may seek to have their fees and expenses paid from any money obtained for the class or paid separately by the defendants.

Tentative Settlement with Pöyry (Beijing) Consulting Company Limited

There is a tentative settlement with one of the defendants, Pöyry (Beijing). The tentative settlement only settles the claims against Pöyry (Beijing) in both the Ontario and Québec proceedings. Pöyry (Beijing) does not admit to any wrongdoing or liability. The settlement does not involve the resolution of any claims against Sino-Forest Corporation or any of the other defendants.

The Pöyry (Beijing) settlement provides that Pöyry (Beijing) will initially provide cooperation to the Plaintiffs in the form of information and, if the Pöyry (Beijing) settlement is approved by the Ontario and Québec Courts, documents and other evidence, which the Plaintiffs believe will assist them in the continued litigation. Pöyry (Beijing) will contribute to the cost of providing notice, but will not otherwise provide monetary compensation to the Plaintiffs. In return for this assistance, the action will be dismissed against Pöyry (Beijing) and there will be an order barring claims against it and other persons or entities related to Pöyry (Beijing) as described in the settlement agreement that are not named as parties in the Ontario or Québec proceedings.

The settlement agreement with Pöyry (Beijing) is subject to court approval, as discussed below.

Stay of Proceedings Against Sino-Forest and Partial Lifting of the Stay

On March 30, 2012, Sino-Forest obtained creditor protection under the Companies' Creditors Arrangement Act ("CCAA"). The initial order provided for an interim stay of proceedings against Sino-Forest. This and other materials can be found at the CCAA Monitor's website at http://cfcanada.fticonsulting.com/sfc/. The parties to this action have agreed to, and the Court has ordered, a partial lifting of the stay of proceedings for, among other things, the purpose of allowing the Court to consider the fairness of the settlement between the Plaintiffs and Pöyry (Beijing).

Hearings to Approve Settlement on September 21, 2012 in Toronto and on October 30 and 31, 2012 in Québec City, Canada

On September 21, 2012 at 10:00 a.m., there will be a settlement approval hearing before the Ontario Superior Court of Justice. The courthouse is located at Osgoode Hall, 130 Queen Street West, Toronto, Ontario, Canada.

On October 30 and 31, 2012 at 9:30 a.m., there will be a settlement approval hearing before the Québec Superior Court. The courthouse is located at 300 Boulevard Jean-Lesage, Québec City, Québec, Canada.

On these dates, the courts will decide whether to approve the Pöyry (Beijing) settlement. Also on these dates, the Plaintiffs will seek orders certifying or authorizing the class proceeding for settlement purposes only as against Pöyry (Beijing).

Former or current security holders may attend the hearings and ask to make submissions regarding the proposed settlement. Any person who wishes to object to the Pöyry (Beijing) settlement must provide written notice to Class Counsel at the addresses below by August 21, 2012.

Further Information

If you would like additional information or to object to the Pöyry (Beijing) settlement, please contact Koskie Minsky LLP, Siskinds LLP, or Siskinds Desmeules LLP at the addresses below:

Koskie Minsky LLP
20 Queen St. West, Suite 900, Box 52, Toronto, ON, M5H 3R3
Re: Sino-Forest Class Action
Tel: 1.866.474.1739
Email: sinoforestclassaction@kmlaw.ca

Siskinds LLP
680 Waterloo Street, P.O. Box 2520 London, ON N6A 3V8
Re: Sino-Forest Class Action
Tel: 1.800.461.6166 x.2380
Email: nicole.young@siskinds.com

Siskinds Desmeules, sencrl
43 Rue Buade, Bureau 320, Québec City, Québec, G1R 4A2
Re: Sino-Forest Class Action
Tel: (418) 694-2009
Email: simon.hebert@siskindsdesmeules.com

A copy of the Pöyry (Beijing) settlement agreement and other information about this class action are available on Koskie Minsky LLP's website at www.kmlaw.ca/sinoforestclassaction and Siskinds LLP's website at www.classaction.ca.

PLEASE DO NOT CONTACT THE COURT OR THE REGISTRAR OF THE COURT ABOUT THIS CLASS ACTION. THEY ARE NOT ABLE TO ANSWER YOUR QUESTIONS.

TAB B

THIS DOCUMENT IS LOCATED AT

Pöyry (Beijing) Consulting Company Limited Certification and Settlement Approval Order dated September 25, 2012

Exhibit “Y” to the Affidavit of Charles Wright, sworn January 10, 2013, Plaintiff’s Motion Record, Vol.3, Tab 2Y

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

ONTARIO
SUPERIOR COURT OF JUSTICE

THE HONOURABLE	)	TUESDAY, THE 25TH DAY
JUSTICE PERELL	)	OF SEPTEMBER, 2012

BETWEEN:

THE TRUSTEES OF THE LABOURERS' PENSION FUND [illegible]NTRAL AND EASTERN CANADA, THE TRUSTEES OF THE [illegible]NAL UNION OF OPERATING ENGINEERS LOCAL 793 PENSION [illegible]RATING 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 Plaintiffs for an Order i) certifying this action as a class proceeding for settlement purposes as against Pöyry (Beijing) Consulting Company Limited (the "Settling Defendant"); ii) approving the settlement agreement made as of March 20, 2012, between the plaintiffs and the Settling Defendant (the "Settlement Agreement"); iii) approving the form of notice to class members of the certification of this action and the approval of the

Settlement Agreement ("Long-Form Approval Notice") and the summary notice to class members of the certification of this action and the approval of the Settlement Agreement ("Short-Form Approval Notice") (together, the "Approval Notices"); iv) approving the form of notice to class members of the Approval Notices ("Notice Plan"); and v) dismissing the action as against the Settling Defendant, was heard on September 21, 2012, in Toronto, Ontario.

WHEREAS the Plaintiffs and the Settling Defendant have entered into the Settlement Agreement in respect of the Plaintiffs' claims against the Settling Defendant.

AND WHEREAS notice of the Settlement Approval Hearing in this proceeding was provided pursuant to the Order dated May 17, 2012.

AND WHEREAS the defendant Sino-Forest Corporation ("Sino-Forest") has delivered to counsel for the plaintiffs a list of holders of Sino-Forest's securities as of June 2, 2011 (the "June 2, 2011 Shareholder List");

AND ON READING the materials filed, including the Settlement Agreement attached to this Order as Schedule "A", and on hearing submissions of counsel for the Plaintiffs, counsel for the Settling Defendant, and counsel for the Non-Settling Defendants (as defined in the Settlement Agreement);

1. **THIS COURT ORDERS** that the plaintiffs are granted leave to bring this motion.

2. **THIS COURT DECLARES** that for the purposes of this Order the definitions set out in the Settlement Agreement apply to and are incorporated into this Order.

3. **THIS COURT ORDERS** that this proceeding be, and hereby is, certified as a class proceeding, for purposes of settlement only, pursuant to the *Class Proceedings Act, 1992*, SO 1992, c 6. ("*CPA*") sections 2 and 5.

4. **THIS COURT ORDERS** that the Settlement Class is defined as:

> all persons and entities, wherever they may reside, who acquired Sino-Forest Corporation common shares, notes, or other securities, as defined in the Ontario *Securities Act*, during the period from and including March 19, 2007 to and including June 2, 2011
>
> > (a) by distribution in Canada or on the Toronto Stock Exchange or other secondary market in Canada, which includes securities acquired over-the-counter or
> >
> > (b) who are residents of Canada or were residents of Canada at the time of acquisition and who acquired Sino-Forest Corporation's securities outside of Canada,
>
> excluding 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;

5. **THIS COURT ORDERS AND DECLARES** that 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 be and hereby are appointed as the representative plaintiffs for the Settlement Class.

6. **THIS COURT ORDERS AND DECLARES** that the claims asserted on behalf of the Settlement Class as against the Settling Defendant are: (a) negligence in connection with Sino-Forest's share and note offerings during the class period; (b) the statutory cause of action in section 130 of the *Securities Act*, R.S.O. 1990, c.S.5 ("*OSA*") for alleged

misrepresentations in Sino-Forest's June 2009 and December 2009 prospectuses; and (c) the statutory cause of action in Part XXIII.1 of the *OSA* in connection with Sino-Forest's continuous disclosure documents;

7. **THIS COURT ORDERS** that, for the purposes of settlement, the Ontario Proceeding be and hereby is certified on the basis of the following common issue:

> Did the Settling Defendant make misrepresentations as alleged in this Proceeding during the Class Period concerning the assets, business or transactions of Sino-Forest. If so, what damages, if any, did Settlement Class Members suffer?

8. **THIS COURT ORDERS** that NPT Ricepoint Class Action Services be and is hereby appointed as the Opt-Out Administrator for purposes of the proposed settlement and for carrying out the duties assigned to the Opt-Out Administrator under the Settlement Agreement.

9. **THIS COURT ORDERS** that any putative Settlement Class Member may opt out of the Settlement Class in accordance with section 4.1 of the Settlement Agreement.

10. **THIS COURT ORDERS** that any Settlement Class Member who validly opts out of the Settlement Agreement in accordance with paragraph 9 of this Order is not bound by the Settlement Agreement and may no longer participate in any continuation or settlement of the within action.

11. **THIS COURT ORDERS** that the Settlement Agreement, in its entirety (including the Recitals, the Definitions set out in Section 1, and the Schedules), forms part of this Order, shall be implemented in accordance with its terms subject to the terms of this Order, and is binding upon the Plaintiffs, the Settling Defendant, the Opt-Out Administrator and all

Settlement Class Members, including those persons who are minors or mentally incapable, who did not validly opt out of the Settlement Class in accordance with the Settlement Agreement, and that the requirements of Rules 7.04(1) and 7.08(4) of the *Rules of Civil Procedure*, RRO 1990, Reg 194 are dispensed with in respect of the within action. If there is any inconsistency between the terms of this Order and the Settlement Agreement, the terms of this Order govern.

12. **THIS COURT ORDERS AND DECLARES** that any Settlement Class Member who does not validly opt out of the Settlement Class in accordance with paragraph 9 of this Order shall be deemed to have elected to participate in the settlement and be bound by the terms of the Settlement Agreement and all related court Orders.

13. **THIS COURT ORDERS AND DECLARES** that each Settlement Class Member who does not opt out of the Settlement Class in accordance with paragraph 9 of this Order shall consent and shall be deemed to have consented to the dismissal, without costs and with prejudice, of any other action the Settlement Class Member has commenced against the Releasees, or any of them, in relation to a Released Claim (an "Other Action").

14. **THIS COURT ORDERS AND DECLARES** that each Other Action commenced in Ontario by any Settlement Class Member who does not opt out of the Settlement Class in accordance with paragraph 9 of this Order is dismissed against the Releasees, without costs and with prejudice.

15. **THIS COURT DECLARES** that, subject to the terms of this Order, the settlement as set forth in the Settlement Agreement is fair, reasonable and in the best interests of the Settlement Class Members.

16. **THIS COURT ORDERS** that, subject to the terms of this Order, the Settlement Agreement be and is hereby is approved pursuant to s. 29 of the *CPA* and that it shall be implemented in accordance with its terms.

17. **THIS COURT ORDERS** that the form and content of the Long-Form Approval Notice, the Short-Form Approval Notice, and the opt out forms attached hereto as Schedules "B", "C", and "D" respectively, be and are hereby approved and shall be published, subject to the right of the plaintiff and the Settling Defendant to make minor non-material amendments to such forms, by mutual agreement, as may be necessary or desirable, or for the purpose of creating an online opt out form at the Opt-Out Administrator's website.

18. **THIS COURT ORDERS** that the Approval Notices shall be disseminated as follows:

(a) A copy of the Long-Form Approval Notice will be provided by Koskie Minsky LLP, Siskinds LLP, and Siskinds Desmeules, senerl (together, "Class Counsel") and the Opt-Out Administrator to all individuals or entities that have contacted Class Counsel regarding this action, and to any person that requests it;

(b) Within 10 days of the Order of the Québec Court approving the Settlement Agreement (the "Québec Approval Order"), the Long-Form Approval Notice will be posted on the websites of Sino-Forest Corporation (on its main page), Class Counsel, and the Opt-Out Administrator;

(c) Within 20 days of the Québec Approval Order, the Long-Form Approval Notice will be sent directly to the addresses of class members listed on the June 2, 2011 Shareholder List;

(d) Within 20 days of the Québec Approval Order, the Long-Form Approval Notice will be sent to a list of all brokers known to the Opt-Out Administrator, with a cover letter containing the following statement:

> Nominee purchasers are directed, within ten (10) days of the receipt of this Notice (a) to provide the Opt-Out Administrator with lists of names and addresses of beneficial owners; or (b) to request additional copies of the Notice from the Opt-Out Administrator, to mail the Notice to the beneficial owners. Nominee purchasers who elect to send the Notice to their beneficial owners shall send a statement to the Opt-Out Administrator that the mailing was completed as directed

(e) Within 30 days of the Québec Approval Order, the Short-Form Approval Notice will be published in the following print publications:

(i) *The Globe and Mail*, in English, in one weekday publication;

(ii) *National Post*, in English, in one weekday publication;

(iii) *La Presse*, in French, in one weekday publication; and

(iv) *Le Soleil*, in French, in one weekday publication.

19. **THIS COURT ORDERS** that the cost of distributing the Approval Notices shall be borne solely by the Settling Defendant up to $100,000 and equally between the plaintiffs and the Settling Defendant for any costs in excess of $100,000, subject to review or readjustment by agreement between the plaintiffs and the Settling Defendant.

20. **THIS COURT ORDERS** that no Settlement Class Member may opt out of this class proceeding after the date which is sixty (60) days after the date on which the Approval Notices are first published (the "Opt-Out Deadline") except with leave of this court.

21. **THIS COURT ORDERS** that, within fifteen (15) days of the Opt-Out Deadline, the Opt-Out Administrator shall serve on the parties and file with the court an affidavit listing all persons or entities that have opted out.

22. **THIS COURT ORDERS AND DECLARES** that the Court shall retain jurisdiction over the Plaintiffs, the Opt-Out Administrator, the Settlement Class Members, the Pöyry Parties (as defined in paragraph 27 hereof), Pöyry PLC and Pöyry Finland OY for all matters relating to the within proceeding, including the administration, interpretation, effectuation, and/or enforcement of the Settlement Agreement and this Order and that all of these parties are hereby declared to have attorned to the jurisdiction of this Court in relation thereto.

23. **THIS COURT ORDERS AND DECLARES** that approval of the Settlement Agreement is contingent upon the issuance by the Superior Court of Québec of an Order approving the Settlement Agreement. If such Order is not secured in Québec, this Order shall be null and void and without prejudice to the rights of the parties to proceed with this action and any agreement between the parties incorporated in this Order shall be deemed in any subsequent proceedings to have been made without prejudice.

24 **THIS COURT ORDERS AND ADJUDGES** that upon the date the Settlement Agreement becomes final, the Releasors fully, finally, and forever release the Releasees from the Released Claims.

25. **THIS COURT ORDERS AND DECLARES** that, subject to paragraph 30 below, all claims for contribution, indemnity or other claims over, including, without limitation, potential third party claims, at common law, equity or pursuant to the *OSA* or other statute, whether asserted, unasserted or asserted in a representative capacity or in any other capacity, inclusive of interest, costs, expenses, class administration expenses, penalties, legal fees and taxes, relating to the Released Claims, which were or could have been brought in the within proceedings or otherwise, or could in the future be brought on the basis of the same events, actions and omissions underlying the within proceedings or otherwise, by any Non-Settling Defendant or any Party or any Releasor against all or any of the Releasees are barred, prohibited, and enjoined in accordance with the terms of the Settlement Agreement and this Order (the "Bar Order").

26. **THIS COURT ORDERS AND DECLARES** that if the Court determines that there is a right of contribution and indemnity or other claims over, including, without limitation, potential third party claims, at common law, equity or pursuant to the *OSA* or other

statute, whether asserted, unasserted or asserted in a representative capacity or in any other capacity, inclusive of interest, costs, expenses, class administration expenses, penalties, legal fees and taxes, relating to the Released Claims:

(a) the Settlement Class Members shall not be entitled to claim or recover from the Non-Settling Defendants that portion of any damages (including punitive damages, if any), restitutionary award, disgorgement of profits, interest and costs that corresponds to the Proportionate Liability of the Releasees proven at trial or otherwise; and

(b) this Court shall have full authority to determine the Proportionate Liability of the Releasees at the trial or other disposition of this action, whether or not the Releasees appear at the trial or other disposition and the Proportionate Liability of the Releasees shall be determined as if the Releasees are parties to this action and any determination by this Court in respect of the Proportionate Liability of the Releasees shall only apply in this action and shall not be binding on the Releasees in any other proceedings.

27. **THIS COURT ORDERS AND DECLARES** that, after all appeals or times to appeal from the certification of this action against the Non-Settling Defendants have been exhausted, any Non-Settling Defendant is entitled to the following:

(a) documentary discovery and an affidavit of documents in accordance with the *Rules of Civil Procedure* from any and all of the Settling Defendant, Pöyry (Beijing) Consulting Company Ltd. - Shanghai Branch, Pöyry Management Consulting (Singapore) Pte. Ltd., Pöyry Forest Industry Ltd., Pöyry Forest

Industry Pte. Ltd. Pöyry Management Consulting (Australia) Pty. Ltd., Pöyry Management Consulting (NZ) Ltd., JP Management Consulting (Asia-Pacific) Ltd., and any successor entities (collectively, the "Pöyry Parties", each a "Pöyry Party");

(b) oral discovery of a representative of any Pöyry Party in accordance with the *Rules of Civil Procedure*, the transcript of which may be read in at trial solely by the Non-Settling Defendants as part of their respective cases in defending the Plaintiffs' allegations concerning the Proportionate Liability of the Releasees and in connection with any potential claim by a Non-Settling Defendant against a Pöyry Party for contribution and indemnity that may arise out of an Order made under paragraph 30 below;

(c) leave to serve a request to admit on any Pöyry Party in respect of factual matters and/or documents in accordance with the *Rules of Civil Procedure*;

(d) the production of a representative of any Pöyry Party to testify at trial in accordance with the *Rules of Civil Procedure*, with such witness or witnesses to be subject to cross-examination by counsel for the Non-Settling Defendants; and

(e) leave to serve *Evidence Act* notices on any Pöyry Party.

The discovery set out in subparagraphs (a) and (b) above shall proceed pursuant to an agreement between the Non-Settling Defendants and the Pöyry Parties in respect of a discovery plan, or failing such agreement, a further Order of this Court in respect of a discovery plan.

28. **THIS COURT ORDERS AND DECLARES** that the Pöyry Parties, Pöyry PLC and Pöyry Finland OY shall, on a best efforts basis, take steps to collect and preserve all documents relevant to the matters at issue in the within proceeding and any proceeding contemplated by paragraph 30, until such time as the within proceeding and any proceeding contemplated by paragraph 30 have been finally disposed of and all appeals or times to appeal from any Order finally disposing of the within proceeding and any proceeding contemplated by paragraph 30 have been exhausted.

29. **THIS COURT ORDERS AND DECLARES** that service on any Pöyry Party, Pöyry PLC and Pöyry Finland OY of any court documents relating to the within proceeding, including, but not limited to notices of examination, requests to inspect or admit, *Evidence Act* notices and summons, may be served on counsel for the Settling Defendant, John Pirie of Baker & McKenzie LLP, or such other counsel as may replace current counsel as counsel for the Settling Defendant in respect of this proceeding and that such service shall be deemed to be sufficient service under the *Rules of Civil Procedure*.

30. **THIS COURT ORDERS AND DECLARES** that if any Pöyry Party fails to satisfy its reasonable obligations arising under paragraph 27 above, a Non-Settling Defendant may make a motion to this Court on at least fifteen (15) days notice to compel reasonable compliance by the alleged non-compliant Pöyry Party or for such other alternative relief as the Court may consider just and appropriate. If such an Order is made, and not adhered to by the Pöyry Party at issue, a Non-Settling Defendant may then bring a motion on at least twenty (20) days notice to lift the Bar Order under paragraph 25 above with respect to the Pöyry Party at issue and to advance a claim for contribution, indemnity or other claims over against the Pöyry Party at issue.

31. **THIS COURT ORDERS AND DECLARES** that any Pöyry Party affected or potentially affected by a motion brought under paragraph 30 above shall have the right to oppose any such motion.

32. **THIS COURT ORDERS AND DECLARES** that if an Order is made under paragraph 30 above permitting a claim to be advanced against a Pöyry Party by a Non-Settling Defendant:

(a) any limitation period applicable to such a claim, whether in favour of a Pöyry Party or a Non-Settling Defendant, shall be deemed to have been tolled as of the date of this Order and shall continue as of the date of any Order permitting a claim to be advanced against any Pöyry Party pursuant to paragraph 30 above;

(b) any Pöyry Party that is subject to a claim permitted under paragraph 30 above shall have all procedural and substantive rights available to it at law to defend and challenge such a claim, including, *inter alia*, the right to bring a motion for summary judgment or to strike out a pleading on the ground that it discloses no reasonable cause of action; and

(c) no Pöyry Party shall advance or raise any *res judicata* or issue estoppel argument or defence with respect to any claim permitted under paragraph 30 above.

33. **THIS COURT ORDERS AND DECLARES** that nothing in this Order shall be taken as a waiver of any rights that a Pöyry Party may have, now or in the future, to challenge any claim or proceeding brought against a Pöyry Party by a Non-Settling Defendant.

34. **THIS COURT ORDERS AND DECLARES** that after all appeals or times to appeal from the certification of this action against the Non-Settling Defendants have been

exhausted, any Non-Settling Defendant may bring a motion to this Court on at least twenty (20) days notice seeking a determination from the Court as to whether Pöyry PLC and/or Pöyry Finland OY shall be subject to the Non-Settling Defendants' procedural entitlements set out in subparagraphs 27(a), (b), (c), (d) and (e) above. Pöyry PLC, Pöyry Finland OY and/or any Pöyry Party affected or potentially affected by a motion brought under this paragraph shall have the right to oppose any such motion.

35. **THIS COURT ORDERS AND DECLARES** that if an Order is made under paragraph 34 above requiring Pöyry PLC and/or Pöyry Finland OY to be subject to the Non-Settling Defendants' procedural entitlements set out in subparagraphs 27(a), (b), (c), (d) and (e), then Pöyry PLC and/or Pöyry Finland OY, as the case may be, shall be deemed to be a Pöyry Party and the relief set out in paragraphs 22, 27, 30, 31, 32 and 33 above shall apply to Pöyry PLC and/or Pöyry Finland OY as if each entity was a Pöyry Party.

36. **THIS COURT ORDERS AND DECLARES** that this Order and its terms are entirely without prejudice to the Non-Settling Defendants except as against the Releasees as provided herein, including without limiting the generality of the foregoing without prejudice to the Non-Settling Defendants' ability to challenge any aspect of any certification or other preliminary motions currently pending or that may be brought in the future in respect of the Non-Settling Defendants, including the factual, evidentiary and/or legal elements of the test for certification under the *Class Proceedings Act*, S.O. 1992, c. 6.

37. **THIS COURT ORDERS AND ADJUDGES** that, upon the Effective Date, the within proceeding is dismissed against the Settling Defendant without costs and with prejudice.

Date:

ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO:
OCT 30 2012
AS DOCUMENT NO.:
A TITRE DE DOCUMENT NO.
PER / PAR:

Perell J.

THE HONOURABLE JUSTICE PERELL

The Trustees of the Labourer's Pension Fund of Central and Eastern Canada, et al.	and	Sino-Forest Corporation, et al.	Court File No: CV-11-431153-00CP
Plaintiffs		Defendants	

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceedings Under the *Class Proceedings Act, 1992*

Proceeding commenced at **Toronto**

ORDER

KOSKIE MINSKY LLP
900-20 Queen Street West
Box 52
Toronto, ON M5H 3R3

Kirk M. Baert (LSUC#: 30942O)
Tel: 416.595.2117
Fax: 416.204.2889
Jonathan Bida (LSUC#: 54211D)
Tel: 416.595.2072
Fax: 416.204.2907

SISKINDS LLP
680 Waterloo Street
P.O. Box 2520
London, ON N6A 3V8

Charles M. Wright (LSUC#: 36599Q)
Tel: 519.660.7753
Fax: 519.660.7754
A. Dimitri Lascaris (LSUC#: 50074A)
Tel: 519.660.7844
Fax: 519.660.7845

Lawyers for the Plaintiffs

TAB C

THIS DOCUMENT IS LOCATED AT

Notice of Certification and Pöyry Settlement

Exhibit “Z” to the Affidavit of Charles Wright, sworn January 10, 2013, Plaintiff’s Motion Record, Vol.3, Tab 2Z

SINO-FOREST CORPORATION CLASS ACTION

TO CURRENT AND FORMER SINO-FOREST SHAREHOLDERS AND NOTEHOLDERS

Notice of Settlement with Pöyry (Beijing) Consulting Company Limited

This notice is to everyone, including non-Canadians, who acquired Sino-Forest Corporation ("Sino-Forest") securities in Canada or in a Canadian market between March 19, 2007 and June 2, 2011.

READ THIS NOTICE CAREFULLY AS IT MAY AFFECT YOUR LEGAL RIGHTS. YOU MAY NEED TO TAKE PROMPT ACTION.

IMPORTANT DEADLINE:

Opt-Out Deadline (for individuals and entities that wish to exclude themselves from the Class Action. See pages 2-3 for more details.):	**January 15, 2013**

Opt-Out Forms will not be accepted after this deadline. As a result, it is necessary that you act without delay.

COURT APPROVAL OF THE CLASS ACTION SETTLEMENT

In June and July of 2011, class actions were commenced in the Ontario Superior Court of Justice (the "Ontario Proceeding") and the Québec Superior Court (the "Québec Proceeding") (collectively, the "Proceedings") against Sino-Forest, its senior officers and directors, its auditors, its underwriters and a consulting company, Pöyry (Beijing) Consulting Company Limited ("Pöyry (Beijing)"). The actions alleged that the public filings of Sino-Forest contained false and misleading statements about Sino-Forest's assets, business, and transactions.

Since that time, the litigation has been vigorously contested. On March 30, 2012, Sino-Forest obtained creditor protection under the *Companies' Creditors Arrangement Act* (the "*CCAA*"), which allowed an interim stay of proceedings against the company. Orders and other materials relevant to the *CCAA* proceeding can be found at the *CCAA* Monitor's website at http://cfcanada.fticonsulting.com/sfc/. Ten days before the stay of proceedings was ordered, on March 20, 2012, the plaintiffs entered into a settlement agreement with Pöyry (Beijing) that sought to settle the claims against this defendant alone in the Proceedings (the "Settlement Agreement"). The parties to the Proceedings agreed to, and the Courts have since ordered, a partial lifting of the stay of proceedings for, among other things, the purpose of allowing the Courts to consider the fairness of the Settlement Agreement.

The Settlement Agreement stipulates that Pöyry (Beijing) will cooperate with the plaintiffs through the provision of information, documents, and other evidence that the plaintiffs

believe will assist them in the continued litigation against the remaining defendants. Pöyry (Beijing) will not provide monetary compensation to the plaintiffs. In return, the Proceedings will be dismissed against Pöyry (Beijing) and future claims against Pöyry (Beijing) in relation to these Proceedings will be barred.

Pöyry (Beijing) does not admit to any wrongdoing or liability. The Settlement Agreement does not resolve any claims against Sino-Forest, its senior officers and directors, its auditors, or its underwriters. A complete copy of the Settlement Agreement is available at: www.kmlaw.ca/sinoforestclassaction and www.classaction.ca.

On September 25, 2012, the Ontario Superior Court certified the Ontario Proceeding as a class action for settlement purposes and approved the Settlement Agreement. On November 9, 2012 the Québec Proceeding was authorized as a class action for settlement purposes and the Settlement Agreement was approved by the Québec Superior Court (the "Québec Court"). Both Courts declared that the Settlement Agreement is fair, reasonable, and in the best interest of those affected by it.

WHO IS INCLUDED IN THIS CLASS ACTION AND BOUND BY THE SETTLEMENT?

The Courts have certified the Proceedings and approved the Settlement Agreement on behalf of classes which encompass the following individuals and entities (the "Class" or "Class Members"):

> All persons and entities, wherever they may reside, who acquired Sino-Forest Corporation common shares, notes, or other securities, as defined in the Ontario *Securities Act*, during the period from and including March 19, 2007 to and including June 2, 2011:
>
> a) by distribution in Canada or on the Toronto Stock Exchange or other secondary market in Canada, which includes securities acquired over-the-counter or
>
> b) who are resident of Canada or were resident of Canada at the time of acquisition and who acquired Sino-Forest Corporation's securities outside of Canada.
>
> excluding 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.

REQUESTING EXCLUSION FROM THE CLASS

All persons and entities that fall within the definition of the Class are Class Members unless and until they exclude themselves from the Class ("opt out"). Class Members that do not opt out of the Class will not be able to make or maintain any other claims or legal proceeding in

relation to the matters alleged in the Proceedings against Pöyry (Beijing) or any other person released by the Settlement Agreement.

If you are a Class Member and you do not want to be bound by the Settlement Agreement you must opt out. If you wish to opt out, you may do so by completing an "Opt-Out Form".

IF YOU CHOOSE TO OPT OUT OF THE CLASS, YOU WILL BE OPTING OUT OF THE **ENTIRE** PROCEEDING. THIS MEANS THAT YOU WILL BE UNABLE TO PARTICIPATE IN ANY FUTURE SETTLEMENT OR JUDGMENT REACHED WITH OR AGAINST THE REMAINING DEFENDANTS.

In order to successfully opt out, you must include all of the information requested by the Opt-Out Form. Specifically, you must sign a written election that contains the following information:

a) your full name, current address, and telephone number;

b) the name and number of Sino-Forest securities purchased between March 19, 2007 and June 2, 2011 (the "Class Period"), and the date and price of each such transaction;

c) a statement to the effect that you wish to be excluded from the Settlement Agreement; and

d) your reasons for opting out.

If you wish to opt out, you must submit your fully complete Opt-Out form to the Opt-Out Administrator or the Québec Court (if you are a resident of Québec) at the applicable below-noted address, **no later than January 15, 2013.**

OPT-OUT ADMINISTRATOR

The Court has appointed NPT Ricepoint Class Action Services as the Opt-Out Administrator for the Settlement Agreement. The Opt-Out Administrator will receive and process opt-out forms for Class Members **outside Québec**. The Opt-Out Administrator can be contacted at:

Telephone:	1-866-432-5534
Mailing Address:	Sino-Forest Class Action Opt-Out Administrator PO Box 3355 London, ON N6A 4K3
Email:	**sino@nptricepoint.com**

The opt-out forms for Class Members that are **residents of Québec** will be received and processed by the Québec Court, which can be contacted at:

Mailing Address:

Greffier de la Cour supérieure du Québec
Palais de justice de Québec
300, boulevard Jean-Lesage, salle 1.24
Québec (Québec) G1K 8K6
No de dossier : 200-06-000132-111

THE LAWYERS THAT REPRESENT THE CLASS MEMBERS

The law firms of Koskie Minsky LLP, Siskinds LLP, and Siskinds Desmeules, sencrl ("Class Counsel") jointly represent the Class in the Proceedings. They can be reached by mail, email, or by telephone, as provided below:

Koskie Minsky LLP
20 Queen St. West, Suite 900, Box 52, Toronto, ON, M5H 3R3
Re: Sino-Forest Class Action
Tel: **1.866.474.1739**
Email: **sinoforestclassaction@kmlaw.ca**

Siskinds LLP
680 Waterloo Street, P.O. Box 2520 London, ON N6A 3V8
Re: Sino-Forest Class Action
Tel: **1.800.461.6166 x.2380**
Email: **nicole.young@siskinds.com**

Siskinds Desmeules, sencrl
43 Rue Buade, Bureau 320, Québec City, Québec, G1R 4A2
Re: Sino-Forest Class Action
Tel: **418.694-2009**
Email: **simon.hebert@siskindsdesmeules.com**

INTERPRETATION

If there is a conflict between the provisions of this notice and the Settlement Agreement, the terms of the Settlement Agreement will prevail.

Please do not direct inquiries about this notice to the Court. All inquiries should be directed to the Opt-Out Administrator or Class Counsel.

DISTRIBUTION OF THIS NOTICE HAS BEEN AUTHORIZED BY THE ONTARIO SUPERIOR COURT OF JUSTICE AND THE QUEBEC SUPERIOR COURT

000079

SINO-FOREST CLASS ACTION SETTLEMENT
OPT OUT FORM

Must be Postmarked No Later Than January 15, 2013

THIS FORM IS NOT A REGISTRATION FORM OR A CLAIM FORM.
THIS FORM EXCLUDES YOU FROM PARTICIPATION IN THE PÖYRY (BEIJING) SETTLEMENT AGREEMENT.
DO NOT USE THIS FORM IF YOU WANT TO REMAIN IN THE CLASS.

Last Name

First Name

Current Address

City

Prov./State

Postal Code/Zip Code

Social Insurance Number/Social Security Number/Unique Tax Identifier

Telephone Number (Work) — —

Telephone Number (Home) — —

Total number of Sino-Forest securities purchased during the Class Period (March 19, 2007 to June 2, 2011):

You must also accompany your Opt-Out form with brokerage statements, or other transaction records, listing all of your purchases of Sino-Forest common shares between March 19, 2007 to June 2, 2011, inclusive (the "Class Period").

Identification of person signing this Opt Out Form (please check):

☐ I represent that I purchased Sino-Forest Corporation ("Sino-Forest") securities and am the above identified Class Member. I am signing this Form to EXCLUDE myself from the participation in the Sino-Forest Class Action Settlement Agreement reached between the Class and Pöyry (Beijing) Consulting Company Limited ("Pöyry (Beijing)"), the Settling Defendant.

Purpose for Opting Out (check only one):

☐ My current intention is to begin individual litigation against Pöyry (Beijing) in relation to the matters alleged in the Proceedings.

☐ I am opting out of the class action for a reason other than to begin individual litigation against Pöyry (Beijing) in relation to the matters alleged in the Proceedings. I am opting out for the following reason(s):

I UNDERSTAND THAT BY OPTING OUT I WILL NEVER BE ELIGIBLE TO RECEIVE BENEFITS OBTAINED BY WAY OF THE PÖYRY (BEIJING) SETTLEMENT AGREEMENT, AND WILL BE UNABLE TO PARTICIPATE IN ANY FUTURE SETTLEMENT OR JUDGEMENT WITH OR AGAINST ANY OF THE REMAINING DEFENDANTS.

Signature: _____ Date Signed: _____

Please mail your Opt Out Form to:
Sino-Forest Class Action
PO Box 3355
London, ON N6A 4K3

TAB D

THIS DOCUMENT IS LOCATED AT

Statement of Allegations issued against Sino and certain officers and directors issued by the Ontario Securities Commission dated May 22, 2012

Exhibit “EE” to the Affidavit of Charles Wright, sworn January 10, 2013, Plaintiff’s Motion Record, Vol.3, Tab 2EE

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

[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) Sino-Forest Controlled Yuda Wood, a Major Supplier

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%.

[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) Purchase Contracts in the BVI Model

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

[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