

**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**

**COMPENDIUM OF THE AD HOC COMMITTEE OF PURCHASERS OF THE
APPLICANT'S SECURITIES, INCLUDING THE REPRESENTATIVE PLAINTIFFS
IN THE ONTARIO CLASS ACTION**

(Motion Returnable October 9 and 10, 2012)

October 5, 2012

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Purchasers of the Applicant's Securities,
including the Representative Plaintiffs in the
Ontario Class Action**

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TAB 1

**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**

**AMENDED NOTICE OF MOTION AND RETURN OF MOTION
(returnable October 9 and 10, 2012)**

TAKE NOTICE that the Ad Hoc Committee of Purchasers of the Applicant's Securities, including the plaintiffs in the action commenced against Sino-Forest Corporation ("Sino-Forest" or the "Applicant") in the Ontario Superior Court of Justice, bearing (Toronto) Court File No. CV-11-431153-00CP (the "Ontario Plaintiffs" and the "Proposed Ontario Class Action", respectively) and the petitioner in the petition commenced against the Applicant in the Quebec Superior Court bearing Court File No. 200-06-000132-111, (the "Quebec Petitioner" and the "Proposed Quebec Class Action", respectively) (together, the "Proposed Class Actions" and the "Class Action Plaintiffs"), will make a motion to a Judge of the Commercial List on October 9 and 10, 2012 at 10:00 a.m., 330 University Avenue, 8th Floor, Toronto, Ontario, or at such other time and place as the Court may direct, returning the relief sought in their motion originally returnable in this proceeding on August 28, 2012, as well as the additional relief stated below.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR:

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

- (b) A direction or order that the stay of proceedings imposed by the initial order in these proceedings dated March 30, 2012 (the “Initial Order”), as extended from time to time (the “Stay of Proceedings”), not apply to the pending motions and petition for:
- (i) certification of the Proposed Ontario Class Action as a class proceeding under the *Class Proceedings Act, 1992*, S.O. 1992, c. 6 (“CPA”) (the “Ontario Certification Motion”);
 - (ii) authorization in the Proposed Quebec Class Action to commence a class action under the *Quebec Code of Civil Procedure*, RSQ c C-25 (the “Quebec Petition” and, together with the Ontario Certification Motion, the “Certification Motions”);
 - (iii) leave to proceed with statutory secondary market claims in the Proposed Ontario Class Action pursuant to s. 138.3 of the *Securities Act*, R.S.O. 1990, c. S.5 (“OSA”) (the “Ontario Leave Motion”);
 - (iv) leave to proceed with the statutory secondary market claims in the Proposed Quebec Class Action pursuant to article 225.4 of the *Securities Act*, RSQ c V-1-1 (“QSA”), to be filed (the “Quebec Leave Motion” and, together with the Ontario Leave Motion, the “Leave Motions”);
 - (v) leave to proceed with a motion to add CONDEX Wattco Inc. as a plaintiff in the Proposed Quebec Class Action with Ilan Toledano as its representative, to be filed (the “Corollary Motion”); and
 - (vi) if necessary, leave to amend the pleading in the Quebec Class Action to plead the Securities Act, RSQ c V-1-1 and add BDO Limited as a party (together with the Corollary Motion, Certification Motions and Leave Motions, the “Class Action Motions”);

- (c) In the alternative, an order exempting the Class Action Motions from the Stay of Proceedings as against only Ernst & Young LLP, BDO Limited, the underwriter defendants, Allen T.Y. Chan, (“Chan”), David J. Horsley (“Horsley”) and Kai Kit Poon (“Poon”, and collectively the “Third Party Defendants”);
- (d) In the further alternative, an order lifting the stay of proceedings imposed by the Initial Order to require the Third Party Defendants to serve and file their responding materials, if any, in the Leave and Certification Motions, and to deliver statements of defense for the Ontario Leave Motion and the Ontario Certification Motion, to permit the Class Action Plaintiffs to serve and file their reply materials, if any; in the Leave and Certification Motions, and to permit the parties to the Proposed Class Actions to conduct cross-examinations on affidavits filed in relation to the Leave Motions and/or the Certification Motions and to litigate any refusals motions arising therefrom, all within the time limits to be imposed by the Courts presiding over the Proposed Class Actions; and
- (e) An order directing the production of the documents described in the Confidential Appendix “A” of this Notice of Motion on a non-confidential basis (the “Documents”), such that such documents may be used in this proceeding and filed in the Proposed Class Actions for use on the Leave and Certification Motions; and
- (f) Such further and other relief as this honourable Court deems just.

THE GROUNDS FOR THE MOTION ARE:

- (g) Sino-Forest, its directors, officers, and a number of third parties are the defendants in the Proposed Ontario Class Action brought by the Ontario Plaintiffs on behalf of all persons, wherever they reside, who: acquired Sino-Forest’s securities between March 19, 2007, to and including June 2, 2011, by distribution in Canada on the Toronto Stock Exchange or other

secondary market in Canada; or, are residents of Canada, or were resident of Canada at the time of acquisition, and who acquired Sino-Forest's securities outside of Canada, except certain excluded persons.

- (h) The Proposed Ontario Class Action was commenced on July 20, 2011, and seeks damages of approximately \$9.18 billion.
- (i) The Ontario Plaintiffs were awarded carriage of the Proposed Ontario Class Action to the exclusion of other claims commenced in Ontario by order of the Honourable Mr. Justice Perell dated January 6, 2012.
- (j) The Ontario Leave Motion and the Ontario Certification Motion are both pending in the Proposed Ontario Class Action, and were scheduled by the Honourable Justice Perell to be heard together from November 21 - 30, 2012. These motions seek leave to proceed with the statutory secondary market claims pursuant to Part XXIII.1 of the *OSA* and certification of the Proposed Ontario Class Action pursuant to the *CPA*.
- (k) The Proposed Quebec Class Action was filed on June 9, 2011;
- (l) On August 3, 2012, a motion for permission to amend the Quebec Petition was filed in order to add defendants;
- (m) On August 30, 2012, Justice Jean-François Émond of the Québec Superior Court, granted the motion for permission to amend;
- (n) On March 30, 2012, Sino-Forest filed for and obtained protection from its creditors under the *CCAA*. As a result of these proceedings, the Class Actions have been stayed.
- (o) Sound reasons exist to lift the stay of proceedings as it applies to the Proposed Class Actions and the pending motions therein, including, among other things:

- (i) The Proposed Class Actions raise serious claims having a real chance of success;
- (ii) It is now clear that this *CCAA* process will not address “the uncertainty created by the [Muddy Waters] Report” because, among other things:

 - (A) Fifteen months following the Muddy Waters Report, and having spent tens of millions of dollars on investigations, Sino-Forest and its “Independent Committee” have been unable to meaningfully refute many of the allegations contained in that report;
 - (B) Sino-Forest has been unable to produce reliable financial statements for 2011, its auditor has resigned and no new auditor has been appointed;
 - (C) the Monitor has reported similar and significant difficulties in verifying and enforcing Sino-Forest’s assets and receivables; and
 - (D) the Ontario Securities Commission has commenced formal enforcement proceedings against Sino-Forest and certain of its former directors and officers, and has alleged serious fraudulent conduct on the part of Chan and other former officers of Sino-Forest.
- (iii) the restructuring has progressed to the point where proceeding with the Proposed Class Actions is no longer unduly burdensome, as Sino-Forest has completed its sale process, and is now proceeding with a meeting of creditors to vote on a plan to transfer its assets to current noteholders, no later than November 30, 2012;

- (iv) Efforts to mediate the disputes in the Proposed Class Actions have been made but were unsuccessful;
- (v) the continuation of the Proposed Class Actions is consistent with the current proposed plan of arrangement; and
- (vi) The Leave Motions and Certification Motions will require minimal attention on the part of Sino-Forest's directors and officers and, to the extent the Class Actions are still relevant to the restructuring, the disposition of the Leave Motions and Certification Motions will bring greater clarity to the stakeholders' position in the restructuring, in part because those motions may narrow the claims in the Proposed Class Actions.
- (p) It is consistent with the objectives of the *CCAA* and in the interests of justice to lift the stay of proceedings.
- (q) Sino-Forest has produced the documents referred to in Confidential Appendix "A" to this Notice of Motion on a confidential basis (the "Confidential Documents"), but did so without restricting any rights at law to separately compel production or disclosure of any of the confidential information as part of any legal proceeding, nor the use of such information so separately compelled or disclosed as permitted by the rules of civil procedure or applicable law.
- (r) The Confidential Documents are relevant to the matters in issue in the Proposed Class Actions, they are not privileged, and their suppression is not in the public interest.
- (s) There is no serious risk to Sino-Forest if the Confidential Documents are produced.

- (t) The production of the Confidential Documents will promote the Class Action Plaintiffs' right to a fair hearing, and the public interest in open and accessible court proceedings.
- (u) Sections 11, 11.02, 11.03 of the *Companies' Creditors Arrangement Act*.
- (v) Rules 1.04, 3.02, 12, 16.08 and 37 of the *Rules of Civil Procedure*.
- (w) Such further grounds as counsel may advise and this Honourable Court may consider.

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

- (a) Affidavit of Daniel E. H. Bach, sworn April 11, 2012;
- (b) Affidavit of Daniel E. H. Bach, sworn September 24, 2012; and
- (c) such further or other material as counsel may advise and this Honourable Court may permit.

September 24, 2012

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including the Representative Plaintiffs in the
Ontario Class Action**

TO: SERVICE LIST

APPENDIX "A"

CONFIDENTIAL

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**

Proceeding commenced at Toronto, Ontario

**NOTICE OF MOTION
(RETURNABLE OCTOBER 9 and 10, 2012)**

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the Applicant's Securities, including the Representative
Plaintiffs in the Ontario Class Action**

TAB 2

**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**

NOTICE OF CROSS-MOTION and RETURN OF MOTION

TAKE NOTICE that the Ad Hoc Committee of Purchasers of the Applicant's Securities, including the plaintiffs in the action commenced against Sino-Forest Corporation ("SFC" or the "Applicant") in the Ontario Superior Court of Justice, bearing (Toronto) Court File No. CV-11-431153-00CP (the "Ontario Plaintiffs" and the "Ontario Class Action", respectively) and the plaintiff in the action commenced against the Applicant in the Quebec Superior Court bearing Court File No. 200-06-000132-111, Siskinds Desmeules SENC (the "Quebec Plaintiff" and the "Quebec Class Action", respectively) (together, the "Class Action Plaintiffs"), will make a motion to a Judge of the Commercial List on August 28, 2012, at 2:00 p.m., 330 University Avenue, 8th Floor, Toronto, Ontario, or at such other time and place as the Court may direct, returning the relief sought by paragraph 3 of the relief requested in their motion originally returnable in this proceeding on April 13, 2012 (that is, for a representation order in this proceeding), as well as the additional relief stated below.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR:

1. An order, if necessary, validating and abridging the time for service and filing of this notice of motion and motion record, and dispensing with any further service thereof;
2. An order appointing the Class Action Plaintiffs as representatives of the members of the classes proposed in the Class Actions (the "Class"), for the purposes of any related or ensuing receivership, bankruptcy or other insolvency proceeding that has or may be brought before this Court, substantially in accordance with the draft representation order appended hereto as Schedule "A";
3. An order, if necessary, granting the members of the Class leave to vote on the Applicant's Plan of Compromise and Reorganization dated August 14, 2012 (the "Plan"); and
4. Such further and other relief as this Honourable Court deems just.

THE GROUNDS FOR THE MOTION ARE:

1. The Class members have an economic interest in the Plan insofar as it purports to compromise:
 - a. Class members' claims against the Applicant's directors and officers; and
 - b. Class members' recourse to the Applicant's insurance.
2. A representation order will further the objectives of the CCAA by expediting the process for consideration of the Plan and enable the Applicant to focus on its

- restructuring efforts rather than identifying and contacting individual Class members;
3. The Ontario Plaintiffs were awarded carriage of the Ontario Class Action to the exclusion of other claims commenced in Ontario by order of the Honourable Mr. Justice Perell dated January 6, 2012;
 4. Koskie Minsky LLP and Siskinds LLP were selected to represent the Ontario Plaintiffs;
 5. Class members have already received various communications, including with respect to the claims procedure and the Pöyry settlement, indicating that the plaintiffs in the Class Actions were representing the interests of the Class members, with Siskinds LLP (and its affiliated law firm in Quebec), Koskie Minsky LLP and/or Paliare Roland Rosenberg Rothstein LLP as their counsel.
 6. Dealing with Class members individually at this late stage of these proceedings will result in confusion, delay, and additional expense on the part of the Applicant and individual Class members.
 7. Conversely, the proposed Representation Order will serve to:
 - a. ensure that a vulnerable group is properly represented in any meetings or negotiations respecting the plan;
 - b. facilitate the administration of the proceedings, negotiation and compromise;
 - c. increase efficiency and avoid a multiplicity of legal retainers.
 8. Sections 6, 11 and 22.1 of the *Companies' Creditors Arrangement Act*;
 9. Rules 3.02, 10, 16.08 and 37 of the *Rules of Civil Procedure*; and

10. Such further grounds as counsel may advise and this Honourable Court may consider.

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

1. the affidavit of Daniel E. H. Bach, sworn April 11, 2012;
2. the affidavit of Jonathan Bida, affirmed June 7, 2012;
3. the affidavit of Daniel Bach, sworn July 11, 2012;
4. the Monitor's Reports filed in these proceedings;
5. the other pleadings and proceedings herein; and
6. such further or other material as counsel may advise and this Honourable Court permit.

August 23, 2012

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**Lawyers for an Ad Hoc Committee of
Purchasers of the Applicant's Securities,
including the Representative Plaintiffs in the
Ontario Class Action and the Quebec Class
Action against the Applicant**

TO: THE ATTACHED SERVICE LIST

**SCHEDULE "A" TO NOTICE OF MOTION:
DRAFT REPRESENTATION ORDER**

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

ONTARIO
**SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR.)	TUESDAY, THE 28th
)	
JUSTICE MORAWETZ)	DAY OF AUGUST, 2012

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

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

REPRESENTATION ORDER

THIS MOTION made by the Ad Hoc Committee of Purchasers of the Applicant's Securities, including the plaintiffs in the action commenced against Sino-Forest Corporation ("SFC" or the "Applicant") in the Ontario Superior Court of Justice, bearing (Toronto) Court File No. CV-11-431153-00CP (the "Ontario Plaintiffs" and the "Ontario Class Action", respectively) and the plaintiff in the action commenced against the Applicant in the Quebec Superior Court bearing Court File No. 200-06-000132-111 (the "Quebec Plaintiff" and the "Quebec Class Action", respectively) (together, the "Class Action Plaintiffs"), for an order appointing the Ontario Plaintiffs as representatives of those persons described in Appendix A hereto (collectively, the "Class Members"), for the purposes of these proceedings and any related or ensuing receivership, bankruptcy or other insolvency proceeding that has or may be brought before this Court in respect of the Applicant (the "Insolvency Proceedings"), was heard this day, on the Commercial List at the courthouse at 330 University Avenue, Toronto, Ontario,

ON READING the Motion Record of the Class Action Plaintiffs and on hearing the submissions of counsel for the Class Action Plaintiffs, Sino-Forest Corporation, the Monitor and other parties,

1. **THIS COURT ORDERS** that further service of the Notice of Motion and Motion Record on any party not already served is hereby dispensed with, such that this motion was properly returnable August 28, 2012.
2. **THIS COURT ORDERS** that Class Action Plaintiffs are hereby appointed as representatives of Class Members in the Insolvency Proceedings, including, without limitation, for the purpose of voting on any Plan of Compromise or Arrangement, and settling or compromising claims by the Class Members in the Insolvency Proceedings.
3. **THIS COURT ORDERS** that Koskie Minsky LLP, Siskinds LLP and Paliare Roland Rosenberg Rothstein LLP are hereby appointed as counsel for the Class Members in the Insolvency Proceedings for any issues affecting the Class Members in the Insolvency Proceedings.
4. **THIS COURT ORDERS** that all reasonable legal, financial expert and advisory fees and all other incidental fees and disbursements, as may have been or shall be incurred by the Class Action Plaintiffs and their counsel, shall be paid out of any recovery made by the Class Action Plaintiffs and their counsel on behalf of the Class Members, whether as part of these proceedings or as part of the Ontario Class Action or Quebec Class Action, in accordance with the applicable retainer agreements and as may be approved by this court, either as part of these proceedings or as part of the Ontario Class Action or Quebec Class Action.
5. **THIS COURT ORDERS** that notice of the granting of this Order be provided to the Class Members, forthwith, by advertisement in the national edition of the Globe and Mail, the Wall Street Journal, and La Presse, at the expense of the Applicant, and under such other terms and conditions as to be agreed upon by the Class Action Plaintiffs, the Applicant and the Monitor.
6. **THIS COURT ORDERS** that the Class Action Plaintiffs, or their counsel on their behalf, are authorized to take all steps and to do all acts necessary or desirable to carry out the terms of this Order, including dealing with any Court, regulatory body and other

government ministry, department or agency, and to take all such steps as are necessary or incidental thereto.

7. **THIS COURT ORDERS** that any individual Class Member who does not wish to be bound by this Order and all other related Orders which may subsequently be made in these proceedings shall, within 30 days of publication of notice of this Order, notify the Monitor, in writing, by facsimile, mail or delivery, and substantially in the form attached as Appendix B hereto and shall thereafter not be bound and shall be represented themselves as an independent individual party to the extent they wish to appear in the Insolvency Proceedings, or vote on any Plan. The Monitor shall immediately provide a copy of any such notices to the counsel for the Class Action Plaintiffs.
 8. **THIS COURT ORDERS** that the Class Members bound by this Order specifically exclude the Excluded Persons as described in Appendix A.
 9. **THIS COURT ORDERS** that the Representatives shall be at liberty and are authorized at any time to apply to this Honourable Court for advice and directions in the discharge or variation of their powers and duties.
-

APPENDIX A TO REPRESENTATION ORDER
DEFINITION OF CLASS MEMBERS

All persons and entities, wherever they may reside who acquired **Sino's Securities** during the **Class Period** by distribution in Canada or on the Toronto Stock Exchange or other secondary market in Canada, which includes securities acquired over-the-counter, and all persons and entities who acquired **Sino's Securities** during the **Class Period** who are resident of Canada or were resident of Canada at the time of the acquisition, except the **Excluded Persons**.

For the purposes of the foregoing:

"Sino" means Sino Forest Corporation, its affiliates and subsidiaries.

"Securities" means Sino's common shares, notes or other securities defined in the *Securities Act*, R.S.O. 1990, c. S.5, as amended.

"Class Period" means the period from and including March 19, 2007 to and including June 2, 2011.

"Excluded Persons" means any defendant to the action commenced in Ontario Superior Court of Justice bearing (Toronto) Court File No. 11-CV-431153CP, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives. Heirs, predecessors, successors and assigns, and any individual who is a member of the immediate family of the following persons: Allen T.Y. Chan a.k.a Tak Yuen Chan, W. Judson Martin, Kai Kit Poon, David J. Horsley, William E. Ardell, James P. Bowland, James M. E. Hyde, Edmund Mak, Simon Murray, Peter Wang and Garry J. West.

APPENDIX "B" TO REPRESENTATION ORDER

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 COMPROMISE OR
ARRANGEMENT OF SINO-FOREST CORPORATION**

OPT-OUT LETTER

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I, _____, am a Class Member, as defined in the Representation Order of Mr. Justice Morawetz dated August 28, 2012 (the "Order").

Under Paragraph 8 of that Order, Class Members who do not wish to be represented by the Ontario Plaintiffs and/or to have Koskie Minsky LLP, Siskinds LLP and Paliare Roland Rosenberg Rothstein LLP act as their representative counsel may opt out.

I hereby notify the Monitor that I do not wish to be bound by the Order and will be separately represented to the extent I wish to appear in these proceedings.

Date

Name:

**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**

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)
PROCEEDING COMMENCED AT TORONTO**

NOTICE OF MOTION

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Applicant's Securities, including the Representative Plaintiffs in
the Ontario Class Action and the Quebec Class Action against
the Applicant

TAB 3

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR.)	_____ , THE _____
)	
JUSTICE MORAWETZ)	DAY OF OCTOBER, 2012

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

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

ORDER

THIS MOTION made by the Ad Hoc Committee of Purchasers of the Applicant's Securities (the "**Moving Party**"), for, among other things, an order limiting the scope of the stay of proceedings, directions regarding voting on the plan of compromise and restructuring filed by Sino-Forest Corporation ("**Sino-Forest**") with this court (the "**Plan**"), and production of certain documents in the possession, control and power of the Applicant on a non-confidential basis, was heard this day, at the courthouse at 330 University Avenue, Toronto, Ontario,

ON READING the materials listed in Appendix A to this order and on hearing the submissions of counsel for the Moving Party, Sino-Forest, various of Sino-Forest's current and former directors and officers, the Monitor, an ad hoc Committee of Bondholders, Ernst & Young LLP, BDO, and certain underwriters of Sino-Forest's securities,

1. **THIS COURT ORDERS** that the manner of service of the Moving Party's motion materials is validated, that the time for service of those motion

materials is abridged and that their service on any party not already served is dispensed with, such that this motion is properly returnable today.

STAY OF PROCEEDINGS

2. **THIS COURT ORDERS** that the stay of proceedings imposed by the initial order in these proceedings dated March 30, 2012, as it may be extended from time to time (the “**Initial Order**”), shall not apply to the following motions (the “**Class Action Motions**”):
- (i) a motion certifying the action styled *Trustees of the Labourers’ Pension Fund of Central and Eastern Canada v. Sino-Forest Corporation et al.* (Toronto) Court File No. CV-11-431153-00CP (the “**Ontario Class Action**”) as a class proceeding under the *Class Proceedings Act, 1992*, S.O. 1992, c. 6;
 - (ii) a motion for authorization, in the Quebec Superior Court proceeding bearing Court File No. 200-06-000132-111, Siskinds Desmeules SENC (the “**Quebec Class Action**” and, together with the Ontario Class Action, the “**Class Actions**”), to commence a class action under the *Quebec Code of Civil Procedure*, RSQ c C-25;
 - (iii) a motion for leave to proceed with statutory secondary market claims in the Ontario Class Action pursuant to s. 138.3 of the *Securities Act*, R.S.O. 1990, c. S.5;

- (iv) a motion for leave to proceed with the statutory secondary market claims in the Quebec Class Action pursuant to article 225.4 of the *Securities Act*, RSQ c V-1-1, to be filed; and
- (v) a motion for leave to add CONDEX Wattco Inc. as a plaintiff in the Quebec Class Action with Ilan Toledano as its representative, to be filed, and a motion to amend the pleading in the Quebec Class Action to plead the *Securities Act*, RSQ c V-1-1 and add BDO Limited as a party.

VOTING AND REPRESENTATION

3. **THIS COURT ORDERS AND DECLARES** that the persons described in the Appendix B to this order (the “**Class Members**”) are entitled to vote on the Plan, as part of a single class composed of the class members of each of the Ontario and Quebec Class Actions.
4. **THIS COURT ORDERS** that the Plaintiffs in the Class Actions (the “**Class Action Plaintiffs**”) are hereby appointed as representatives of Class Members for the purposes of these proceedings and in any related or ensuing receivership, bankruptcy or other insolvency proceeding that has or may be brought before this Court in respect of Sino-Forest (the “**Insolvency Proceedings**”), including, without limitation, for the purposes of voting on the Plan and settling or compromising claims by the Class Members in the Insolvency Proceedings.
5. **THIS COURT ORDERS** that the Class Members bound by this Order specifically exclude the Excluded Persons as described in Appendix B.

6. **THIS COURT ORDERS** that Koskie Minsky LLP, Siskinds LLP and Paliare Roland Rosenberg Rothstein LLP are hereby appointed as counsel for the Class Members in the Insolvency Proceedings for any issues affecting the Class Members in the Insolvency Proceedings.
7. **THIS COURT ORDERS** that all reasonable legal, financial expert and advisory fees and all other incidental fees and disbursements, as may have been or shall be incurred by the Class Action Plaintiffs and their counsel, shall be paid out of any recovery made by the Class Action Plaintiffs and their counsel on behalf of the Class Members, whether as part of these proceedings or as part of the Class Actions, in accordance with the applicable retainer agreements and as may be approved by this court, either as part of these proceedings or as part of the Class Actions.
8. **THIS COURT ORDERS** that notice of the granting of this Order be provided to the Class Members by advertisement in the national edition of the Globe and Mail, the Wall Street Journal, and La Presse, at the expense of Sino-Forest, on such terms as agreed upon by the Class Action Plaintiffs, Sino-Forest and the Monitor.
9. **THIS COURT ORDERS** that the Class Action Plaintiffs, or their counsel on their behalf, are authorized to take all steps and to do all acts necessary or desirable to carry out the terms of this Order, including dealing with any Court, regulatory body and other government ministry, department or agency, and to take all such steps as are necessary or incidental thereto.
10. **THIS COURT ORDERS** that any individual Class Member who does not wish to be bound by this Order and all other related Orders which may subsequently be made in these proceedings shall, within 30 days of publication of notice of this Order, notify the Monitor, in writing, by facsimile, mail or delivery, and substantially in the form attached as Appendix C hereto

and shall thereafter not be bound and shall be represented themselves as an independent individual party to the extent they wish to appear in the Insolvency Proceedings.

11. **THIS COURT ORDERS** that the Representatives shall be at liberty and are authorized at any time to apply to this Honourable Court for advice and directions in the discharge or variation of their powers and duties.

PRODUCTION OF DOCUMENTS

12. **THIS COURT ORDERS** the Applicant to make the documents listed in Confidential Appendix A to the Moving Party's Notice of Motion dated September 24, 2012 available to the Class Action Plaintiffs on a non-confidential basis.
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APPENDIX A: MOTION MATERIALS

1. [TO BE COMPLETED]

APPENDIX B
DEFINITION OF CLASS MEMBERS

All persons and entities, wherever they may reside who acquired **Sino's Securities** during the **Class Period** by distribution in Canada or on the Toronto Stock Exchange or other secondary market in Canada, which includes securities acquired over-the-counter, and all persons and entities who acquired **Sino's Securities** during the **Class Period** who are resident of Canada or were resident of Canada at the time of the acquisition, except the **Excluded Persons**.

For the purposes of the foregoing:

"Sino" means Sino Forest Corporation, its affiliates and subsidiaries.

"Securities" means Sino's common shares, notes or other securities defined in the *Securities Act*, R.S.O. 1990, c. S.5, as amended.

"Class Period" means the period from and including March 19, 2007 to and including June 2, 2011.

"Excluded Persons" means any defendant to the action commenced in Ontario Superior Court of Justice bearing (Toronto) Court File No. 11-CV-431153CP, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives. Heirs, predecessors, successors and assigns, and any individual who is a member of the immediate family of the following persons: Allen T.Y. Chan a.k.a Tak Yuen Chan, W. Judson Martin, Kai Kit Poon, David J. Horsley, William E. Ardell, James P. Bowland, James M. E. Hyde, Edmund Mak, Simon Murray, Peter Wang and Garry J. West.

APPENDIX C: OPT-OUT LETTER

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 COMPROMISE OR
ARRANGEMENT OF SINO-FOREST CORPORATION****OPT-OUT LETTER**FTI Consulting Inc.
TD Waterhouse Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto, Ontario M5K 1G8Attention: Greg Watson
Tel: 416.649.8100
Fax: 416.649.8101
Email: greg.watson@fticonsulting.com

I, _____, am a Class Member, as defined in the Order of Mr. Justice Morawetz dated October 10, 2012 (the "Order").

Under that Order, Class Members who do not wish to be represented by the Class Action Plaintiffs and to have Koskie Minsky LLP, Siskinds LLP and Paliare Roland Rosenberg Rothstein LLP act as their representative counsel may opt out.

I hereby notify the Monitor that I do not wish to be bound by the Order and will be separately represented to the extent I wish to appear in these proceedings.

Date_____
Name:

TAB 4

Court File No CV-12-9667-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.
JUSTICE MORAWETZ

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FRIDAY, THE 30th
DAY OF MARCH, 2012

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

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

INITIAL ORDER

THIS APPLICATION, made by Sino-Forest Corporation (the "Applicant"), pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of W. Judson Martin sworn March 30, 2012 and the Exhibits thereto (the "Martin Affidavit") and the Pre-Filing Report of the Proposed Monitor, FTI Consulting Canada Inc. ("FTI") (the "Monitor's Pre-Filing Report"), and on being advised that there are no secured creditors who are likely to be affected by the charges created herein, and on hearing the submissions of counsel for the Applicant, the Applicant's directors, FTI, the *ad hoc* committee of holders of notes issued by the Applicant (the "Ad Hoc Noteholders"), and no one else appearing for any other party, and on reading the consent of FTI to act as the Monitor,

SERVICE

1. THIS COURT ORDERS that the time for service of the Notice of Application, the Application Record and the Monitor's Pre-Filing Report is hereby abridged and validated so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

2. THIS COURT ORDERS AND DECLARES that the Applicant is a company to which the CCAA applies.

PLAN OF ARRANGEMENT

3. THIS COURT ORDERS that the Applicant shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "Plan").

4. THIS COURT ORDERS that the Applicant shall be entitled to seek any ancillary or other relief from this Court in respect of any of its subsidiaries in connection with the Plan or otherwise in respect of these proceedings.

POSSESSION OF PROPERTY AND OPERATIONS

5. THIS COURT ORDERS that the Applicant shall remain in possession and control of its current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "Property"). Subject to further Order of this Court, the Applicant shall continue to carry on business in a manner consistent with the preservation of its business (the "Business") and Property. The Applicant shall be authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "Assistants") currently retained or employed by it, with liberty to retain such further Assistants as it deems reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

6. THIS COURT ORDERS that the Applicant shall be entitled but not required to pay the following expenses, whether incurred prior to or after this Order:

- (a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay and expenses payable on or after the date of this Order, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements;
- (b) the fees and disbursements of any Assistants retained or employed by the Applicant in respect of these proceedings, at their standard rates and charges;
- (c) the fees and disbursements of the directors and counsel to the directors, at their standard rates and charges; and
- (d) such other amounts as are set out in the March 29 Forecast (as defined in the Monitor's Pre-Filing Report and attached as Exhibit "DD" to the Martin Affidavit).

7. THIS COURT ORDERS that, except as otherwise provided to the contrary herein, the Applicant shall be entitled but not required to pay all reasonable expenses incurred by the Applicant in carrying on the Business in the ordinary course after this Order, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services; and
- (b) payment for goods or services actually supplied to the Applicant following the date of this Order.

8. THIS COURT ORDERS that the Applicant shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;

- (b) all goods and services or other applicable sales taxes (collectively, "Sales Taxes") required to be remitted by the Applicant in connection with the sale of goods and services by the Applicant, but only where such Sales Taxes are accrued or collected after the date of this Order, or where such Sales Taxes were accrued or collected prior to the date of this Order but not required to be remitted until on or after the date of this Order; and
- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Applicant.

9. THIS COURT ORDERS that until a real property lease is disclaimed or resiliated in accordance with the CCAA, the Applicant shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the Applicant and the landlord from time to time ("Rent"), for the period commencing from and including the date of this Order, twice-monthly in equal payments on the first and fifteenth day of each month, in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including the date of this Order shall also be paid.

10. THIS COURT ORDERS that, except as specifically permitted herein, the Applicant is hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicant to any of its creditors as of this date; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of its Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

RESTRUCTURING

11. THIS COURT ORDERS that the Applicant shall, subject to such requirements as are imposed by the CCAA and such covenants as may be contained in the Support Agreement (as defined below), have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of its business or operations, and to dispose of redundant or non-material assets not exceeding US\$500,000 in any one transaction or US\$1,000,000 in the aggregate;
- (b) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate; and
- (c) pursue all avenues of refinancing of its Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing

all of the foregoing to permit the Applicant to proceed with an orderly restructuring of the Business.

12. THIS COURT ORDERS that the Applicant shall provide each of the relevant landlords with notice of the Applicant's intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Applicant's entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the Applicant, or by further Order of this Court upon application by the Applicant on at least two (2) days notice to such landlord and any such secured creditors. If the Applicant disclaims or resiliates the lease governing such leased premises in accordance with Section 32 of the CCAA, it shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer or resiliation of the lease shall be without prejudice to the Applicant's claim to the fixtures in dispute.

13. THIS COURT ORDERS that if a notice of disclaimer or resiliation is delivered pursuant to Section 32 of the CCAA, then (a) during the notice period prior to the effective time of the

disclaimer or resiliation, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicant and the Monitor 24 hours' prior written notice, and (b) at the effective time of the disclaimer or resiliation, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicant in respect of such lease or leased premises and such landlord shall be entitled to notify the Applicant of the basis on which it is taking possession and to gain possession of and re-lease such leased premises to any third party or parties on such terms as such landlord considers advisable, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

RESTRUCTURING SUPPORT AGREEMENT

14. THIS COURT ORDERS that the Applicant and the Monitor are authorized and directed to engage in the following procedures to notify noteholders of the restructuring support agreement dated as of March 30, 2012 (the "Support Agreement") between, among others, the Applicant and certain noteholders (the "Initial Consenting Noteholders"), appended as Exhibit "B" to the Martin Affidavit, to enable any additional noteholders to execute a Joinder Agreement in the form attached as Schedule "C" to the Support Agreement and to become bound thereby as Consenting Noteholders (as defined in the Support Agreement):

- (a) the Monitor shall without delay post a copy of the Support Agreement on its website at <http://cfoanada.fticonsulting.com/sfc> (the "Monitor's Website"); and
- (b) the notice to be published by the Monitor pursuant to paragraph 51 of this Order shall include a statement in form and substance acceptable to the Applicant, the Monitor and counsel to the Ad Hoc Noteholders, each acting reasonably, notifying noteholders of the Support Agreement and of the deadline of 5:00 p.m. (Toronto time) on May 15, 2012 (the "Consent Date") by which any noteholder (other than an Initial Consenting Noteholder) who wishes to become entitled to the Early Consent Consideration pursuant to the Support Agreement (if such Early Consent Consideration becomes payable pursuant to the terms thereof) must execute and return the Joinder Agreement to the Applicant, and shall direct noteholders to the Monitor's Website where a copy of the Support Agreement (including the Joinder Agreement) can be obtained.

15. THIS COURT ORDERS that any noteholder (other than an Initial Consenting Noteholder) who wishes to become a Consenting Noteholder and become entitled to the Early Consent Consideration (if such Early Consent Consideration becomes payable pursuant to the terms thereof, and subject to such noteholder demonstrating its holdings to the Monitor in accordance with the Support Agreement) must execute a Joinder Agreement and return it to the Applicant and the Noteholder Advisors (as defined below) in accordance with the instructions set out in the Support Agreement such that it is received by the Applicant and the Noteholder Advisors prior to the Consent Deadline and, upon so doing, such noteholder shall become a Consenting Noteholder and shall be bound by the terms of the Support Agreement.

16. THIS COURT ORDERS that as soon as practicable after the Consent Deadline, the Applicant shall provide to the Monitor copies of all executed Joinder Agreements received from noteholders prior to the Consent Deadline.

NO PROCEEDINGS AGAINST THE APPLICANT OR THE PROPERTY

17. THIS COURT ORDERS that until and including April 29, 2012, or such later date as this Court may order (the "Stay Period"), no proceeding or enforcement process in any court or tribunal (each, a "Proceeding") shall be commenced or continued against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicant and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Applicant or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

18. THIS COURT ORDERS that until and including the Stay Period, no Proceeding shall be commenced or continued by any noteholder, indenture trustee or security trustee (each in respect of the notes issued by the Applicant, collectively, the "Noteholders") against or in respect of any of the Applicant's subsidiaries listed on Schedule "A" (each a "Subsidiary Guarantor", and collectively, the "Subsidiary Guarantors"), except with the written consent of the Applicant and the Monitor, or with leave of this Court, and any and all Proceedings currently under way by a Noteholder against or in respect of any Subsidiary Guarantors are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

19. THIS COURT ORDERS that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "Persons" and each being a "Person") against or in respect of the Applicant or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended and shall not be commenced, proceeded with or continued, except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicant to carry on any business which the Applicant is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, (iv) prevent the registration of a claim for lien, or (v) prevent the exercise of any termination rights of the Consenting Noteholders under the Support Agreement.

20. THIS COURT ORDERS that during the Stay Period, all rights and remedies of the Noteholders against or in respect of the Subsidiary Guarantors are hereby stayed and suspended and shall not be commenced, proceeded with or continued, except with the written consent of the Applicant and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower any Subsidiary Guarantor to carry on any business which such Subsidiary Guarantor is not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

21. THIS COURT ORDERS that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicant, except with the written consent of the Applicant and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

22. THIS COURT ORDERS that during the Stay Period, all Persons having oral or written agreements with the Applicant or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software; communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Business or the Applicant, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by the Applicant or exercising any other remedy provided under such agreement or arrangements, and that the Applicant shall be entitled to the continued use of its current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the date of this Order are paid by the Applicant in accordance with normal payment practices of the Applicant or such other practices as may be agreed upon by the supplier or service provider and each of the Applicant and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

23. THIS COURT ORDERS that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of lease or licensed property or other valuable consideration provided on or after the date of this Order, nor shall any Person be under any obligation on or after the date of this Order to advance or re-advance any monies or otherwise extend any credit to the Applicant. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

24. THIS COURT ORDERS that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicant with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicant whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such

obligations, until a compromise or arrangement in respect of the Applicant, if one is filed, is sanctioned by this Court or is refused by the affected creditors of the Applicant or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

25. THIS COURT ORDERS that the Applicant shall (i) indemnify its directors and officers against obligations and liabilities that they may incur as directors or officers of the Applicant after the commencement of the within proceedings, and (ii) make payments of amounts for which its directors and officers may be liable as obligations they may incur as directors or officers of the Applicant after the commencement of the within proceedings, except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

26. THIS COURT ORDERS that the directors and officers of the Applicant shall be entitled to the benefit of and are hereby granted a charge (the "Directors' Charge") on the Property (other than the Applicant's assets which are subject to the Personal Property Security Act registrations on Schedule "B" hereto (the "Excluded Property")), which charge shall not exceed an aggregate amount of \$3,200,000, as security for the indemnity provided in paragraph 25 of this Order. The Directors' Charge shall have the priority set out in paragraphs 38 and 40 herein.

27. THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicant's directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 25 of this Order.

APPOINTMENT OF MONITOR

28. THIS COURT ORDERS that FTI is hereby appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Applicant with the powers and obligations set out in the CCAA or set forth herein and that the Applicant and its shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicant pursuant to this Order, and shall co-operate fully with the Monitor

in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

29. THIS COURT ORDERS that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Applicant's receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;
- (c) advise the Applicant in its preparation of the Applicant's cash flow statements, as required from time to time;
- (d) advise the Applicant in its development of the Plan and any amendments to the Plan;
- (e) assist the Applicant, to the extent required by the Applicant, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan, as applicable;
- (f) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Applicant to the extent that is necessary to adequately assess the Applicant's business and financial affairs or to perform its duties arising under this Order;
- (g) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order;
- (h) carry out and fulfill its obligations under the Support Agreement in accordance with its terms; and
- (i) perform such other duties as are required by this Order or by this Court from time to time.

30. THIS COURT ORDERS that without limiting paragraph 29 above, in carrying out its rights and obligations in connection with this Order, the Monitor shall be entitled to take such reasonable steps and use such services as it deems necessary in discharging its powers and obligations, including, without limitation, utilizing the services of FTI Consulting (Hong Kong) Limited ("FTI HK").

31. THIS COURT ORDERS that the Monitor shall not take possession of the Property (or any property or assets of the Applicant's subsidiaries) and shall take no part whatsoever in the management or supervision of the management of the Business (or any business of the Applicant's subsidiaries) and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof (or of any business, property or assets, or any part thereof, of any subsidiary of the Applicant).

32. THIS COURT ORDERS that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "Possession") of any of the Property (or any property of any subsidiary of the Applicant) that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the "Environmental Legislation"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property (or of any property of any subsidiary of the Applicant) within the meaning of any Environmental Legislation, unless it is actually in possession.

33. THIS COURT ORDERS that the Monitor shall provide any creditor of the Applicant with information provided by the Applicant in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any

responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicant is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicant may agree.

34. THIS COURT ORDERS that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

35. THIS COURT ORDERS that the Monitor, counsel to the Monitor, counsel to the Applicant, counsel to the directors, Houlihan Lokey Capital Inc. (the "Financial Advisor"), FTI HK, counsel to the Ad Hoc Noteholders and the financial advisor to the Ad Hoc Noteholders (together with counsel to the Ad Hoc Noteholders, the "Noteholder Advisors") shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Applicant, whether incurred prior to or subsequent to the date of this Order, as part of the costs of these proceedings. The Applicant is hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor, counsel for the Applicant, counsel to the directors, the Financial Advisor, FTI HK, and the Noteholder Advisors on a weekly basis or otherwise in accordance with the terms of their engagement letters.

36. THIS COURT ORDERS that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

37. THIS COURT ORDERS that the Monitor, counsel to the Monitor, the Applicant's counsel, counsel to the directors, the Financial Advisor, FTI HK, and the Noteholder Advisors shall be entitled to the benefit of and are hereby granted a charge (the "Administration Charge") on the Property (other than the Excluded Property), which charge shall not exceed an aggregate amount of \$15,000,000 as security for their professional fees and disbursements incurred at their respective standard rates and charges in respect of such services, both before and after the making of this Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 38 and 40 hereof.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

38. THIS COURT ORDERS that the priorities of the Directors' Charge and the Administration Charge, as between them, shall be as follows:

First -- Administration Charge (to the maximum amount of \$15,000,000); and

Second -- Directors' Charge (to the maximum amount of \$3,200,000).

39. THIS COURT ORDERS that the filing, registration or perfection of the Directors' Charge or the Administration Charge (collectively, the "Charges") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

40. THIS COURT ORDERS that each of the Charges shall constitute a charge on the Property (other than the Excluded Property) and shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "Encumbrances") in favour of any Person.

41. THIS COURT ORDERS that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicant shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Charges, unless the Applicant also obtains the prior written consent of the Monitor, the beneficiaries of the Directors' Charge and the beneficiaries of the Administration Charge, or further Order of this Court.

42. THIS COURT ORDERS that the Charges shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "Chargees"), shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or

other agreement (collectively, an "Agreement") which binds the Applicant, and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of any documents in respect thereof shall create or be deemed to constitute a breach by the Applicant of any Agreement to which it is a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the creation of the Charges; and
- (c) the payments made by the Applicant pursuant to this Order and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

43. THIS COURT ORDERS that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Applicant's interest in such real property leases.

APPROVAL OF FINANCIAL ADVISOR AGREEMENT

44. THIS COURT ORDERS that the letter agreement dated as of December 22, 2012 with respect to the Financial Advisor in the form attached as Exhibit "CC" to the Martin Affidavit (the "Financial Advisor Agreement") and the retention of the Financial Advisor under the terms thereof, including the payments to be made to the Financial Advisor thereunder, are hereby approved.

45. THIS COURT ORDERS that the Applicant is authorized and directed to make the payments contemplated in the Financial Advisor Agreement in accordance with the terms and conditions thereof.

POSTPONEMENT OF ANNUAL GENERAL MEETING

46. THIS COURT ORDERS that the Applicant be and is hereby relieved of any obligation to call and hold an annual meeting of its shareholders until further Order of this Court.

FOREIGN PROCEEDINGS

47. THIS COURT ORDERS that the Monitor is hereby authorized and empowered to act as the foreign representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside of Canada.

48. THIS COURT ORDERS that the Monitor is hereby authorized, as the foreign representative of the Applicant and of the within proceedings, to apply for foreign recognition of these proceedings, as necessary, in any jurisdiction outside of Canada, including as "Foreign Main Proceedings" in the United States pursuant to Chapter 15 of the *U.S. Bankruptcy Code*.

49. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada, the United States, Barbados, the British Virgin Islands, Cayman Islands, Hong Kong, the People's Republic of China or in any other foreign jurisdiction, to give effect to this Order and to assist the Applicant, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicant and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicant and the Monitor and their respective agents in carrying out the terms of this Order.

50. THIS COURT ORDERS that each of the Applicant and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order and any other Order issued in these proceedings.

SERVICE AND NOTICE

51. THIS COURT ORDERS that the Monitor shall (i) without delay, publish in the Globe and Mail and the Wall Street Journal a notice containing the information prescribed under the CCAA, (ii) within seven days after the date of this Order, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Applicant of more than \$1,000, and (C) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

52. THIS COURT ORDERS that each of the Applicant and the Monitor be at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery, facsimile transmission or email to the Applicant's creditors or other interested parties at their respective addresses as last shown on the records of the Applicant and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

53. THIS COURT ORDERS that the Applicant, the Monitor, and any party who has filed a Notice of Appearance may serve any court materials in these proceedings by e-mailing a PDF or other electronic copy of such materials to counsels' email addresses as recorded on the Service List from time to time, and the Monitor may post a copy of any or all such materials on the Monitor's Website.

GENERAL

54. THIS COURT ORDERS that the Applicant or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

55. THIS COURT ORDERS that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicant, the Business or the Property.

56. THIS COURT ORDERS that any interested party (including the Applicant and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

57. THIS COURT ORDERS that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

A handwritten signature in black ink, appearing to read "J. J. Rawlinson", is written over a horizontal line.

ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

APR 2 - 2012

Handwritten initials, possibly "JM", in black ink.

Schedule "A"

1. Sino-Panel Holdings Limited (BVI)
2. Sino-Global Holdings Inc. (BVI)
3. Sino-Wood Partners, Limited (HK)
4. Grandeur Winway Limited (BVI)
5. Sinowin Investments Limited (BVI)
6. Sinowood Limited (Cayman Islands)
7. Sino-Forest Bio-Science Limited (BVI)
8. Sino-Forest Resources Inc. (BVI)
9. Sino-Plantation Limited (HK)
10. Suri-Wood Inc. (BVI)
11. Sino-Forest Investments Limited (BVI)
12. Sino-Wood (Guangxi) Limited (HK)
13. Sino-Wood (Jiangxi) Limited (HK)
14. Sino-Wood (Guangdong) Limited (HK)
15. Sino-Wood (Fujian) Limited (HK)
16. Sino-Panel (Asia) Inc. (BVI)
17. Sino-Panel (Guangxi) Limited (BVI)
18. Sino-Panel (Yunnan) Limited (BVI)
19. Sino-Panel (North East China) Limited (BVI)
20. Sino-Panel [Xiangxi] Limited (BVI)
21. Sino-Panel [Hunan] Limited (BVI)
22. SFR (China) Inc. (BVI)
23. Sino-Panel [Suzhou] Limited (BVI)
24. Sino-Panel (Gaoyao) Ltd. (BVI)
25. Sino-Panel (Guangzhou) Limited (BVI)
26. Sino-Panel (North Sea) Limited (BVI)
27. Sino-Panel (Guizhou) Limited (BVI)
28. Sino-Panel (Huaihua) Limited (BVI)
29. Sino-Panel (Qin Zhou) Limited (BVI)
30. Sino-Panel (Yongzhou) Limited (BVI)
31. Sino-Panel (Fujian) Limited (BVI)
32. Sino-Panel (Shaoyang) Limited (BVI)
33. Amplemax Worldwide Limited (BVI)
34. Ace Supreme International Limited (BVI)
35. Express Point Holdings Limited (BVI)
36. Glory Billion International Limited (BVI)
37. Smart Sure Enterprises Limited (BVI)
38. Expert Bonus Investment Limited (BVI)
39. Dynamic Profit Holdings Limited (BVI)
40. Alliance Max Limited (BVI)
41. Brain Force Limited (BVI)
42. General Excel Limited (BVI)
43. Poly Market Limited (BVI)
44. Prime Kinetic Limited (BVI)
45. Trillion Edge Limited (BVI)
46. Sino-Panel (China) Nursery Limited (BVI)

47. Sino-Wood Trading Limited (BVI)
48. Homix Limited (BVI)
49. Sino-Panel Trading Limited (BVI)
50. Sino-Panel (Russia) Limited (BVI)
51. Sino-Global Management Consulting Inc. (BVI)
52. Value quest International Limited (BVI)
53. Well Keen Worldwide Limited (BVI)
54. Harvest Wonder Worldwide Limited (BVI)
55. Cheer Gold Worldwide Limited (BVI)
56. Regal Win Capital Limited (BVI)
57. Rich Choice Worldwide Limited (BVI)
58. Sino-Forest International (Barbados) Corporation
59. Mandra Forestry Holdings Limited (BVI)
60. Mandra Forestry Finance Limited (BVI)
61. Mandra Forestry Anhui Limited (BVI)
62. Mandra Forestry Hubei Limited (BVI)
63. Sino-Capital Global Inc. (BVI)
64. Elite Legacy Limited (BVI)

Schedule "B" 58

PERSONAL PROPERTY SECURITY REGISTRATION SYSTEM
SEARCH RESULTS

Date Search Conducted: 3/29/2012
File Currency Date: 03/28/2012
Family(ies): 6
Page(s): 8

SEARCH : Business Debtor : SINO-FOREST CORPORATION

The attached report has been created based on the data received by Cyberbahn, a Thomson Reuters business from the Province of Ontario, Ministry of Government Services. No liability is assumed by Cyberbahn regarding its correctness, timeliness, completeness or the interpretation and use of the report. Use of the Cyberbahn service, including this report is subject to the terms and conditions of Cyberbahn's subscription agreement.

PERSONAL PROPERTY SECURITY REGISTRATION SYSTEM
SEARCH RESULTS

Date Search Conducted: 3/29/2012
File Currency Date: 03/28/2012
Family(ies): 6
Page(s): 8

SEARCH : Business Debtor : SINO-FOREST CORPORATION

FAMILY : 1 OF 6 ENQUIRY PAGE : 1 OF 8
SEARCH : BD : SINO-FOREST CORPORATION

00 FILE NUMBER : 609324408 EXPIRY DATE : 27SEP 2015 STATUS ;
01 CAUTION FILING : PAGE : 001 OF 1 MV SCHEDULE ATTACHED :
REG NUM : 20040927 1631 1793 0430 REG TYP: P PPSA REG PERIOD: 10
02 IND DOB : IND NAME:
03 BUS NAME: SINO-FOREST CORPORATION OCN :
04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208
CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3
05 IND DOB : IND NAME:
06 BUS NAME: OCN :
07 ADDRESS :
CITY : PROV: POSTAL CODE:
08 SECURED PARTY/LIEN CLAIMANT :
LAW DEBENTURE TRUST COMPANY OF NEW YORK
09 ADDRESS : 767 THIRD AVENUE, 31ST FLOOR
CITY : NEW YORK PROV: NY POSTAL CODE: 10017
CONS. MV DATE OF OR NO FIXED
GOODS INVTRY. EQUIP ACCTS OTHER INCL AMOUNT MATURITY MAT DATE
10 X X
YEAR MAKE MODEL V.I.N.
11
12
GENERAL COLLATERAL DESCRIPTION
13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR PURSUANT TO
14 A PLEDGE AGREEMENT AND SHARE CHARGE.
15
16 AGENT: AIRD & BERLIS LLP #2
17 ADDRESS : 181 BAY STREET, SUITE 1800
CITY : TORONTO PROV: ON POSTAL CODE: M5J2T9

FAMILY : 1 OF 6 ENQUIRY PAGE : 2 OF 8
 SEARCH : BD : SINO-FOREST CORPORATION

FILE NUMBER 609324408

PAGE TOT REGISTRATION NUM REG TYPE
 01 CAUTION : 001 OF 1 MV SCHED: 20090720 1614 1793 6085
 21 REFERENCE FILE NUMBER : 609324408
 22 AMEND PAGE: NO PAGE: CHANGE: A AMNDMNT REN YEARS: CORR PER:
 23 REFERENCE DEBTOR/ IND NAME:
 24 TRANSFEROR: BUS NAME: SINO-FOREST CORPORATION

25 OTHER CHANGE:
 26 REASON: TO AMEND SECURED PARTY ADDRESS AND TO AMEND GENERAL COLLATERAL
 27 /DESCR: DESCRIPTION TO DELETE THE WORDS "PURSUANT TO A PLEDGE AGREEMENT AND
 28 : SHARE CHARGE"
 02/05 IND/TRANSFEE:
 03/06 BUS NAME/TRFEE:

OCN:

04/07 ADDRESS:
 CITY: PROV: POSTAL CODE:
 29 ASSIGNOR:

08 SECURED PARTY/LIEN CLAIMANT/ASSIGNEE :
 LAW DEBENTURE TRUST COMPANY OF NEW YORK
 09 ADDRESS : 400 MADISON AVENUE, 4TH FLOOR
 CITY : NEW YORK PROV : NY POSTAL CODE : 10017
 CONS. MV DATE OF NO FIXED
 GOODS INVTRY EQUIP ACCTS OTHER INCL AMOUNT MATURITY OR MAT DATE

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 11
 12
 13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR
 14
 15
 16 NAME : AIRD & BERLIS LLP
 17 ADDRESS : 181 BAY STREET, SUITE 1800, BOX# 754
 CITY : TORONTO PROV : ON POSTAL CODE : M5J2T9

FAMILY : 1 OF 6
 SEARCH : BD : SINO-FOREST CORPORATION

ENQUIRY PAGE : 3 OF 8

FILE NUMBER 609324408

PAGE TOT REGISTRATION NUM REG TYPE
 01 CAUTION : 001 OF 1 MV SCHED; 20090720 1616 1793 6087
 21 REFERENCE FILE NUMBER : 609324408
 22 AMEND PAGE: NO PAGE: CHANGE: B RENEWAL REN YEARS: 1 CORR PER:
 23 REFERENCE DEBTOR/ IND NAME:
 24 TRANSFEROR: BUS NAME: SINO-FOREST CORPORATION

25 OTHER CHANGE:

26 REASON:

27 /DESCR:

28 :

02/05 IND/TRANSFEE:

03/06 BUS NAME/TRFEE:

OCN:

04/07 ADDRESS:

CITY:

PROV:

POSTAL CODE:

29 ASSIGNOR:

08 SECURED PARTY/LIEN CLAIMANT/ASSIGNEE :

09 ADDRESS :

CITY :

PROV :

POSTAL CODE :

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MV

DATE OF

NO FIXED

GOODS INVTRY EQUIP ACCTS OTHER INCL AMOUNT MATURITY OR MAT DATE

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16 NAME : AIRD & BERLIS LLP

17 ADDRESS : 181 BAY STREET, SUITE 1800, BOX# 754

CITY : TORONTO

PROV : ON

POSTAL CODE : M5J2T9

FAMILY : 2 OF 6 ENQUIRY PAGE : 4 OF 8
 SEARCH : BD : SINO-FOREST CORPORATION

00 FILE NUMBER : 650314305 EXPIRY DATE : 03DEC 2013 STATUS :
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02 IND DOB : IND NAME:
 03 BUS NAME: SINO-FOREST CORPORATION

OCN :

04 ADDRESS : 1208-90 BURNHAMTHORPE RD W
 CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3

05 IND DOB : IND NAME:
 06 BUS NAME:

OCN :

07 ADDRESS :
 CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :
 XEROX CANADA LTD

09 ADDRESS : 33 BLOOR ST. E. 3RD FLOOR
 CITY : TORONTO PROV: ON POSTAL CODE: M4W3H1
 CONS. MV DATE OF OR NO FIXED
 GOODS INVTRY. EQUIP ACCTS OTHER INCL AMOUNT MATURITY MAT DATE
 10 YEAR MAKE X MODEL V.I.N. X

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GENERAL COLLATERAL DESCRIPTION

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16 AGENT: XEROX CANADA LTD

17 ADDRESS : 33 BLOOR ST. E. 3RD FLOOR
 CITY : TORONTO PROV: ON POSTAL CODE: M4W3H1

FAMILY : 3 OF 6 ENQUIRY PAGE : 5 OF 8
 SEARCH : BD : SINO-FOREST CORPORATION

00 FILE NUMBER : 655022304 EXPIRY DATE : 20JUL 2015 STATUS :
 01 CAUTION FILING : PAGE : 001 OF 1 MV SCHEDULE ATTACHED :
 REG NUM : 20090720 1615 1793 6086 REG TYP: P PPSA REG PERIOD: 6
 02 IND DOB : IND NAME:
 03 BUS NAME: SINO-FOREST CORPORATION

OCN :
 04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208
 CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3
 05 IND DOB : IND NAME:
 06 BUS NAME:

OCN :
 07 ADDRESS :
 CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :
 LAW DEBENTURE TRUST COMPANY OF NEW YORK
 09 ADDRESS : 400 MADISON AVENUE, 4TH FLOOR
 CITY : NEW YORK PROV: NY POSTAL CODE: 10017
 CONS. MV DATE OF OR NO FIXED
 GOODS INVTRY. EQUIP ACCTS OTHER INCL AMOUNT MATURITY MAT DATE
 10 YEAR MAKE X X MODEL V.I.N.

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 GENERAL COLLATERAL DESCRIPTION
 13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR
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 15
 16 AGENT: AIRD & BERLIS LLP - SUSAN PAK
 17 ADDRESS : 181 BAY STREET, SUITE 1800
 CITY : TORONTO PROV: ON POSTAL CODE: M5J2T9

FAMILY : 4 OF 6 ENQUIRY PAGE : 6 OF 8
 SEARCH : BD : SINO-FOREST CORPORATION

00 FILE NUMBER : 659079036 EXPIRY DATE : 03FEB 2016 STATUS :
 01 CAUTION FILING : PAGE : 001 OF 1 MV SCHEDULE ATTACHED :
 REG NUM : 20100203 1535 1793 2023 REG TYP: P PPSA REG PERIOD: 6

02 IND DOB : IND NAME:
 03 BUS NAME: SINO-FOREST CORPORATION

OCN :

04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208
 CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3

05 IND DOB : IND NAME:
 06 BUS NAME:

OCN :

07 ADDRESS :
 CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :
 LAW DEBENTURE TRUST COMPANY OF NEW YORK

09 ADDRESS : 400 MADISON AVENUE, 4TH FLOOR
 CITY : NEW YORK PROV: NY POSTAL CODE: 10017
 CONS. MV DATE OF OR NO FIXED
 GOODS INVTRY. EQUIP ACCTS OTHER INCL AMOUNT MATURITY MAT DATE

10 YEAR MAKE X X MODEL V.I.N.

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GENERAL COLLATERAL DESCRIPTION

13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR

14
 15

16 AGENT: AIRD & BERLIS LLP (SPAK - 102288)

17 ADDRESS : 181 BAY STREET, SUITE 1800
 CITY : TORONTO PROV: ON POSTAL CODE: M5J2T9

FAMILY : 5 OF 6 ENQUIRY PAGE : 7 OF 8
 SEARCH : BD : SINO-FOREST CORPORATION

00 FILE NUMBER : 665186985 EXPIRY DATE : 15OCT 2020 STATUS :
 01 CAUTION FILING : PAGE : 001 OF 1 MV SCHEDULE ATTACHED :
 REG NUM : 20101015 1215 1793 1245 REG TYP: P PPSA REG PERIOD: 10
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 03 BUS NAME: SINO-FOREST CORPORATION

OCN :
 04 ADDRESS : 90 BURNHAMTHORPE ROAD WEST, SUITE 1208
 CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3
 05 IND DOB : IND NAME:
 06 BUS NAME:

OCN :
 07 ADDRESS :
 CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :
 LAW DEBENTURE TRUST COMPANY OF NEW YORK
 09 ADDRESS : 400 MADISON AVENUE, 4TH FLOOR
 CITY : NEW YORK PROV: NY POSTAL CODE: 10017
 CONS. MV DATE OF OR NO FIXED
 GOODS INVTRY. EQUIP ACCTS OTHER INCL AMOUNT MATURITY MAT DATE
 10 YEAR MAKE X X MODEL V.I.N.

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 GENERAL COLLATERAL DESCRIPTION
 13 PLEDGE OF SHARES OF CERTAIN SUBSIDIARIES OF THE DEBTOR.
 14
 15
 16 AGENT: AIRD & BERLIS LLP (RMK-106760)
 17 ADDRESS : 181 BAY STREET, SUITE 1800
 CITY : TORONTO PROV: ON POSTAL CODE: M5J2T9

FAMILY : 6 OF 6 ENQUIRY PAGE : 8 OF 8
 SEARCH ; BD ; SINO-FOREST CORPORATION

00 FILE NUMBER ; 665928963 EXPIRY DATE ; 17NOV 2016 STATUS :
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 REG NUM ; 20101117 1007 1462 0113 REG TYP; P PPSA REG PERIOD; 6
 02 IND DOB : IND NAME:
 03 BUS NAME: SINO-FOREST CORPORATION

OCN :
 04 ADDRESS : 1208-90 BURNHAMTHORPE RD W
 CITY : MISSISSAUGA PROV: ON POSTAL CODE: L5B3C3
 05 IND DOB : IND NAME:
 06 BUS NAME:

OCN :
 07 ADDRESS :
 CITY : PROV: POSTAL CODE:

08 SECURED PARTY/LIEN CLAIMANT :
 XEROX CANADA LTD

09 ADDRESS : 33 BLOOR ST. E. 3RD FLOOR
 CITY : TORONTO PROV: ON POSTAL CODE: M4W3H1
 CONS. MV DATE OF OR NO FIXED
 GOODS INVTRY. EQUIP ACCTS OTHER INCL AMOUNT MATURITY MAT DATE
 10 YEAR MAKE X MODEL V.I.N. X

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 14
 15
 GENERAL COLLATERAL DESCRIPTION

16 AGENT: PPSA CANADA INC. - (3992)
 17 ADDRESS : 110 SHEPPARD AVE EAST, SUITE 303
 CITY : TORONTO PROV: ON POSTAL CODE: M2N6Y8

Schedule "A"

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

Court File No.

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceedings commenced in Toronto

INITIAL ORDER

BENNETT JONES LLP
One First Canadian Place
Suite 3400, P.O. Box 130
Toronto, Ontario
M5X 1A4

Robert W. Staley (LSUC #27115J)
Kevin Zych (LSUC #33129T)
Derek J. Bell (LSUC #43420J)
Jonathan Bell (LSUC #55457P)
Tel: 416-863-1200
Fax: 416-863-1716

Lawyers for the Applicant

TAB 5

RESTRUCTURING SUPPORT AGREEMENT

This Restructuring Support Agreement dated as of March 30, 2012 (the “**Agreement Date**”) among: (a) Sino-Forest Corporation (the “**Company**”), (b) each of the subsidiaries of the Company as listed in **Schedule A** (the “**Direct Subsidiaries**”), and (c) each of the other signatories hereto, to support agreements in the form hereof or to Joinder Agreements attached hereto as **Schedule C** (each a “**Consenting Noteholder**” and collectively the “**Consenting Noteholders**”), with each Consenting Noteholder being a holder of, and/or investment advisor or manager with investment discretion with respect to holdings in, one or more series of Notes, addresses the principal aspects of the restructuring transaction agreed to by the Company and the Consenting Noteholders as described in Section 1 hereof. The Transaction is to be effected pursuant to a plan of compromise or arrangement under the *Companies’ Creditors Arrangement Act* (Canada), R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), and, if determined necessary or advisable by the Company in conjunction with the CCAA Plan, and with the consent of the Advisors, the *Canada Business Corporations Act*, R.S.C., 1985, c. C-44 (the “**CBCA**”), in full and final settlement of, among other Claims, all Noteholder Claims (whether directly or pursuant to any guarantee of the Notes provided by any subsidiary of the Company, and any security provided in respect thereof). Capitalized terms used but not otherwise defined in this Agreement have the meanings ascribed thereto in **Schedule B**. The Consenting Noteholders, the Company and the Direct Subsidiaries are collectively referred to as the “**Parties**” and each (including each Consenting Noteholder, individually) is a “**Party**”. This agreement and all schedules to this agreement are collectively referred to herein as the “**Agreement**”.

1. Transaction

The principal Transaction Terms (which are subject to the other terms and conditions of this Agreement) are as follows:

Restructuring Transaction:

- (a) Pursuant to the Plan, and subject to Section 1(i) hereof, the Company will implement the Restructuring Transaction, pursuant to which:
 - (i) A new company (“**Newco**”), authorized to issue an unlimited number of common shares and having no restrictions on the number of its shareholders, will be incorporated as a private company in the BVI or the Cayman Islands (or any other jurisdiction acceptable to the Initial Consenting Noteholders, and satisfactory to the Company, acting reasonably) and otherwise organized in a manner acceptable to the Initial Consenting Noteholders, and satisfactory to the Company, acting reasonably;
 - (ii) Except as otherwise provided for herein, pursuant to the Plan, the Company shall convey, assign and transfer all of its right, title and interest in and to all of the Company’s properties, assets and rights of every kind and description (including, without limitation, all restricted and unrestricted cash, contracts, real property, receivables or other debt owed

to the Company, Intellectual Property, the Company name and all related marks, all of its shares in its subsidiaries (including, without limitation, all of the shares of the Direct Subsidiaries) and all intercompany debt owed to the Company by any of its Subsidiaries), other than the Excluded Assets, to Newco, free and clear of all Claims, options and interests;

- (iii) Pursuant to the Plan, each Noteholder shall receive the following on the Implementation Date of the Restructuring Transaction in full and complete satisfaction of its Noteholder Claims:
 - (A) its Pro Rata share of 92.5% of the Newco Shares (subject to any dilution in respect of the New Management Plan); plus
 - (B) its Pro Rata share of the Secured Newco Note; plus
 - (C) its right to receive the consideration set forth in Section 1(h)(ii)(B) hereof (if any); plus
 - (D) if applicable to such Noteholder, the Early Consent Consideration set forth in Section 1(b) hereof; and
- (iv) On the Implementation Date, the following consideration shall be placed into trust with the Monitor, for the benefit of the Junior Constituents, to be paid to such Junior Constituents in accordance with their respective legal priorities, subject to payment in full of any prior ranking Junior Constituents:
 - (A) the Contingent Value Rights; plus
 - (B) the consideration set forth in Section 1(h)(ii) hereof (if any).

Early Consent Consideration:

- (b) Each Noteholder (including the Initial Consenting Noteholders) that on or prior to the Consent Date executes (i) this Agreement, (ii) a support agreement in the form hereof or (iii) a Joinder Agreement in the form attached hereto as **Schedule C** (each a “**Consent Date Noteholder**”) and provides evidence satisfactory to the Monitor in accordance with Section 2(a) hereof of the Notes held by such Consent Date Noteholder as at the Consent Date shall receive on the Implementation Date, as additional consideration for its Notes, its Pro Rata share of 7.5% of the Newco Shares (the “**Early Consent Consideration**”).

Other Plan Matters:

- (c) Pursuant to the Plan and the Final Order in respect of the Plan, all Noteholder Claims and Claims of Other Affected Creditors (including Claims of Junior Constituents) with respect to the Company (including, thereby, all class action type claims (whether debt or equity) and related indemnification claims) shall be

forever extinguished as against the Company and its Subsidiaries, without any consideration other than as provided for herein.

- (d) Pursuant to the Plan and the Final Order in respect of the Plan, each current or former director or officer of the Company shall be released from any and all claims against them in their capacities as current or former directors or officers of the Company, except that such release shall not apply to or affect any claims that cannot be compromised under section 5.1(2) of the CCAA.
- (e) Pursuant to the Plan, the Other Affected Creditors shall receive: (A) in respect of a Restructuring Transaction, the treatment afforded to the Noteholders pursuant to Sections 1(a)(iii)(A)-1(a)(iii)(C) hereof, or such other treatment as is acceptable to the Initial Consenting Noteholders and any Other Affected Creditor, provided that the aggregate amount of the Claims of the Other Affected Creditors shall not exceed \$250,000, without the consent of the Company and the Initial Consenting Noteholders, acting reasonably, and (B) in respect of a Sale Transaction, the treatment set forth in Section 1(k) hereof.
- (f) The Plan may provide that Noteholders and Other Affected Creditors holding claims less than an amount to be agreed between the Company and the Initial Consenting Noteholders, each acting reasonably, or who agree to reduce their claims for distribution purposes to such amount, will be entitled to receive a cash distribution in respect of such amount pursuant to the Plan in lieu of the other consideration such Persons are entitled to receive pursuant to the Plan.
- (g) The Unaffected Claims shall not be impacted by the Plan, provided that the aggregate amount of the Unaffected Claims shall not exceed an amount to be agreed upon between the Company and the Initial Consenting Noteholders, each acting reasonably.
- (h) Pursuant to the Plan, the Litigation Trust will be established on the Implementation Date for the benefit of the Noteholders and the Junior Constituents, as follows:
 - (i) The Litigation Trust shall be funded with \$20 million in cash (“the **Funding Amount**”), which amount shall be funded by the Company into the Litigation Trust on the Implementation Date;
 - (ii) To the extent that any proceeds are realized by the Litigation Trust as a result of:
 - (A) claims by the Litigation Trust against, or settlements with, Muddy Waters, LLC or any of its affiliates or subsidiaries (collectively, “**Muddy Waters**”) or any Person acting jointly or in concert with Muddy Waters, then 100% of any and all of such proceeds shall be paid to the Monitor pursuant to Section 1(a)(iv) for the benefit of the Junior Constituents only; or

- (B) claims by the Litigation Trust against, or settlements with, any Person other than Muddy Waters or any Person acting jointly or in concert with Muddy Waters, then:
- (I) for the first \$25,000,000 of any such proceeds, 100% of such proceeds shall be paid to the Monitor pursuant to Section 1(a)(iv) for the benefit of the Junior Constituents only; and
 - (II) for any such proceeds beyond the initial \$25,000,000:
 - i. in the event that the enterprise value of Newco (as determined in accordance with generally accepted principles applied by Chartered Business Valuators or other manner agreed upon between the Company and the Advisors, acting reasonably) (“**Newco EV**”) is, at the time that any proceeds are so available for distribution from the Litigation Trust, less than the Aggregate Principal Payment Amount plus Accrued Interest up to and including the CCAA Filing Date for all series of Notes, then 30% of any such proceeds shall in each such case be allocated Pro Rata among the Noteholders (up to a maximum of the difference between: (A) the Aggregate Principal Payment Amount plus Accrued Interest and (B) the Newco EV), and 70% of any such proceeds shall be paid to the Monitor pursuant to Section 1(a)(iv) for the benefit of the Junior Constituents; and
 - ii. in the event that Newco EV is, at the time that any proceeds are so available for distribution from the Litigation Trust, greater than the Aggregate Principal Payment Amount plus Accrued Interest up to and including the CCAA Filing Date for all series of Notes, then 100% of any such proceeds shall be paid to the Monitor pursuant to Section 1(a)(iv) for the benefit of the Junior Constituents only, and the Noteholders shall not be entitled to receive any distributions from the Litigation Trust.

Alternative Sale Transaction:

- (i) Pursuant to the Sale Process Procedures, the Company shall simultaneously pursue a sale process for all or substantially all of the assets of the Company

(other than the Excluded Assets), and shall consummate a sale of all or substantially all of its assets pursuant to such process, and in lieu of the Restructuring Transaction, provided that any such sale is on terms acceptable to the Company and (i) shall be implemented pursuant to a Plan under the CCAA, and if determined necessary or advisable by the Company, the CBCA, (ii) complies with the terms, conditions and deadlines of the Sale Process Procedures, the Sale Process Order, this Agreement and the Plan, (iii) provides for a cash payment equal to the Aggregate Principal Payment Amount (being, as defined, 85% of the aggregate principal amount of the Notes outstanding as of the CCAA Filing Date, (iv) provides for a cash payment of all Accrued Interest on the Notes up to and including the CCAA Filing Date, and (v) provides for payment of the Expense Reimbursement; or (vi) is otherwise acceptable to the Company and the Initial Consenting Noteholders (any such sale on such terms, being a “**Sale Transaction**”).

- (j) In the event of a Sale Transaction, each Noteholder shall receive the following on the Implementation Date in full and complete satisfaction of its Noteholder Claims:
 - (i) a cash payment equal to all Accrued Interest due in respect of its Notes up to and including the CCAA Filing Date; plus
 - (ii) cash payment equal to its Pro Rata share of 82% of the principal amount of its Notes; plus
 - (iii) if applicable to such Noteholder, its Pro Rata share of the Early Consent Consideration (which in the case of a Sale Transaction shall be paid in the form of a cash payment to each Consent Date Noteholder in an amount equal to its Pro Rata share of 3% of the principal amount of its Notes). For greater certainty, the total amount payable under Sections 1(j)(ii) and 1(j)(iii) shall in no case exceed the Aggregate Principal Payment Amount.
- (k) In the event of a Sale Transaction, on the Implementation Date, in full and complete satisfaction of its Claims, each Other Affected Creditor shall receive the following:
 - (i) a cash payment equal to its Pro Rata share of any and all net sale proceeds realized after payment of the amounts set forth in Section 1(j) hereof (“**Excess Net Proceeds**”), up to an amount not exceeding its proven Claim.
- (l) In the event of a Sale Transaction, on the Implementation Date, the following consideration shall be placed into trust with the Monitor, for the benefit of the Junior Constituents:
 - (i) any remaining Excess Net Proceeds after payment of the amounts set forth in Section 1(k); plus

- (ii) the consideration set forth in Section 1(h)(ii) hereof (if any),
and/or such other consideration permitted by the Sale Process Procedures.

2. The Consenting Noteholder's Representations and Warranties

Each Consenting Noteholder hereby represents and warrants, severally and not jointly, to the Company and the Direct Subsidiaries (and acknowledges that each of the Company and the Direct Subsidiaries are relying upon such representations and warranties) that:

- (a) As of Agreement Date: it (i) either is the sole legal and beneficial owner of the principal amount of Notes disclosed to the Advisors as of such date or has the investment and voting discretion with respect to the principal amount of Notes disclosed to the Advisors as of such date (the amount of Notes disclosed to the Advisors by such Consenting Noteholder as of such date being the “**Relevant Notes**”; the accrued and unpaid interest and any other amount that such Consenting Noteholder is entitled to claim pursuant to the Relevant Notes is its “**Debt**”); (ii) has the power and authority to bind the beneficial owner(s) of such Notes to the terms of this Agreement; (iii) has authorized and instructed the Advisors to advise the Company, in writing, of the aggregate amount of each series of Notes held by the Consenting Noteholders collectively as of the date hereof, and shall cause the Advisors to promptly (and in any event, within five (5) Business Days) notify the Company or its advisors of any change (upon actual knowledge of such change) to the aggregate holdings of Notes held by the Consenting Noteholders, as well as update any writing delivered to the Company in respect thereof; and (iv) has authorized and instructed the Advisors to advise the Monitor, in writing, of the individual principal amount of each series of Notes held by it as of the date hereof, and shall cause the Advisors to promptly (and in any event, within five (5) Business Days) notify the Monitor or its advisors of any change (upon actual knowledge of such change) to the principal amount of Notes held by it, as well as update any writing delivered to the Monitor in respect thereof.
- (b) To the best of its knowledge after due inquiry, there is no proceeding, claim or investigation pending before any court, regulatory body, tribunal, agency, government or legislative body, or threatened against it or any of its properties that, individually or in the aggregate, would reasonably be expected to impair the Consenting Noteholder's ability to execute and deliver this Agreement and to comply with its terms.
- (c) The Debt held by the Consenting Noteholder is not subject to any liens, charges, encumbrances, obligations or other restrictions that would reasonably be expected to adversely affect its ability to perform its obligations under this Agreement.
- (d) Except as contemplated by this Agreement, the Consenting Noteholder has not deposited any of its Relevant Notes into a voting trust, or granted (or permitted

to be granted) any proxies or powers of attorney or attorney in fact, or entered into a voting agreement, understanding or arrangement, with respect to the voting of its Relevant Notes where such trust, grant, agreement, understanding or arrangement would in any manner restrict the ability of the Consenting Noteholder to comply with its obligations under this Agreement.

- (e) It (i) is a sophisticated party with sufficient knowledge and experience to properly evaluate the terms and conditions of this Agreement; (ii) has conducted its own analysis and made its own decision, in the exercise of its independent judgment, to enter into this Agreement; (iii) has obtained such independent advice in this regard as it deemed appropriate; and (iv) has not relied on the analysis or the decision of any Person other than its own members, employees, representatives or independent advisors (it being recognized that the Advisors are not the advisor to any individual holder of the Notes, including any Initial Consenting Noteholder or Consenting Noteholder, on an individual basis).
- (f) The execution, delivery and performance by the Consenting Noteholder of its obligations under this Agreement:
 - (i) are within its corporate, partnership, limited partnership or similar power, as applicable;
 - (ii) have been duly authorized, by all necessary corporate, partnership, limited partnership or similar action, as applicable, including all necessary consents of the holders of its equity or other participating interests where required; and
 - (iii) do not (A) contravene its certificate of incorporation, articles, by-laws, membership agreement, limited partnership agreement or other constating documents, as applicable, (B) violate any judgment, order, notice, decree, statute, law, ordinance, rule or regulation applicable to it or any of its assets, or (C) conflict with or result in the breach of, or constitute a default under, or require a consent under, any contract material to the Consenting Noteholder.
- (g) This Agreement constitutes a valid and binding obligation of the Consenting Noteholder enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally or by general principles of equity, whether asserted in a proceeding in equity or law.
- (h) It is an accredited investor within the meaning of the rules of the United States Securities and Exchange Commission under the *Securities Act of 1933*, as amended, and the regulations promulgated thereunder, as modified by The Dodd-Frank Wall Street Reform and Consumer Protection Act.
- (i) It is an "accredited investor", as such term is defined in National Instrument 45-106 – *Prospectus and Registration Exemptions* of the Canadian Securities

Administrators (“NI 45-106”) and it was not created or used solely to purchase or hold securities as an accredited investor as described in paragraph (m) of the definition of “accredited investor” in NI 45-106.

- (j) It is resident in the jurisdiction indicated on its signature page to this Agreement.

3. The Company’s and the Direct Subsidiaries’ Representations and Warranties

The Company and each of the Direct Subsidiaries hereby represent and warrant, severally and not jointly, to each Consenting Noteholder (and the Company and each of the Direct Subsidiaries acknowledge that each Consenting Noteholder is relying upon such representations and warranties) that:

- (a) To the best of its knowledge after due inquiry, except as disclosed in the Data Room, there is no proceeding, claim or investigation pending before any court, regulatory body, tribunal, agency, government or legislative body, or threatened against it or any of the Subsidiaries or properties that, individually or in the aggregate, would reasonably be expected to impair the ability of the Company or any of the Direct Subsidiaries to execute and deliver this Agreement and to comply with its terms, or which, if the Transaction was consummated, would result in a Material Adverse Effect.
- (b) The execution, delivery and performance by the Company and each of the Direct Subsidiaries of this Agreement:
 - (i) are within its corporate, partnership, limited partnership or similar power, as applicable;
 - (ii) have been duly authorized by all necessary corporate, partnership, limited partnership or similar action, as applicable, including all necessary consents of the holders of its equity or other participating interests, where required; and
 - (iii) do not (A) contravene its or any of the Subsidiaries’ certificate of incorporation, articles of amalgamation, by-laws or limited partnership agreement or other constating documents, as applicable, (B) violate any judgment, order, notice, decree, statute, law, ordinance, rule or regulation applicable to it or any of the Subsidiaries, properties or assets, or (C) result in the creation or imposition of any lien or encumbrance upon any of the property of the Company or any of its Subsidiaries.
- (c) This Agreement constitutes a valid and binding obligation of the Company and each of the Direct Subsidiaries enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors’ rights generally or by general principles of equity, whether asserted in a proceeding in equity or law.

- (d) To the knowledge of the Company, neither the Company nor any of its Subsidiaries has any material liability for borrowed money other than pursuant to those banking and other lending agreements that are disclosed in the Data Room.
- (e) Except as disclosed in the Information, the Company has filed with the applicable securities regulators all documents required to be filed by it under Applicable Securities Laws except to the extent that such a failure to file would not be Material.
- (f) Except as disclosed in the Information, no order halting or suspending trading in securities of the Company or prohibiting the sale of such securities has been issued to and is outstanding against the Company, and to the knowledge of the Company, and except as may be related to matters disclosed in the Information, no other investigations or proceedings for such purpose are pending or threatened.
- (g) the Company has delivered or otherwise made available to the Advisors complete copies of all employment agreements for the Executive Officers, all of which are in full force and effect, and there have been no extension, supplements or amendments thereto other than as disclosed in the Data Room.
- (h) The board of directors of the Company has: (i) reviewed the Transaction Terms; (ii) determined, in its business judgment, that the transactions contemplated by the Transaction Terms are in the best interests of the Company; (iii) resolved to recommend approval of this Agreement and the transactions and agreements contemplated hereby to the Noteholders and Other Affected Creditors; and (iv) approved this Agreement and the implementation of the Transaction Terms.
- (i) Other than pursuant to this Agreement and any Joinder thereto, there are no agreements between the Company and any Noteholder with respect to any restructuring or recapitalization matters.

4. Consenting Noteholders' Covenants and Consents

Each Consenting Noteholder covenants and agrees as follows:

- (a) Each Consenting Noteholder consents and agrees to the terms and conditions of, and the transactions contemplated by, this Agreement.
- (b) Each Consenting Noteholder agrees to:
 - (i) vote (or cause to be voted) all of its Debt in all votes and in each vote in favour of the approval, consent, ratification and adoption of the Plan and the Restructuring Transaction or Sale Transaction contemplated thereby, as the case may be (and any actions required in furtherance of the foregoing);

- (ii) support the approval of the Plan as promptly as practicable by the Court; and
 - (iii) instruct the Advisors to support the making of Initial Order and the Sale Process Order and any other matters relating thereto, and all other motions filed by the Company in furtherance of the transactions contemplated by this Agreement; provided in each case, that such orders and motions are in form and substance satisfactory to the Advisors and/or the Initial Consenting Noteholders.
- (c) Each Consenting Noteholder agrees not to sell, assign, pledge or hypothecate (except with respect to security generally applying to its investments which does not adversely affect such Consenting Noteholder's ability to perform its obligations under this Agreement) or otherwise transfer (a "Transfer"), between the Agreement Date and the Termination Date, any Relevant Notes (or any rights or interests in respect thereof, including, but not limited to, the right to vote) held by such Consenting Noteholder, except to a transferee, who (i) is already a Consenting Noteholder if the representations and warranties of such transferee Consenting Noteholder in Section 2 remain true and correct after such Transfer; or (ii) contemporaneously with any such Transfer, agrees to be fully bound as a signatory Consenting Noteholder hereunder in respect of the Notes that are the subject of the Transfer, by executing and delivering to the Company, with a copy to the Advisors, a Joinder Agreement, the form of which is attached hereto as **Schedule C**. For greater certainty, where the transferee is not already a Consenting Noteholder, such transferee shall be bound by the terms of this Agreement only in respect of the Relevant Notes that are the subject of the Transfer, and not in respect of any other Notes of the transferee. Each Consenting Noteholder hereby agrees to provide the Company and the Advisors with written notice and, in the case of a Transfer pursuant to subparagraph (ii) of this Section 4(c), a fully executed copy of the Joinder Agreement, within three (3) Business Days following any Transfer to a transferee described in (i) or (ii) of this Section 4(c). Any transfer that does not comply with this Section 4(c) shall be void *ab initio*. For greater certainty, where a Consenting Noteholder assigns all of its Relevant Notes pursuant to this Section 4(c), this Agreement shall continue to be binding upon such Consenting Noteholder with respect to any Notes it subsequently acquires.
- (d) Each Consenting Noteholder agrees, to the extent it effects a Transfer of any of its Relevant Notes in accordance with Section 4(c) hereof after 5:00 p.m. (Toronto time) on the Record Date and is entitled to vote on the adoption and approval of the Transaction and the Plan, to vote all of the Relevant Notes that are the subject of the Transfer on behalf of the transferee in all votes and in each vote in favour of the approval, consent, ratification and adoption of the Transaction and the Plan (and any actions required in furtherance thereof).
- (e) Except as contemplated by this Agreement, each Consenting Noteholder agrees not to deposit any of its Relevant Notes into a voting trust, or grant (or permit to

be granted) any proxies or powers of attorney or attorney in fact, or enter into a voting agreement, understanding or arrangement, with respect to the voting of any of its Relevant Notes if such trust, grant, agreement, understanding or arrangement would in any manner restrict the ability of the Consenting Noteholder to comply with its obligations under this Agreement.

- (f) Each Consenting Noteholder agrees that it shall:
- (i) not accelerate or enforce or take any action or initiate any proceeding to accelerate or enforce the payment or repayment of any of its Debt (including for greater certainty any due and unpaid interest on its Relevant Notes), whether against the Company or any Subsidiary or any property of any of them;
 - (ii) execute any and all documents and perform any and all commercially reasonable acts required by this Agreement to satisfy its obligations hereunder including any consent, approval or waiver requested by the Company, acting reasonably;
 - (iii) forbear from exercising, or directing the Trustee to exercise, any default-related rights, remedies, powers or privileges, or from instituting any enforcement actions or collection actions with respect to any obligations under the Note Indentures, whether against the Company or any Subsidiary or any property of any of them and
 - (iv) (A) not object to, delay, impede or take any other action to interfere with the acceptance or implementation of the Transaction; (B) not propose, file, support or vote (or cause to vote) any of its Debt in favour of any alternative offer, restructuring, liquidation, workout or plan of compromise or arrangement or reorganization of or for the Company or any of its Subsidiaries that is inconsistent with the Plan or this Agreement; (C) vote (or cause to vote) any of its Debt against and oppose any proceeding under the CCAA or any other legislation in Canada or elsewhere, or any alternative offer, restructuring, liquidation, workout or plan of compromise or arrangement or reorganization of or for the Company or any of its Subsidiaries, in each case that is inconsistent with the Plan or this Agreement; or (D) not take, or omit to take, any action, directly or indirectly, that is materially inconsistent with, or is intended or is likely to interfere with the consummation of, the Transaction, except as and only to the extent required by applicable Law or by any stock exchange rules, by any other regulatory authority having jurisdiction over the Consenting Noteholder or by any court of competent jurisdiction.

The Consenting Noteholders acknowledge and agree that the Subsidiaries are direct beneficiaries of this Section 4(f) and may raise any defense (including, without limitation, any estoppel) or pursue any claim or remedy for any breach of this Section 4(f) or any action taken by any

Noteholder or Trustee in contravention of this Section 4(f).

5. Company's and the Direct Subsidiaries' Covenants and Consents

The Company and each of the Direct Subsidiaries covenants and agrees as follows:

- (a) The Company and each Direct Subsidiary consents and agrees to the terms and conditions of, and the transactions contemplated by, this Agreement.
- (b) Immediately upon this Agreement being executed by the Company and the Direct Subsidiaries and the Initial Consenting Noteholders, the Company will (i) cause to be issued a press release or other public disclosure in form and in substance reasonably acceptable to the Advisors that discloses the material provisions of the Transaction Terms and all such other information as the Company is required to disclose under the terms of the Noteholder Confidentiality Agreements, subject to the terms of Section 9 hereof, and (ii) file a copy of this Agreement on SEDAR, which shall be redacted to remove any information disclosing the identity or holdings of any Noteholders.
- (c) The Company and the Direct Subsidiaries shall pursue the completion of the Transaction in good faith by way of the Plan, in accordance with the Transaction Terms, and in respect of a Restructuring Transaction or a Sale Transaction as the case may be, and shall use commercially reasonable efforts (including recommending to Noteholders and any other Person entitled to vote on the Plan that they vote to approve the Plan and taking all reasonable actions necessary to obtain any regulatory approvals for the Transaction) to achieve the following timeline (which may be amended by the Company with the consent of the Initial Consenting Noteholders or the Advisors, each acting reasonably):
 - (i) the initiation of proceedings pursuant to the CCAA (the "**CCAA Proceedings**"), as evidenced by filing the application seeking the Initial Order and the Sale Process Order with the Court, by no later than March 30, 2012;
 - (ii) approval of the Initial Order by the Court by no later than March 30, 2012;
 - (iii) approval of the Sale Process Order by the Court by no later than April 5, 2012; and
 - (iv) If no Approved Bidders are selected pursuant to the Sale Process Procedure in accordance with the terms thereof:
 - (A) filing of the Meeting Order and Plan by no later July 16, 2012;
 - (B) meeting of the Noteholders by no later than August 27, 2012;
 - (C) sanction of the Plan by the Court by no later than August 31, 2012; and

- (D) implementation of the Plan by no later than the Outside Date.
- (d) The Company shall provide draft copies of all motions or applications and other documents that the Company intends to file with the Court in connection with the Initial Order, the Sale Process Order, the Meeting Order, the Final Order, the Restructuring Transaction, any Sale Transaction, the Plan, and the transactions contemplated by any of the foregoing, to the Advisors at least two (2) Business Days prior to the date when the Company intends to file such documents (except in exigent circumstances where the Company shall provide the documents within such time prior to the filing as is practicable), and such filings shall in each case, when filed, be in form and substance acceptable to the Advisors, acting reasonably.
- (e) Subject to any order of the Court, the Company and the Direct Subsidiaries shall (and shall cause each of the Subsidiaries, as required, to) (i) pursue, support and use commercially reasonable efforts to complete the Transaction in good faith, (ii) do all things that are reasonably necessary and appropriate in furtherance of, and to consummate and make effective, the Transaction, including, without limitation, using commercially reasonable efforts to satisfy the conditions precedent set forth in this Agreement, (iii) as soon as practicable following the date hereof, in cooperation with the Initial Consenting Noteholders and the Advisors, make all such filings and seek all such consents, approvals, permits and authorizations with any Governmental Entities or third parties whose consent is required in connection with the Transaction and use commercially reasonable efforts to obtain any and all required regulatory and/or third party approvals for or in connection with the Transaction and (iv) not take any action, directly or indirectly, that is materially inconsistent with, or is intended or is likely to interfere with the consummation of, the Transaction, except as required by applicable Law or by any stock exchange rules, or by any other Governmental Entity having jurisdiction over the Company or any of its Subsidiaries.
- (f) Except as provided for in the Transaction Terms or as otherwise agreed to in writing by the Initial Consenting Noteholders, the Company shall not make any payment or pay any consideration of any nature or kind whatsoever on account of any amounts owing under the Notes.
- (g) Except as contemplated by this Agreement, including pursuant to the Plan, the Company shall not (and shall cause each of the Subsidiaries not to) amend or modify any terms or conditions of the Note Indentures.
- (h) Following a reasonable advance written request (which can be made by way of e-mail and, in terms of reasonable notice, shall in no event require more than five (5) Business Days notice and no less than two (2) Business Days notice) by any of the Advisors or any Initial Consenting Noteholder to any officer, director or employee of the Company or the Subsidiaries, and Allen Chan, with a copy in each case to any of Houlihan Lokey, Bennett Jones or the Chief Executive

Officer, the Company and the Direct Subsidiaries shall (subject, with respect to any confidential information to be provided to an Initial Consenting Noteholder or any of its representatives and affiliates, to the Initial Consenting Noteholder having executed, and its representatives and affiliates being bound by, a confidentiality agreement acceptable to the Company and the Advisors, acting reasonably):

- (i) provide the Initial Consenting Noteholder (or its representatives and affiliates, as the case may be) or the Advisor, as the case may be, with access at reasonable times to the Company's and its Subsidiaries' premises, assets, accounts, books and records for use in connection with the Transaction; and
 - (ii) make Houlihan Lokey and any other advisor to the Company or the Subsidiaries, the officers, directors and employees of the Company and the Subsidiaries, and Allen Chan, available at reasonable times and places for any discussions with the Initial Consenting Noteholder (or its representatives and affiliates, as the case may be) or the Advisor, as the case may be.
- (i) The Company shall assist the Initial Consenting Noteholders in their search for and selection of directors for the board of directors of Newco to be formed in connection with the Restructuring Transaction, and for any new senior management of Newco, to be put in place on the Implementation Date, including by establishing a search committee appointed by the Initial Consenting Noteholders, hiring a search firm chosen by the Initial Consenting Noteholders and paying all costs and expenses in respect of the search and selection process, including all reasonable costs associated with the search firm and all reasonable and documented out-of-pocket fees and expenses incurred by any Initial Consenting Noteholder in connection with such search and selection process.
- (j) The Company shall, within thirty (30) days following the date of this Agreement, provide the Advisors with a detailed budget (including any financial retainers provided to its advisors) reflecting the Company's current best estimate of (i) the costs of completing the Transaction, including any material fees anticipated to be payable in connection with the Transaction (to professionals, employees, officers, directors, third parties or otherwise on the Implementation Date or otherwise) and (ii) the anticipated fees of the professional advisors to the Company (including, but not limited to, their legal advisors, auditors, and the Board of Directors' counsel and financial advisors) for all matters being addressed by such professionals, which shall include general descriptions of the work being or to be performed by each of these professionals (the "**Restructuring Budget**"). The Company shall update the Restructuring Budget on a monthly basis to reflect any changes in the Company's current best estimate of the costs of completing the Transaction, and to report on the actual amount of each such professional's fees for the preceding month.

- (k) The Company shall pay the reasonable and documented fees of the Advisors and Conyers, Dill & Pearman LLP pursuant to their respective engagement letters with the Company within ten (10) Business Days following the receipt of any invoice from any such party.
- (l) The Company shall keep the Advisors reasonably informed regarding any material discussions with any Person (other than the legal and financial advisors to the Company, the Initial Consenting Noteholders and their legal and financial advisors) with respect to the Transaction and shall provide the Advisors with an opportunity for a representative of the Advisors or the Initial Consenting Noteholders (subject to confidentiality restrictions) to participate in such material discussions. Notwithstanding the foregoing, with respect to a Sale Transaction, the Company may provide such information and opportunities as and to the extent set out in the Sale Process Procedures.
- (m) Except to the extent they are to be continued pursuant to and in compliance with the Sale Process Procedures, the Company and the Direct Subsidiaries shall, and shall cause its Representatives and the Subsidiaries to, immediately terminate any existing solicitations, discussions or negotiations with any Person (other than the Initial Consenting Noteholders and their legal and financial advisors) that has made, indicated any interest in or may reasonably be expected to propose, any other transaction. The Company and the Direct Subsidiaries agree not to (and shall cause each of the Subsidiaries not to) release any party from any standstill covenant to which it is a party, or amend, waive or modify in any way any such standstill covenant.
- (n) Other than through and in accordance with the Sale Process Procedures, the Company and the Direct Subsidiaries shall not (and shall cause each of the Subsidiaries not to), directly or indirectly through any Representative or any of the Subsidiaries: (i) solicit, initiate, knowingly facilitate or knowingly encourage (including by way of furnishing information or entering into any agreement) any inquiries or proposals regarding any transaction that is an alternative to the Transaction (an “**Other Transaction**”); (ii) participate in any substantive discussions or negotiations with any person (other than the Initial Consenting Noteholders and the Advisors) regarding any Other Transaction; (iii) accept, approve, endorse or recommend or propose publicly to accept, approve, endorse or recommend any Other Transaction; or (iv) enter into, or publicly propose to enter into, any agreement in respect of any Other Transaction; provided, however, that notwithstanding anything to the contrary in this Section 5(n), the Company may, after consulting with the Advisors, consider an Other Transaction if:
 - (i) the Company and each of the Direct Subsidiaries is in compliance, in all material respects, with all terms and conditions of this Agreement; and
 - (ii) (A) such Other Transaction is based on a proposal received from an arm’s length third party that none of the Company or any Subsidiary has,

directly or indirectly through any Representative, solicited, initiated, knowingly facilitated or knowingly encouraged; and

(B) such Other Transaction provides for either:

(I) the repayment in full in cash of the principal amount of the Notes, all Accrued Interest and the Expense Reimbursement on closing of the Other Transaction; or

(II) is determined by the Company and its advisors to be financially superior for the Noteholders and can be implemented through a plan of arrangement with the support of the Initial Consenting Noteholders

provided for greater certainty that nothing in this Section 5(n) shall prohibit or restrict in any way the Company's rights under the Sale Procedure Process to solicit, discuss and negotiate a potential Sale Transaction with any other Person, all in each case in accordance with the terms of the Sale Process Procedures.

- (o) Except in respect of an Other Transaction that is obtained through and in accordance with the Sale Process Procedures, (i) the Company shall promptly (and in any event within 24 hours following receipt by any of the Companies) notify the Advisors, at first orally and thereafter in writing, of any proposal in respect of any Other Transaction, in each case received after the Agreement Date, of which it or any of its Representatives are or become aware, or any amendments to such proposal in respect of any Other Transaction, any request for discussions or negotiations, or any request for non-public information relating to the Company or any of its Subsidiaries in connection with such Other Transaction or for access to the books or records of any the Company or any of its Subsidiaries by any Person that informs the Company or any of its Subsidiaries that it is considering making, or has made, a proposal with respect to any Other Transaction and any amendment thereto; and the Company shall promptly provide to the Advisors a description of the material terms and conditions of any such proposed Other Transaction or request; (ii) the Company the Direct Subsidiaries shall not, and shall cause its Representatives and the Subsidiaries not to, participate in any discussions with any Person that has delivered a proposal in respect of any Other Transaction, without providing reasonable notice to the Advisors and an opportunity for the Advisors or the Initial Consenting Noteholders to participate in any such discussions; and (iii) the Company shall keep the Advisors informed of any material change to the material terms of any such proposed Other Transaction.
- (p) The Company and the Direct Subsidiaries shall not and shall cause the Subsidiaries not to materially increase compensation or severance entitlements or other benefits payable to directors, officers or employees, or pay any bonuses whatsoever, other than as required by law, or pursuant to the terms of existing

incentive plans or employment contracts, true and complete copies of which have been delivered or otherwise made available to the Advisors prior to the date hereof. Other than those outlined in the Data Room, there shall be no change of control payments paid by the Company or any of its Subsidiaries under any employment agreement, incentive plan or any other Material agreements as a result of the Transaction.

- (q) The Company and the Direct Subsidiaries shall not and shall cause each of the Subsidiaries not to amalgamate, merge or consolidate with, or sell all or substantially all of its assets to, one or more other Persons, or enter into any other transaction of similar effect under the laws of any jurisdiction, or change the nature of its business or the corporate or capital structure, except as contemplated by this Agreement or with the consent of the Advisors.
- (r) The Company and the Direct Subsidiaries shall not and shall cause each of the Subsidiaries not to (i) prepay, redeem prior to maturity, defease, repurchase or make other prepayments in respect of any indebtedness other than payments permitted or as required hereby, (ii) directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to any indebtedness of any kind whatsoever (except for indebtedness that is incurred in the Ordinary Course which is in compliance with the covenants set out in the Note Indentures), (iii) create, incur, assume or otherwise cause or suffer to exist or become effective any lien, charge, mortgage, hypothec or security interest of any kind whatsoever on, over or against any of its assets or property (except for any lien, charge, mortgage, hypothec or security interest that is incurred in the Ordinary Course and that is not Material); (iv) issue, grant, sell, pledge or otherwise encumber or agree to issue, grant, sell, pledge or otherwise encumber any securities of the Company, the Direct Subsidiaries or any of the other Subsidiaries, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, securities of the Company, the Direct Subsidiaries or any of the other Subsidiaries, except in the Ordinary Course which is in compliance with the covenants set out in the Note Indentures; or (v) enter into any new secured or unsecured lending or credit facilities of any kind, without the consent of the Advisors except to replace existing lending or credit facilities and provided that the aggregate amount of such facilities does not exceed the aggregate amount of the Company's lending and credit facilities as at the date hereof; provided, however, that nothing in this Section 5(r) shall preclude any Subsidiary organized under the laws of the PRC from obtaining additional lending or credit facilities if doing so is determined to be in the Ordinary Course of such Subsidiary and, provided further, that the Advisors are informed of, and consent to, any such lending or credit facilities.
- (s) Other than as contemplated and permitted by this Agreement, the Company and the Direct Subsidiaries shall not and shall cause each of the Subsidiaries not to, outside of the Ordinary Course, sell, transfer, lease, license or otherwise dispose of all or any part of its property, assets or undertaking (including, without limitation, by way of any loan transaction) with a value of over US\$10,000,000

at any one time or in any series of transactions aggregating over US\$30,000,000 (whether voluntarily or involuntarily) during the term of this Agreement, except on terms acceptable to the Initial Consenting Noteholders or the Advisors, acting reasonably.

- (t) The Company and the Direct Subsidiaries shall and shall cause each of the Subsidiaries to (i) operate its business in the Ordinary Course and in a manner that is intended to preserve or enhance the value of such Person, to the extent possible having regard to such Person's financial condition, and (ii) shall not enter into any Material agreement outside the Ordinary Course, except as contemplated by this Agreement and the Sale Process Procedures and except with respect to any other transactions or potential transactions disclosed to the Advisors prior to the execution of this Agreement or with the prior written consent of the Initial Consenting Noteholders or the Advisors, which consent shall not be unreasonably withheld.
- (u) The Company and the Direct Subsidiaries shall use reasonable commercial efforts, and shall cause the Subsidiaries to use reasonable commercial efforts, to maintain appropriate insurance coverage in amounts and on terms that are customary in the industry of the Company and its Subsidiaries, provided that such insurance is available on reasonable commercial terms.
- (v) Except as may be provided for as part of the Transaction Terms, the Company and the Direct Subsidiaries shall not, and shall cause the Subsidiaries not to, directly or indirectly, declare, make or pay any dividend, charge, fee or other distribution, whether by way of cash or other consideration, to or with respect to any of its issued and outstanding shares (or any rights issued in respect thereof), provided that (x) the foregoing shall not limit the ability of any Restricted Subsidiary to pay dividends or make other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary to the extent that such limitation would violate provisions of the Note Indentures, and (y) the Company and its Subsidiaries shall be entitled to engage in intercompany transactions that are in the Ordinary Course or that are necessary and appropriate to preserve the value of the business or to carry out the repatriation of onshore cash referenced in subsection 5(x) below.
- (w) The Company shall, from and after the date hereof, cause its subsidiaries to maintain a minimum aggregate cash balance (outside of Canada) of the aggregate of: (i) US\$125,000,000 (ii) the amount by which cash received (net of associated expenses) from the sale of Thai redwood timber exceeds US\$46,000,000 less (iii) the amount by which cash received (net of associated expenses) from the sale of Thai redwood timber is less than US\$46,000,000.
- (x) Subject to the other terms and conditions of this Agreement, the Company and its management shall identify, implement and monitor both short-term and long-term liquidity generating initiatives and all reasonable steps to monetize assets for the repayment of the indebtedness of the Company and its Subsidiaries. In

this regard, and subject to the need of the Company and its Subsidiaries to prioritize efforts relating to the orderly management of its PRC tax affairs and the reorganization of the ownership structure of its BVI purchased plantations, and the other terms and conditions of this Agreement, the Company and its management shall take all reasonable steps (including but not limited to seeking all necessary SAFE and other regulatory approvals) to repatriate to the Company or its offshore Subsidiaries in a timely manner all onshore cash in excess of the projected onshore operating requirements of the Company and its Subsidiaries.

- (y) The Company shall produce a rolling 90-day cash flow forecast and shall discuss the receipts and disbursements for same with the Advisors, and shall consult with the Advisors regarding the matters referenced in subsections (w), (x) and (z) on no less than a bi-weekly basis.
- (z) The Company shall keep the Advisors reasonably informed regarding any material discussions with any Person (other than legal and financial advisors to the Company) with respect to any material transactions concerning the Company and its Subsidiaries and shall provide the Advisors with an opportunity for a representative of the Advisors or of the Initial Consenting Noteholders (subject to any confidentiality restrictions) to participate in such material discussions.
- (aa) The Company shall keep the Advisors reasonably informed regarding any material discussions with the Ontario Securities Commission or the Royal Canadian Mounted Police concerning the Company or the Subsidiaries, or any director or officer thereof.
- (bb) The Company shall forthwith expand its engagement of FTI Consulting (Hong Kong) Ltd. (“**FTI HK**”) and shall instruct FTI HK to: (i) attend at the premises of its Subsidiaries in Hong Kong and the PRC (including its Sino-Wood and Sino-Panel divisions) to monitor and report on operations, cash management functions (including the collection and disbursement of cash in such operations); and (ii) provide such information and reports as may be requested by the Company, the Monitor or any of the Advisors, acting reasonably (provided that all such information shall be subject to the confidentiality agreements and undertakings executed by the parties and any such information provided by FTI HK to the Advisors or the Monitor shall be made available to the Company).
- (cc) In the event that, after having received information and/or reports from FTI HK pursuant to Section 5(bb), the Initial Consenting Noteholders are not satisfied with the operations and management of the Company’s Subsidiaries, the Initial Consenting Noteholders shall have the right to notify the Company that, in their view, additional operational, management or other expertise is required in respect of the Subsidiaries (or any of them), and to require the appointment within thirty (30) days of one or more Persons having such expertise, the identity of which shall be acceptable to the Company and the Initial Consenting Noteholders.

- (dd) Any new additions to the board of directors of the Company shall be acceptable to the Initial Consenting Noteholders.
- (ee) The Company shall cause its BVI Subsidiaries to carry out commercially reasonable and prudent procedures with respect to the screening and evaluating of new timber contracts (including, without limitation, with respect to the identity and creditworthiness of the contractual counterparties, and also verification of legal chain of title, plantation rights certificates, and valuation, as the case may be) through its BVI /AI structure (the “**BVI Structure**”) (as distinct from its Wholly Foreign-Owned Entity Structure), which procedures shall be periodically reviewed and discussed with the Advisors (the “**BVI Timber Diligence Procedures**”).
- (ff) The Company shall cause its BVI Subsidiaries not to invest funds held by its AIs in the BVI Structure in new timber contracts for the BVI entities except in accordance with the BVI Timber Diligence Procedures, or in a manner otherwise acceptable to the Advisors.
- (gg) The Company and its Subsidiaries shall not directly or indirectly enter into any contract for the sale or purchase of timber (including with any AI or supplier) through the BVI Structure with a value of more than US\$5,000,000 at any one time or for any series of transactions aggregating over US\$10,000,000 without the consent of the advisors.
- (hh) The Company and its Subsidiaries shall make commercially reasonable efforts to collect all accounts receivable (including all accounts receivable payable by any AI) in the BVI Structure; and shall keep the Advisors informed of their efforts and status regarding same.

6. **Conditions Precedent to Noteholder’s Support Obligations**

- (a) Subject to Section 6(b), the obligation of the Consenting Noteholder to vote in favour of the Plan pursuant to Section 4(b)(i) shall be subject to the reasonable satisfaction of the following conditions prior to the Voting Deadline, each of which, if not satisfied prior to the Voting Deadline, can only be waived by the Initial Consenting Noteholders:
 - (i) the Initial Order, the Sale Process Order, the Meeting Order, the Plan and the proposed Final Order in respect of the Plan, and all other material filings by or on behalf of the Companies, or Orders entered by the Court, in the CCAA Proceedings to date, shall have been filed, and the Orders shall have been entered, in form and substance acceptable to the Advisors, acting reasonably;
 - (ii) the terms and conditions of the Plan shall be consistent with this Agreement or otherwise acceptable to the Initial Consenting Noteholders, acting reasonably (including, without limitation, all terms and conditions of the Litigation Trust and the Contingent Value Rights);

- (iii) the Initial Consenting Noteholders shall be satisfied with the results of due diligence concerning the Company, its Subsidiaries and their businesses;
- (iv) the Company and each of the Direct Subsidiaries shall have complied in all material respects with each covenant in this Agreement that is to be performed on or before the date that is three (3) Business Days prior to the Voting Deadline, including without limitation, by having complied with the timeline set forth in Section 5(c) hereof (as the same may have been amended with the consent of the Initial Consenting Noteholders or the Advisors, acting reasonably), and the Company shall have provided the Advisors with a certificate signed by an officer of the Company certifying compliance with this Section 6(iv) as of the date that is three (3) Business Days prior to the Voting Deadline;
- (v) the Restructuring Budget shall be in form and substance acceptable to the Initial Consenting Noteholders, acting reasonably;
- (vi) there shall have been no appointment of any new senior executive officers of the Company or any of its Subsidiaries or members of the board of directors of the Company, or any chief restructuring officer of the Company, unless such appointment, including its terms, was on terms satisfactory to the Initial Consenting Noteholders, acting reasonably;
- (vii) the composition of the board of directors of Newco and the senior management and officers of Newco to be appointed on the Implementation Date shall be acceptable to the Initial Consenting Noteholders;
- (viii) the terms of any New Management Plan shall be acceptable to the Initial Consenting Noteholders;
- (ix) the representations and warranties of the Company and the Direct Subsidiaries set forth in this Agreement shall be true and correct in all respects without regard to any materiality or Material Adverse Effect qualifications contained in them as of the date that is three (3) Business Days prior to the Voting Deadline with the same force and effect as if made at and as of such date (except to the extent such representations and warranties are by their terms given as of a specified date, in which case such representations and warranties shall be true and correct in all respects as of such date), in each case except (A) as such representations and warranties may be affected by the occurrence of events or transactions contemplated by this Agreement, and (B) where the failure of such representations and warranties to be so true and correct, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect, and the Company shall have provided the Advisors with a certificate signed by an officer of the Company certifying compliance with this Section 6(a)(ix) as of the date that is three (3) Business Days prior to the Voting Deadline;

- (x) there shall not exist or have occurred any Material Adverse Effect, and the Company shall have provided the Advisors with a certificate signed by an officer of the Company certifying compliance with this Section 6(x) as of the date that is three (3) Business Days prior to the Voting Deadline;
 - (xi) there shall not be in effect any preliminary or final decision, order or decree by a Governmental Entity, and no action shall have been announced, threatened or commenced by any Governmental Entity in consequence of or in connection with the Transaction that restrains or impedes, or prohibits (or if granted could reasonably be expected to restrain, impede or inhibit) the Transaction or any material part thereof or requires or purports to require a material variation of the Transaction, and the Company shall have provided the Advisors with a certificate signed by an officer of the Company certifying compliance with this Section 6(a)(xi) as of the date that is three (3) Business Days prior to the Voting Deadline; and
 - (xii) there shall have been no breach of the Noteholder Confidentiality Agreements by the Company or any of the Sino-Forest Representatives (as defined therein) in respect of that Consenting Noteholder.
- (b) Notwithstanding Section 6(a), if the Company has, in compliance with the Sale Process Procedures, entered into a definitive agreement with respect to a Sale Transaction prior to the Voting Deadline, the obligation of the Consenting Noteholder to vote in favour of the Plan in respect of such Sale Transaction pursuant to Section 4(b)(i) shall be subject to the reasonable satisfaction of only the conditions precedent set forth in Sections 6(a)(i), 6(a)(ii), 6(a)(iv), 6(a)(xi) and 6(a)(xii) prior to the Voting Deadline, which, if not satisfied prior to the Voting Deadline, can only be waived by the Initial Consenting Noteholders.

7. Conditions Precedent to Restructuring

- (a) Subject to Section 7(b), the Transaction shall be subject to the reasonable satisfaction of the following conditions prior to or at the time on which the Transaction is implemented (the “**Effective Time**”), each of which, if not satisfied on or prior to the Effective Date, can only be waived by the Initial Consenting Noteholders; provided, however that (A) the conditions in sub-clauses 7(a)(i) to 7(a)(iii), 7(a)(v) to 7(a)(viii), 7(a)(xi) and 7(a)(xvii) below shall also be for the benefit of the Company and (B) if not satisfied on or prior to the Effective Time, can only be waived by both the Company and the Initial Consenting Noteholders:
 - (i) (v) the Plan shall have been approved by the applicable stakeholders of the Company as and to the extent required by the Court or otherwise, any such requirement being acceptable to the Company and the Initial Consenting Noteholders, each acting reasonably; (w) the Plan shall have been approved by the Court and the Final Order shall be in full force and effect

prior to August 31, 2012 in respect of a Restructuring Transaction, and prior to the Outside Date in respect of a Sale Transaction; (x) the Plan shall have been approved by the applicable stakeholders and the Court in a form consistent with this Agreement or otherwise acceptable to the Company and the Initial Consenting Noteholders, each acting reasonably; (y) the Final Order shall have been entered by the Court in a form consistent with this Agreement or otherwise acceptable to the Company and the Initial Consenting Noteholders, each acting reasonably; and (z) the Implementation Date shall have occurred no later than the Outside Date;

- (ii) all press releases, disclosure documents and definitive agreements in respect of the Transaction shall be in a form and substance satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably;
- (iii) the new memorandum and articles of association, by-laws and other constating documents of Newco (including, without limitation, any shareholders agreement, shareholder rights plan, classes of shares (voting and non-voting)) or any affiliated or related entities to be formed in connection with the Transaction, as applicable, and all definitive legal documentation in connection with all of the foregoing shall be acceptable to the Initial Consenting Noteholders and in form and substance reasonably satisfactory to the Company;
- (iv) the composition of the board of directors of Newco and the senior management and officers of Newco shall have been put in place on the Implementation Date and shall be acceptable to the Initial Consenting Noteholders;
- (v) the terms of the New Management Plan, together with the terms of employment for the senior executive officers of Newco, shall have been put in place on the Implementation Date and shall be acceptable to the Initial Consenting Noteholders, and reasonably satisfactory to the Company;
- (vi) the terms of the Litigation Trust and the Contingent Value Rights shall be satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably;
- (vii) all Material filings under applicable Laws that are required in connection with the Transaction shall have been made and any Material regulatory consents or approvals that are required in connection with the Transaction shall have been obtained (including, without limitation, any required consent(s) of the Ontario Securities Commission) and, in the case of waiting or suspensory periods, such waiting or suspensory periods shall have expired or been terminated;

- (viii) there shall not be in effect any preliminary or final decision, order or decree by a Governmental Entity, and no action shall have been announced, threatened or commenced by any Governmental Entity, in consequence of or in connection with the Transaction that restrains or impedes, or prohibits (or if granted could reasonably be expected to restrain, impede or inhibit) the Transaction or any material part thereof or requires or purports to require a material variation of the Transaction and the Company shall have provided the Consenting Noteholders with a certificate signed by an officer of the Company certifying compliance with this Section 7(a)(viii) as at the Effective Time;
- (ix) the representations and warranties of the Company and the Direct Subsidiaries set forth in this Agreement shall be true and correct in all respects without regard to any materiality or Material Adverse Effect qualifications contained in them as of the Effective Time with the same force and effect as if made at and as of such date (except to the extent such representations and warranties are by their terms given as of a specified date, in which case such representations and warranties shall be true and correct in all respects as of such date), in each case except (A) as such representations and warranties may be affected by the occurrence of events or transactions contemplated by this Agreement, and (B) where the failure of such representations and warranties to be so true and correct, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect, and the Company shall have provided the Consenting Noteholders with a certificate signed by an officer of the Company certifying compliance with this Section 7(a)(ix) as at the Effective Time;
- (x) there shall not exist or have occurred any Material Adverse Effect, and the Company shall have provided the Consenting Noteholders with a certificate signed by an officer of the Company certifying compliance with this Section 7(a)(x) as at the Effective Time;
- (xi) all securities of the Company, Newco and any affiliated or related entities that are formed in connection with the Transaction, when issued and delivered, shall be duly authorized, validly issued and fully paid and non-assessable and the issuance thereof shall be exempt from all prospectus and registration requirements and resale restrictions of applicable Securities Legislation;
- (xii) the Noteholders shall have received the consideration described in the Transaction Terms on the Implementation Date;
- (xiii) in the case of a Restructuring Transaction all Existing Shares, Equity Interests, including all existing options, warrants, deferred share units and restricted share units held by current directors and officers or other third parties, and all Equity Claims shall have been cancelled or extinguished or

- otherwise dealt with to the satisfaction of the Initial Consenting Noteholders, acting reasonably to ensure that no rights in respect thereof attach to the assets and property conveyed to Newco pursuant to the Restructuring Transaction;
- (xiv) the Initial Consenting Noteholders, acting reasonably, shall be satisfied with the use of proceeds and payments relating to all aspects of the Transaction, including, without limitation, any change of control payments, consent fees, transaction fees or third party fees, in the aggregate of \$500,000 or more, payable by the Company or any Subsidiary to any Person (other than a Governmental Entity) in respect of or in connection with the Transaction, including without limitation, pursuant to any employment agreement or incentive plan of the Company or any Subsidiary;
 - (xv) the Company shall have paid the Expense Reimbursement in full on the Implementation Date, and Newco shall have no liability for any fees or expenses due to the Company's legal, financial or advisors either as at or following the Implementation Date;
 - (xvi) the Company and the Direct Subsidiaries shall have complied in all material respects with each covenant in this Agreement that is to be performed on or before the Effective Time, and the Company shall have provided the Consenting Noteholders with a certificate signed by an officer of the Company certifying compliance with this Section 7(a)(xvi) as at the Effective Time; and
 - (xvii) any Sale Transaction shall be on terms and conditions consistent with this Agreement or otherwise acceptable to the Company and the Initial Consenting Noteholders, each acting reasonably.
- (b) Notwithstanding Section 7(a), if the Company has, in compliance with the Sale Process Procedures, entered into a definitive agreement with respect to a Sale Transaction, such Sale Transaction shall be subject to the reasonable satisfaction of only the conditions in Sections 7(a)(i), 7(a)(ii), 7(a)(vii), 7(a)(viii), 7(a)(xii), 7(a)(xv), 7(a)(xvi) and 7(a)(xvii), prior to or at the Effective Time, each of which, if not satisfied on or prior to the Effective Date, can only be waived by the Initial Consenting Noteholders; provided, however that (A) the condition in Sections 7(a)(i), 7(a)(vii), 7(a)(viii) and 7(a)(xvii) shall also be for the benefit of the Company and (B) if not satisfied on or prior to the Effective Time, can only be waived by both the Company and the Initial Consenting Noteholders.

8. Conditions Precedent to Company's Obligations

The obligations of the Company under this Agreement shall be subject to the reasonable satisfaction of the following conditions, each of which, if not satisfied, can only be waived by the Company:

- (a) the Consenting Noteholders shall have complied in all material respects with each of their covenants in this Agreement that is to be performed on or before the Implementation Date; and
- (b) the representations and warranties of the Consenting Noteholders set forth in this Agreement shall be true and correct in all material respects without regard to any materiality qualifications contained in them as of the Implementation Date with the same force and effect as if made at and as of such time, except that representations and warranties that are given as of a specified date shall be true and correct in all material respects as of such date.

9. Press Releases and Public Disclosure Concerning Transaction

- (a) No press release or other public disclosure concerning the transactions contemplated herein shall be made by the Company or any of its Representatives or Subsidiaries without the prior consent of the Advisors (such consent not to be unreasonably withheld) except as, and only to the extent that, the disclosure is required (as determined by the Company) by applicable Law or by any stock exchange rules on which its securities or those of any of its affiliates are traded, by any other regulatory authority having jurisdiction over the Company or any Direct Subsidiary, or by any court of competent jurisdiction; provided, however, that the Company shall provide the Advisors with a copy of such disclosure in advance of any release and an opportunity to consult with the Company as to the contents, and to provide comments thereon, and provided further that any such disclosure shall in all cases also comply with the terms and conditions set forth in Section 16 hereof and in any of the applicable Noteholder Confidentiality Agreements.
- (b) Notwithstanding the foregoing and subject to Section 16 hereof, no information with respect to the principal amount of Notes or the number of Common Shares held or managed by any individual Consenting Noteholder or the identity of any individual Consenting Noteholder shall be disclosed by the Company or any of its Representatives or Subsidiaries in any press release or other public disclosure concerning the transactions contemplated herein.
- (c) No press release or other public disclosure concerning the transactions contemplated herein shall be made by any Consenting Noteholder without the prior consent of the Company (such consent not to be unreasonably withheld) except as, and only to the extent that, the disclosure is required (as determined by the Consenting Noteholder) by applicable Law or by any stock exchange rules on which its securities or those of any of its affiliates are traded, by any other regulatory authority having jurisdiction over the Consenting Noteholder, or by any court of competent jurisdiction; provided, however, that the Consenting Noteholder shall provide the Company with a copy of such disclosure in advance of any release and an opportunity to consult with the Consenting Noteholder as to the contents, and to provide comments thereon, and provided further that any

such disclosure shall also comply with the terms of any applicable Noteholder Confidentiality Agreement.

- (d) To the extent that there is a conflict between the provisions of this Section 9 and a Noteholder Confidentiality Agreement, the provisions of the Noteholder Confidentiality Agreement shall govern.

10. Further Assurances

Each Party shall do all such things in its control, take all such actions as are commercially reasonable, deliver to the other Parties such further information and documents and execute and deliver to the other Parties such further instruments and agreements as another Party shall reasonably request to consummate or confirm the transactions provided for in this Agreement, to accomplish the purpose of this Agreement or to assure to the other Party the benefits of this Agreement.

11. Consenting Noteholders' Termination Events

This Agreement may be terminated by the delivery to the Company and the Advisors of a written notice in accordance with Section 17(q) hereof by Initial Consenting Noteholders holding at least 66 2/3% of the aggregate principal amount of Relevant Notes held by the Initial Consenting Noteholders collectively, in the exercise of their sole discretion, or in the case of Sections 11(j) and (k) by, but only in respect of, any Initial Consenting Noteholder individually, upon the occurrence and, if applicable, continuation uncured (where such event is curable) for three (3) Business Days after receipt of such notice of any of the following events:

- (a) failure by the Company to comply with any of the deadlines set forth in Section 5(c) hereof (including if the Implementation Date has not occurred by the Outside Date), as the same may have been amended with the consent of the Initial Consenting Noteholders or the Advisors;
- (b) failure by the Company or any of the Direct Subsidiaries to comply in all material respects with, or default by the Company or any of the Direct Subsidiaries in the performance or observance of, any material term, condition, covenant or agreement set forth in this Agreement, which, if capable of being cured, is not cured within five (5) Business Days after the receipt of written notice of such failure or default;
- (c) failure by the Company or any of the Direct Subsidiaries to comply with or satisfy any condition precedent set forth in Section 6 or 7 of this Agreement;
- (d) if any representation, warranty or other statement of the Company or any of the Direct Subsidiaries made or deemed to be made in this Agreement shall prove untrue in any respect as of the date when made, except where the failure of such representations and warranties or other statements to be so true and correct, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect;

- (e) the issuance of any preliminary or final decision, order or decree by a Governmental Entity, the making of an application to any Governmental Entity, or commencement of an action by any Governmental Entity, in consequence of or in connection with the Transaction, in each case which restrains, impedes or prohibits the Transaction or any material part thereof or requires or purports to require a material variation of the Transaction;
- (f) the CCAA Proceedings are dismissed, terminated, or stayed or the Company whether voluntarily or involuntarily, commences or undergoes a receivership, liquidation, bankruptcy, debt enforcement proceeding or a proceeding under the CCAA, the *Bankruptcy and Insolvency Act* (Canada) or *Winding-Up and Restructuring Act* (Canada), or under any foreign insolvency law, or any of the Subsidiaries become subject to voluntary or involuntary liquidation proceedings, unless any such event occurs with the prior written consent of the Initial Consenting Noteholders;
- (g) the appointment of a receiver, interim receiver, receiver and manager, trustee in bankruptcy, liquidator or administrator in respect of the Company, or any of its Subsidiaries, unless such event occurs with the prior written consent of the Initial Consenting Noteholders;
- (h) the amendment, modification or filing of a pleading by the Company, or any of its Subsidiaries, seeking to amend or modify this Agreement, any of the Transaction Terms, the Initial Order, the Sale Process Order, the Sale Process Procedures, the Plan, or any other document related to any of the foregoing or otherwise filed in the CCAA Proceedings, in a manner not acceptable to the Initial Consenting Noteholders, acting reasonably;
- (i) if there are any new additions to the board of directors of the Company that are not acceptable to the Initial Consenting Noteholders;
- (j) if the Company and the Initial Consenting Noteholders cannot agree on the Person(s) to be appointed by the Company or any of its Subsidiaries pursuant to Section 5(cc) hereof; or
- (k) if the Company fails to comply with its obligations under Section 5(h).

12. Companies' Termination Events

- (a) This Agreement may be terminated by the delivery to the Consenting Noteholders (with a copy to the Advisors) of a written notice in accordance with Section 17(q) by the Company, in the exercise of its sole discretion, upon the occurrence and continuation of any of the following events:
 - (i) the issuance of any preliminary or final decision, order or decree by a Governmental Entity, the making of an application to any Governmental Entity, or commencement of an action by any Governmental Entity, in consequence of or in connection with the Transaction, in each case which

restrains, impedes or prohibits the Transaction or any material part thereof or requires or purports to require a material variation of the Transaction; or

- (ii) if the Implementation Date has not occurred on or before the Outside Date;
- (b) This Agreement may be terminated as to a breaching Consenting Noteholder (the “**Breaching Noteholder**”) only, by delivery to such Breaching Noteholder of a written notice in accordance with Section 17(q) by the Company, in the exercise of its sole discretion and provided that the Company is not in default hereunder, upon the occurrence and continuation uncured (where such event is curable) for three Business Days after the receipt of such notice, of any of the following events:
- (i) failure by the Breaching Noteholder to comply in all material respects with, or default by the Breaching Noteholder in the performance or observance of, any material term, condition, covenant or agreement set forth in this Agreement which is not cured within five (5) Business Days after the receipt of written notice of such failure or default; or
 - (ii) if any representation, warranty or other statement of the Breaching Noteholder made or deemed to be made in this Agreement shall prove untrue in any material respect as of the date when made,

and the Breaching Noteholder shall thereupon no longer be a Consenting Noteholder.

13. Mutual Termination

This Agreement, and the obligations of all Parties hereunder, may be terminated by mutual agreement among (a) the Company, (b) the Direct Subsidiaries and (c) Initial Consenting Noteholders holding at least 66 2/3% of the aggregate principal amount of Relevant Notes held by the Initial Consenting Noteholders collectively.

14. Effect of Termination

- (a) Upon termination of this Agreement pursuant to Sections 11(a) to 11(i) Section 12(a) or Section 13 hereof, this Agreement shall be of no further force and effect and each Party hereto shall be automatically and simultaneously released from its commitments, undertakings, and agreements under or related to this Agreement, except for the rights, agreements, commitments and obligations under Sections 9(b), 14, 16 and 17, all of which shall survive the termination, and each Party shall have the rights and remedies that it would have had it not entered into this Agreement and shall, subject to the CCAA Proceedings and the terms of any Court orders made therein, be entitled to take all actions, whether with respect to the Transaction or otherwise, that it would have been entitled to take had it not entered into this Agreement.

- (b) Upon termination of this Agreement by the Company and the Direct Subsidiaries with respect to a Breaching Noteholder under Section 12(b), or by an Objecting Noteholder under Section 17(o), or by an individual Initial Consenting Noteholder under Section 11(j) or 11(k) (an “**Individual Noteholder**”) this Agreement shall be of no further force or effect with respect to such Breaching Noteholder, Objecting Noteholder or Individual Noteholder, as applicable, and all rights, obligations, commitments, undertakings, and agreements under or related to this Agreement of or in respect of such Breaching Noteholder, Objecting Noteholder or Individual Noteholder, as applicable, shall be of no further force or effect, except for the rights and obligations under Sections 9(b), 14, 16 and 17, all of which shall survive such termination, and each of the Company, the Direct Subsidiaries and such Breaching Noteholder, Objecting Noteholder or Individual Noteholder, as applicable, shall have the rights and remedies that it would have had it not entered into this Agreement and shall, subject to the CCAA Proceedings and the terms of any Court orders made therein, be entitled to take all actions, whether with respect to the Transaction or otherwise, that it would have been entitled to take had it not entered into this Agreement.
- (c) Upon the occurrence of any termination of this Agreement, any and all consents, votes or support tendered prior to such termination by (i) the Consenting Noteholders in the case of termination pursuant to Section 11, Section 12(a) or Section 13 hereof, (ii) the Breaching Noteholder(s) in the case of a termination pursuant to Section 12(b), (iii) the Objecting Noteholder(s) in the case of termination pursuant to Section 17(o), or (iv) the Individual Noteholder in the case of termination pursuant to Section 11(j) or 11(k) shall be deemed, for all purposes, to be null and void from the first instance and shall not be considered or otherwise used in any manner by the Parties in connection with the Transaction, this Agreement, the CCAA Proceedings or otherwise.

15. Termination Upon the Implementation Date

This Agreement shall terminate automatically without any further required action or notice on the Implementation Date (immediately following the Effective Time). The Company shall pay the Expense Reimbursement on the Implementation Date (prior to the Effective Time). For greater certainty, the representations, warranties and covenants herein shall not survive and shall be of no further force or effect from and after the Implementation Date, provided that the rights, agreements, commitments and obligations under Sections 9(b), 16 and 17 shall survive the Implementation Date.

16. Confidentiality

The Company and each Direct Subsidiary agree, on its own behalf and on behalf of its Representatives and Subsidiaries, to maintain the confidentiality of the identity and, to the extent known, specific holdings of each Consenting Noteholder; provided, however, that such information may be disclosed: (a) to the Company’s directors, trustees, executives, officers, auditors, and employees and financial and legal advisors or other agents (collectively referred to

herein as the “**Representatives**” and individually as a “**Representative**”) and provided further that each such Representative is informed of, and agrees to abide by, this confidentiality provision; and (b) to Persons in response to, and to the extent required by, (i) any subpoena, or other legal process, including, without limitation, by the Court or applicable rules, regulations or procedures of the Court, (ii) any Governmental Entity, or (iii) applicable Law; provided that, if the Company or its Representatives are required to disclose the identity or the specific holdings of a Consenting Noteholder in the manner set out in the preceding sentence, the Company shall provide such Consenting Noteholder with prompt written notice of any such requirement so that such Consenting Noteholder may (at the Consenting Noteholder’s expense) seek a protective order or other appropriate remedy or waiver of compliance with the provisions of this Agreement; and provided further, however, that each Consenting Noteholder agrees, (c) to the existence and factual details of this Agreement (other than the identity and, to the extent known, specific holdings of, any Consenting Noteholder) being set out in any public disclosure, including, without limitation, press releases and court materials, produced by the Company in connection with the Transaction and in accordance with this Agreement and the terms of any applicable Noteholder Confidentiality Agreement; and (d) to this Agreement being filed and/or available for inspection by the public to the extent required by law, and in any case in accordance with this Agreement and the terms of any Noteholder Confidentiality Agreement.

17. Miscellaneous

- (a) Notwithstanding anything herein to the contrary, this Agreement applies only to each Consenting Noteholder’s Debt and to each Consenting Noteholder solely with respect to its legal and/or beneficial ownership of, or its investment and voting discretion over its Debt (and not, for greater certainty, to any other securities, loans or obligations that may be held, acquired or sold by such Consenting Noteholder or any client of such Consenting Noteholder whose funds or accounts are managed by such Consenting Noteholder) and, without limiting the generality of the foregoing, shall not apply to:
 - (i) any securities, loans or other obligations (including the Notes) that may be held, acquired or sold by, or any activities, services or businesses conducted or provided by, any group or business unit within or affiliate of a Consenting Noteholder (A) that has not been involved in and is not acting at the direction of or with knowledge of the affairs of the Company and/or its Subsidiaries provided by any Person involved in the Transaction discussions or (B) is on the other side of an information firewall with respect to the officers, partners and employees of such Consenting Noteholder who have been working on the Transaction and is not acting at the direction of or with knowledge of the affairs of the Company and/or its Subsidiaries provided by any officers, partners and employees of such Consenting Noteholder who have been working on the Transaction;
 - (ii) any securities, loans or other obligations that may be beneficially owned by clients of a Consenting Noteholder, including accounts or funds managed by the Consenting Noteholder, that are not Notes or Debt; or

- (iii) any securities, loans or other obligations (including Notes) that may be beneficially owned by clients of a Consenting Noteholder that are not managed or administered by the Consenting Noteholder.
- (b) Subject to Section 4 hereof with respect to Consenting Noteholders' Relevant Notes and Debt and to the provisions of any applicable Noteholder Confidentiality Agreement, nothing in this Agreement is intended to preclude any of the Consenting Noteholders from engaging in any securities transactions.
- (c) This Agreement shall in no way be construed to preclude any Consenting Noteholder from acquiring additional Notes ("**Additional Notes**"). If a Consenting Noteholder acquires Additional Notes after the date hereof, the Consenting Noteholder shall be bound by the terms of this Agreement in respect of such Additional Notes, and such Additional Notes shall constitute Relevant Notes for purposes of this Agreement.
- (d) At any time, a Noteholder that is not a Consenting Noteholder may agree with the Company and the Direct Subsidiaries to become a Party to this Agreement by executing and delivering to the Company, with a copy to the Advisors, a Joinder Agreement substantially in the form of **Schedule C**.
- (e) The headings of the Sections of this Agreement have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.
- (f) Unless the context otherwise requires, words importing the singular shall include the plural and vice versa and words importing any gender shall include all genders.
- (g) Unless otherwise specifically indicated, all sums of money referred to in this Agreement are expressed in lawful money of the United States.
- (h) This Agreement, the Noteholder Confidentiality Agreements and any other agreements contemplated by or entered into pursuant to this Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both oral and written, among the Parties with respect to the subject matter hereof.
- (i) The agreements, representations and obligations of the Company and the Direct Subsidiaries are, in all respects, several and not joint and several. The Company and the Direct Subsidiaries acknowledge and agree that any waiver or consent that the Consenting Noteholders may make on or after the date hereof has been made by the Consenting Noteholders in reliance upon, and in consideration for, the covenants, agreements, representations and warranties of the Company and the Direct Subsidiaries hereunder.
- (j) The agreements, representations and obligations of the Consenting Noteholders under this Agreement are, in all respects, several (in proportion to the percentage

of the aggregate principal amount of Notes represented by a Consenting Noteholder's Relevant Notes) and not joint and several. Each Consenting Noteholder acknowledges and agrees that any waiver or consent that the Company may make on or after the date hereof has been made by the Company in reliance upon, and in consideration for, the covenants, agreements, representations and warranties of the Consenting Noteholders hereunder.

- (k) Any Person signing this Agreement in a representative capacity (i) represents and warrants that he/she is authorized to sign this Agreement on behalf of the Party he/she represents and that his/her signature upon this Agreement will bind the represented Party to the terms hereof, and (ii) acknowledges that the other Parties hereto have relied upon such representation and warranty.
- (l) Except as otherwise expressly provided herein, for the purposes of this Agreement, any matter requiring the agreement, waiver, consent or approval under this Agreement of (i) the Consenting Noteholders shall require the agreement, waiver, consent or approval of Consenting Noteholders representing at least a majority of the aggregate principal amount of Relevant Notes held by the Consenting Noteholders, and for (ii) the Initial Consenting Noteholders shall require the agreement, waiver, consent or approval of Initial Consenting Noteholders representing at least 66 2/3% of the aggregate principal amount of Relevant Notes held by the Initial Consenting Noteholders. The Company shall be entitled to rely on written confirmation from the Advisors that the Consenting Noteholders or the Initial Consenting Noteholders, as applicable, representing at least the foregoing aggregate principal amount of Relevant Notes held by the Consenting Noteholders or the Initial Consenting Noteholders, as applicable, have agreed, waived, consented to or approved a particular matter.
- (m) Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes have agreed, approved or consented to any amendment, waiver or consent to be given under this Agreement or under any documents related thereto, or have directed the taking of any action provided herein or in any of the documents related thereto to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes, Notes directly or indirectly owned by the Company or any of its Subsidiaries shall be deemed not to be outstanding.
- (n) This Agreement may be modified, amended or supplemented as to any matter by an instrument in writing signed by the Company, the Direct Subsidiaries and Initial Consenting Noteholders (as determined in accordance with Section 17(l)).
- (o) Notwithstanding anything to the contrary herein, if this Agreement is amended, modified or supplemented or any matter herein is approved, consented to or waived: (i) in a manner that materially adversely affects the consideration to be provided to the Noteholders as set forth in Section 1 hereof to be provided to Noteholders; (ii) or that limits an Individual Noteholder's ability to exercise the termination rights set forth in Sections 11(i) and 11(k) hereof; or (iii) such that

the Outside Date is extended beyond November 30, 2012, then any Consenting Noteholder that objects to any such amendment, modification, supplement, approval, consent or waiver may terminate its obligations under this Agreement upon five (5) Business Days' written notice to the other Parties hereto (each, an "**Objecting Noteholder**") and shall thereupon no longer be a Consenting Noteholder. For greater certainty, an Objecting Noteholder shall not be entitled to receive any consideration provided to Consent Date Noteholders hereunder.

- (p) Time is of the essence in the performance of the Parties' respective obligations. Any date, time or period referred to in this Agreement shall be of the essence, except to the extent to which the Parties agree in writing to vary any date, time or period, in which event the varied date, time or period shall be of the essence.
- (q) All notices and other communications which may be or are required to be given pursuant to any provision of this Agreement shall be given or made in writing and shall be deemed to be validly given if served personally or by facsimile transmission, in each case addressed to the particular Party:

- (i) if to the Company or any Direct Subsidiary:

Sino-Forest Corporation
Room 3815-29 38/F, Sun Hung Kai Centre
30 Harbour Road, Wanchai, Hong Kong

Attention: Mr. Judson Martin, Executive Vice-Chairman and Chief
Executive Officer
Fax: +852-2877-0062;

with a copy by email or fax (which shall not be deemed notice) to:

Bennett Jones LLP
One First Canadian Place, Suite 3400
Toronto, ON M5X 1A4

Attention: Kevin J. Zych and Raj S. Sahni
Email: zychk@bennettjones.com and sahnir@bennettjones.com
Fax: 416-863-1716

- (ii) if to the Consenting Noteholders, at the address set forth for each Consenting Noteholder beside its signature hereto;

with a copy by email or fax (which shall not be deemed notice) to:

Goodmans LLP
 Bay Adelaide Centre
 333 Bay Street, Suite 3400
 Toronto, Ontario M5H 2S7

Attention: Robert Chadwick and Brendan O'Neill
 Email: rchadwick@goodmans.ca and boneill@goodmans.ca
 Facsimile: 416-979-1234

and with a copy by email or fax (which shall not be deemed notice) to:

Hogan Lovells LLP
 11th Floor, One Pacific Place, 88 Queensway
 Hong Kong China

Attention: Neil McDonald
 Email: neil.mcdonald@hoganlovells.com
 Facsimile: 852-2219-0222

or at such other address of which any Party may, from time to time, advise the other Parties by notice in writing given in accordance with the foregoing. The date of receipt of any such notice shall be deemed to be the date of delivery or transmission thereof.

- (r) If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in a mutually acceptable manner in order that the terms of this Agreement remain as originally contemplated to the fullest extent possible.
- (s) This Agreement shall be binding upon and enure to the benefit of the Parties hereto and each of their respective successors, assigns, heirs and personal representatives, provided that no Party may assign, delegate or otherwise transfer any of its rights, interests or obligations under this Agreement without the prior written consent of the other Parties hereto, except that each Consenting Noteholder is permitted to assign, delegate or otherwise transfer any of its rights, interests or obligations under this Agreement as set forth in Section 4(c).
- (t) This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein, without regard to principles of conflicts of law. Each Party submits to the jurisdiction of the courts of the Province of Ontario in any action or proceeding arising out of or relating to this Agreement.

- (u) The Parties waive any right to trial by jury in any proceeding arising out of or relating to this Agreement or any of the transactions contemplated by this Agreement, present or future, and whether sounding in contract, tort or otherwise. Any Party may file a copy of this provision with any court as written evidence of the knowing, voluntary and bargained for agreement between the Parties irrevocably to waive trial by jury, and that any proceeding whatsoever between them relating to this Agreement or any of the transactions contemplated by this Agreement shall instead be tried by a judge or judges sitting without a jury.
- (v) No director, officer or employee of the Company or any of its Subsidiaries or any of their legal, financial or other advisors shall have any personal liability to any of the Consenting Noteholders under this Agreement. No director, officer or employee of any of the Consenting Noteholders or any of the Advisors shall have any personal liability to the Company or any of its Subsidiaries under this Agreement.
- (w) It is understood and agreed by the Parties that money damages would be an insufficient remedy for any breach of this Agreement by any Party and each non-breaching Party shall be entitled to specific performance and injunctive or other equitable relief as a remedy of any such breach including, without limitation, an order of the Court or other court of competent jurisdiction requiring any Party to comply promptly with any of its obligations hereunder.
- (x) All rights, powers, and remedies provided under this Agreement or otherwise in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise of any right, power, or remedy thereof by any Party shall not preclude the simultaneous or later exercise of any other such right, power, or remedy by such Party.
- (y) No condition in this Agreement shall be enforceable by a Party if any failure to satisfy such condition results from an action, error or omissions by or within the control of such Party.
- (z) Where any representation or warranty of the Company and the Direct Subsidiaries contained in this Agreement is expressly qualified by reference to the knowledge of the Company, it refers to the actual knowledge, after due inquiry, of the Executive Vice Chairman and Chief Executive Officer and the Chief Financial Officer of the Company, and does not include the knowledge or awareness of any other individual or any constructive, implied or imputed knowledge.
- (aa) Unless expressly stated herein, this Agreement shall be solely for the benefit of the Parties, and no other person or entity shall be a third-party beneficiary hereof.

- (bb) This Agreement may be signed in counterparts, each of which, when taken together, shall be deemed an original. Execution of this Agreement is effective if a signature is delivered by facsimile transmission or electronic (e.g., pdf) transmission.

[Remainder of this page intentionally left blank; next page is signature page]

This Agreement has been agreed and accepted on the date first written above.

SINO-FOREST CORPORATION

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-PANEL HOLDINGS LIMITED

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-GLOBAL HOLDINGS INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-PANEL CORPORATION

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-WOOD PARTNERS, LIMITED

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-CAPITAL GLOBAL INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

**SINO-FOREST INTERNATIONAL
(BARBADOS) CORPORATION**

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-FOREST RESOURCES INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

STRICTLY CONFIDENTIAL

Name of Consenting Noteholder:

Per:

Name:

Title:

Jurisdiction of residence for legal purposes:

Email:

Address:

STRICTLY CONFIDENTIAL

SCHEDULE A**DIRECT SUBSIDIARIES**

Sino-Panel Holdings Limited
Sino-Global Holdings Inc.
Sino-Panel Corporation
Sino-Wood Partners, Limited
Sino-Capital Global Inc.
Sino-Forest International (Barbados) Corporation)
Sino-Forest Resources Inc. [Preferred shares held by SFC]

SCHEDULE B**DEFINITIONS**

Definition	Section or Page Number
“Additional Notes”	Section 17(c)
“Agreement”	Page 1 (1 st paragraph)
“Agreement Date”	Page 1 (1 st paragraph)
“Breaching Noteholder”	Section 12(b)
“BVI Timber Diligence Procedures”	Section 5(ee)
“CBCA”	Page 1 (1 st paragraph)
“CCAA”	Page 1 (1 st paragraph)
“CCAA Proceedings”	Section 5(c)(i)
“Company”	Page 1 (1 st paragraph)
“Consent Date Noteholder”	Section 1(b)
“Consenting Noteholder(s)”	Page 1 (1 st paragraph)
“Debt”	Section 2(a)
“Early Consent Consideration”	Section 1(b)
“Effective Time”	Section 7
“Excess Net Proceeds”	Section 1(k)(i)
“FTI HK”	Section 55(bb)
“Funding Amount”	Section 1(h)(i)
“Individual Noteholder”	Section 14(b)
“Muddy Waters”	Section 1(h)(ii)(A)
“Newco”	Section 1(a)(i)
“Newco EV”	Section 1(h)(ii)(B)(II)

Definition	Section or Page Number
“NI 45-106”	Section 2(i)
“Objecting Noteholder”	Section 17(o)
“Party” or “Parties”	Page 1 (1 st paragraph)
“Relevant Notes”	Section 2(a)
“Representative(s)”	Section 16
“Restructuring Budget”	Section 5(j)
“Sale Transaction”	Section 1(i)
“Transfer”	Section 4(c)

In addition, the following terms used in this Agreement shall have the following meanings:

“**2013 Note Indenture**” means the indenture dated as of July 23, 2008, by and between the Company, the entities listed as subsidiary guarantors thereto, and The Bank of New York Mellon, as trustee, as amended, modified or supplemented prior to the date hereof.

“**2014 Note Indenture**” means the indenture dated as of July 27, 2009 entered into by and between the Company, the subsidiary guarantors thereto, and Law Debenture Trust Company of New York, as trustee, as amended, modified or supplemented prior to the date hereof.

“**2016 Note Indentures**” means the indenture dated as of December 17, 2009, by and between the Company, the entities listed as subsidiary guarantors thereto, and The Bank of New York Mellon, as trustee, as amended, modified or supplemented prior to the date hereof.

“**2017 Note Indenture**” means the indenture dated as of October 21, 2010, by and between the Company, the subsidiary guarantors thereto, and Law Debenture Trust Company of New York, as trustee, as amended, modified or supplemented prior to the date hereof.

“**2013 Notes**” means the US\$345,000,000 of 5.00% Convertible Senior Notes Due 2013 issued pursuant to the 2013 Note Indenture.

“**2014 Notes**” means the US\$399,517,000 of 10.25% Guaranteed Senior Notes Due 2014 issued pursuant to the 2014 Note Indenture.

“**2016 Notes**” means the US\$460,000,000 of 4.25% Convertible Senior Notes Due 2016 issued pursuant to the 2016 Note Indenture.

“**2017 Notes**” means the US\$600,000,000 of 6.25% Guaranteed Senior Notes Due 2017 issued

pursuant to the 2017 Note Indenture.

“2013 and 2016 Trustee” means The Bank of New York Mellon, in its capacity as trustee for the 2013 Notes and the 2016 Notes.

“2014 and 2017 Trustee” means Law Debenture Trust Company of New York, in its capacity as trustee for the 2014 Notes and the 2017 Notes.

“Accrued Interest” means, in respect of any series of Notes, all accrued and unpaid interest on the Notes, at the regular rates provided therefor pursuant Note Indentures, up to and including the CCAA Filing Date.

“Advisors” means Goodmans and Hogan Lovells, in their capacity as legal advisors to the Initial Consenting Noteholders, and Moelis, in its capacity as financial advisor to the Initial Consenting Noteholders.

“Aggregate Principal Payment Amount” means 85% of the aggregate principal amount of all Notes outstanding as at the CCAA Filing Date.

“AIs” means the authorized intermediaries of the Company and/or any of its Subsidiaries.

“Applicable Securities Laws” means all applicable securities, corporate and other laws, rules, regulations, notices and policies in the Provinces of Canada.

“Business Day” means each day other than a Saturday or Sunday or a statutory or civic holiday that banks are open for business in Toronto, Ontario.

“BVI” means the British Virgin Islands.

“Capital Stock” shall have the meaning given to the term in the Note Indentures, as applicable.

“CCAA Filing Date” means the date on which the Initial Order is granted by the Court in respect of the Company pursuant to the CCAA.

“Claim” means any right or claim of any Person against the Company in any capacity, whether or not asserted, in connection with any indebtedness, liability or obligation of any kind whatsoever of the Company, and any interest accrued thereon or costs payable in respect thereof, whether at law or in equity, including arising by reason of the commission of a tort (intentional or unintentional), any breach of duty (including any legal, statutory, equitable or fiduciary duty), any right of ownership of or title to property or assets or to a trust, constructive trust or deemed trust (statutory, express, implied, resulting, or otherwise) against any property or assets, any taxes and together with any security enforcement costs or legal costs associated with any such claim, whether or not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, perfected, unperfected, present, future, known or unknown, by guarantee, by surety, by warranty, or otherwise, and whether or not such right is executory or anticipatory in nature, including any claim arising from or caused by the termination, disclaimer, resiliation, assignment or repudiation by the Company of any contract, lease or other agreement, whether written or oral, any claim made or asserted

against the Company through any affiliate, subsidiary, associated or related person, or any right or ability of any Person to advance a claim for an accounting, reconciliation, contribution, indemnity, restitution or otherwise with respect to any matter, grievance, action (including any class action or proceeding before an administrative tribunal), cause or chose in action, whether existing at present or commenced in the future, and includes, without limitation (i) any other claims of any kind that, if unsecured, would have been claims provable in bankruptcy within the meaning of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 had the Company become bankrupt on the CCAA Filing Date, including any other claims arising from or caused by, directly or indirectly, the implementation of, or any action taken pursuant to, the Initial Order or the CCAA Proceedings, and (ii) Equity Claims.

“**Common Shares**” means the common shares in the capital of the Company.

“**Companies**” means, collectively, the Company and all of the Subsidiaries.

“**Consent Date**” means May 15, 2012.

“**Contingent Value Rights**” means the rights to be issued by Newco to a trustee on behalf of the Junior Constituents pursuant to the Restructuring Transaction and the Plan, pursuant to which the Junior Constituents will receive the right to receive 15% of any amounts realized in excess of \$1.8 billion plus Accrued Interest up to and including the CCAA Filing Date upon a Newco “liquidity event” that occurs, or is deemed to occur, within 7 years of the Implementation Date, which rights shall not be transferable. In lieu of paying any cash amount that may be due to the Junior Constituents in respect of the Contingent Value Rights, Newco shall be entitled to elect to pay in securities of Newco (or the form of consideration being paid to the shareholders of Newco in connection with the Newco “liquidity event”). The definitive terms of the Contingent Value Rights, including the definition of a Newco “liquidity event” shall be determined by the Company and the Initial Consenting Noteholders, acting reasonably.

“**Court**” means the Ontario Superior Court of Justice, Commercial List.

“**Creditor**” means any Person having a Claim and includes, without limitation, the transferee or assignee of a Claim or a trustee, liquidator, receiver, receiver and manager, or other Person acting on behalf of such Person.

“**Data Room**” means the virtual data room maintained by the Company through the facilities of Merrill Corporation, as of March 29, 2012, as the same may be supplemented after the Agreement Date on notice to the Advisors.

“**Equity Claim**” has the meaning set forth in section 2(1) of the CCAA.

“**Equity Interest**” has the meaning set forth in section 2(1) of the CCAA.

“**Excluded Assets**” means cash equal to, and for purposes of, the Funding Amount, the rights of the Company to be transferred to the Litigation Trust and any other assets and rights of the Company that are not transferred to Newco as determined by the Company and the Initial Consenting Noteholders and identified in the Plan.

“Executive Officers” means Judson Martin, Kai Kit Poon, David J. Horsley, Chen Hua, Zhao Wei Mao, Thomas M. Maradin, Xu Ni, Alfred Hung and George Ho.

“Existing Shares” means the Common Shares of the Company issued and outstanding at any applicable time prior to the Effective Time.

“Expense Reimbursement” the reasonable and documented fees and expenses of the Advisors and Conyers, Dill & Pearman LLP, pursuant to their respective engagement letters with the Company, and other advisors as may be agreed to by the Company.

“Final Order” means the order of the Court approving the Plan, which shall be in form and substance satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably, and as the same may be amended by the Court or with the consent of the Company and the Initial Consenting Noteholders, each acting reasonably.

“GAAP” means generally accepted accounting principles as applied in Canada.

“Goodmans” means Goodmans LLP.

“Governmental Entity” means any government, regulatory authority, governmental department, agency, commission, bureau, official, minister, Crown corporation, court, board, tribunal or dispute settlement panel or other law, rule or regulation-making organization or entity: (a) having or purporting to have jurisdiction on behalf of any nation, province, territory or state or any other geographic or political subdivision of any of them; or (b) exercising, or entitled or purporting to exercise any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power.

“Hogan Lovells” means Hogan Lovells LLP.

“Implementation Date” means the date on which the Transaction is implemented.

“Information” means information set forth or incorporated in the Companies’ public disclosure documents filed with the applicable securities regulators under the Securities Legislation, as applicable, since December 31, 2009.

“Initial Consenting Noteholders” means the Consenting Noteholders who executed this Agreement on the date written on the first page of this Agreement.

“Initial Order” means the initial order of the Court to be entered in the CCAA Proceedings, which shall be in form and substance satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably, and as the same may be amended by the Court or with the consent of the Company and the Initial Consenting Noteholders, each acting reasonably.

“Intellectual Property” means: (i) Canadian and non-Canadian patents, and applications for either including divisional and continuation patents; (ii) registered and unregistered trade-marks, logos and other indicia of origin, pending trade-mark registration applications, and proposed use application or similar reservations of marks, and all goodwill associated therewith; (iii) registered and unregistered copyrights, including all copyright in and to computer software

programs, and applications for and registration of such copyright (including all copyright in and to the Companies' websites); (iv) world wide web addresses and internet domain names, applications and reservations for world wide web addresses and internet domain names, uniform resource locators and the corresponding internet sites; (v) industrial designs; and (vi) trade secrets and proprietary information not otherwise listed in (i) through (v) above, including all inventions (whether or not patentable), invention disclosures, moral and economic rights of authors and inventors (however denominated), confidential information, technical data, customer lists, corporate and business names, trade names, trade dress, brand names, know-how, formulae, methods (whether or not patentable), designs, processes, procedures, technology, business methods, source codes, object codes, computer software programs (in either source code or object code form), databases, data collections and other proprietary information or material of any type, and all derivatives, improvements and refinements thereof, howsoever recorded, or unrecorded.

"Junior Constituent" means any Person holding a Claim (including an Equity Claim) or right against the Company which is, either pursuant to any contract or otherwise pursuant to any applicable law (including, without limitation, the CCAA) subordinate in priority to the Noteholder Claims or otherwise not entitled to any distribution pursuant to the Plan until the Noteholder Claims have been paid in full, but only in respect of such Claim or right of such Person.

"Law" or **"Laws"** means any law, statute, order, decree, consent decree, judgment, rule regulation, ordinance or other pronouncement having the effect of law whether in Canada, the United States, Hong Kong, the PRC, or any other country, or any domestic or foreign state, county, province, city or other political subdivision or of any Governmental Entity.

"Litigation Trust" means the litigation trust to be established pursuant to the Plan pursuant to which all claims of the Company and its Subsidiaries against any Person shall be transferred on the Implementation Date, the terms and conditions of which (including without limitation, as to the selection of counsel, the trustee, governance, the allocation of funding among claims to be pursued, and provisions prohibiting claims over or any liability against the Company, its Subsidiaries, Newco or its subsidiaries) shall be satisfactory to the Company and the Initial Consenting Noteholders, acting reasonably.

"Material" means a fact, circumstance, change, effect, matter, action, condition, event, occurrence or development that, individually or in the aggregate, is, or would reasonably be expected to be, material to the business, affairs, results of operations or financial condition of the Companies (taken as a whole).

"Material Adverse Effect" means a fact, event, change, occurrence, circumstance or condition that, individually or together with any other event, change or occurrence, has or would reasonably be expected to have a material adverse impact on the assets, condition (financial or otherwise), business, liabilities, obligations (whether absolute, accrued, conditional or otherwise) or operations of the Companies (taken as a whole); provided, however, that a Material Adverse Effect shall not include and shall be deemed to exclude the impact of any fact, event, change, occurrence, circumstance or condition resulting from or relating to: (A) changes in Laws of general applicability or interpretations thereof by courts or Governmental Entities or regulatory

authorities, which changes do not have a Material disproportionate effect on the Companies (taken as a whole), (B) any change in the forestry industry generally, which does not have a Material disproportionate effect on the Companies (taken as a whole) (relative to other industry participants operating primarily in the PRC), (C) actions and omissions of any of the Companies required pursuant to this Agreement or taken with the prior written consent of the Initial Consenting Noteholders, (D) the effects of compliance with this Agreement, including on the operating performance of the Companies, (E) the negotiation, execution, delivery, performance, consummation, potential consummation or public announcement of this Agreement or the transactions contemplated by this Agreement, (F) any change in U.S. or Canadian interest rates or currency exchange rates unless such change has a Material disproportionate effect on the Companies (taken as a whole), and (G) general political, economic or financial conditions in Canada, the United States, Hong Kong or the PRC, which changes do not have a Material disproportionate effect on the Companies (taken as a whole).

“Meeting Order” means the Order of the Court establishing the procedures for voting on the Plan, which shall be in form and substance satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably, and as the same may be amended by the Court or with the consent of the Company and the Initial Consenting Noteholders, each acting reasonably.

“Moelis” means, collectively, Moelis & Company LLC and Moelis and Company Asia Limited, in their capacity as financial advisor to the Initial Consenting Noteholders.

“Monitor” means the monitor to be appointed by the Court pursuant to the Initial Order.

“New Management Plan” means the new management incentive plan and director compensation plan in respect of Newco, on terms and conditions acceptable to the Initial Consenting Noteholders.

“Newco Shares” means the common shares of Newco that are issued and outstanding as of the Effective Time.

“Note Indentures” means collectively the 2013 Note Indenture, the 2014 Note Indenture, the 2016 Note Indenture, and the 2017 Note Indenture.

“Noteholder Claim” means any Claim of any Person (including, without limitation, any current or former Noteholder or trustee, agent or intermediary) in respect of or in relation to the Notes, including without limitation, all principal, Accrued Interest and any other amounts payable pursuant to the Notes, the Note Indentures and any agreement or instrument pursuant or ancillary thereto (including any security or pledge in respect thereof), and any claims or rights of any Person against any Subsidiary under, pursuant to or in respect of any guarantee, indemnity or similar agreement in respect of the Notes.

“Noteholder Confidentiality Agreements” means, collectively, any and all the confidentiality and non-disclosure agreements that have been entered into and are binding upon a Consenting Noteholder and the Company.

“Noteholders” means, collectively, the holders of the Notes, and **“Noteholder”** means any

individual holder of any of the Notes.

“**Notes**” means, collectively, the 2013 Notes, the 2014 Notes, the 2016 Notes, and the 2017 Notes.

“**Ordinary Course**” means, with respect to an action taken or to be taken by the Company, or any of its Subsidiaries, that such action is consistent with the past practices of the Company, or the particular Subsidiary or Subsidiaries, as applicable, and was taken or is to be taken in the ordinary course of the normal day-to-day operations of the Company, or those particular Subsidiaries or Subsidiary, as applicable.

“**Other Affected Creditors**” means any Creditor (for greater certainty, not including Junior Constituents) other than: (i) a Creditor who has a Noteholder Claim, but only in respect of and to the extent of such Noteholder Claim, or (ii) a Creditor who has an Unaffected Claim, but only in respect of and to the extent of such Unaffected Claim.

“**Outside Date**” means November 30, 2012, as the same may be amended with the consent of the Initial Consenting Noteholders.

“**Person**” means any individual, sole proprietorship, limited or unlimited liability corporation, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, body corporate, joint venture, trust, pension fund, union, Governmental Entity, and a natural person including in such person’s capacity as trustee, heir, beneficiary, executor, administrator or other legal representative.

“**Plan**” means the plan of compromise or arrangement to be filed by the Company under the CCAA and, if determined necessary or advisable by the Company in conjunction with the CCAA Plan, and with the consent of the Advisors, the *Canada Business Corporations Act* for purposes of implementing the Restructuring Transaction or the Sale Transaction, as the case may be and in each case in accordance with the Transaction Terms, and as the same may be amended by the Court or with the consent of the Company and the Initial Consenting Noteholders, each acting reasonably.

“**PRC**” means the People’s Republic of China.

“**Pro Rata**” means, unless otherwise defined in the Agreement, (i) in the case of a Noteholder, the principal amount of Notes held by such Noteholder as of the Record Date in relation to the aggregate principal amount of Notes held by all Noteholders as of the Record Date, and (ii) in the in the case of a Consent Date Noteholder, the principal amount of Notes held by such Consent Date Noteholder as of the Record Date in relation to the aggregate principal amount of Notes held by all Consent Date Noteholders as of the Record Date.

“**Record Date**” means the record date for Noteholder Claims and Claims of Other Affected Creditors to be established in the CCAA Proceedings, which date shall be acceptable to the Company and the Initial Consenting Noteholders, each acting reasonably.

“**Restricted Subsidiary**” shall have the meaning given to the term in the Note Indentures, as applicable.

“Restructuring Transaction” means the restructuring transaction described by Section 1(a) hereof pursuant to which the restructuring of the Company is to be effectuated pursuant to, and in accordance with, the Plan and this Agreement.

“SAFE” means State Administration of Foreign Exchange (China).

“Sale Process Order” means the order of the Court approving the Sale Process Procedures, substantially in the form appended as **Schedule D** hereto, which shall be in form and substance satisfactory to the Company and the Initial Consenting Noteholders, each acting reasonably, and as the same may be amended by the Court or with the consent of the Company and the Initial Consenting Noteholders, each acting reasonably.

“Sale Process Procedures” means the sale and investor solicitation procedures for the sale of all or substantially all of the assets of the Company appended to the Sale Process Order as Schedule “A” which shall in form and substance be satisfactory to the Initial Consenting Noteholders, acting reasonably, and as the same may be amended by the Court or with the consent of the Company and the Initial Consenting Noteholders.

“Secured Newco Note” means that certain secured note (or other debt instrument) to be issued by Newco on the Implementation Date under an indenture (or other similar instrument), on terms and conditions acceptable to the Initial Consenting Noteholders, and in form and substance satisfactory to the Company, and as the same may be amended in accordance with its terms.

“Securities Legislation” means all applicable Laws, regulations, rules, policies or instruments of any securities commission, stock exchange or like body in Canada, the United States, Hong Kong or the PRC.

“Subsidiaries” means all direct and indirect subsidiaries of the Company (including the Direct Subsidiaries and the subsidiaries thereof), except for Greenheart Group Limited and its subsidiaries.

“Termination Date” means the date on which this Agreement is terminated in accordance with the provisions hereof.

“Transaction” means the Restructuring Transaction or the Sale Transaction, as the case may be.

“Transaction Terms” means the terms set out in Section 1 of this Agreement.

“Trustee” means each of the 2014 and 2017 Trustee and the 2013 and 2016 Trustee.

“Unaffected Claims” means (i) any Claims of any employee, officer or director of the Company in respect of any wages, vacation pay, bonuses or other remuneration payable to such Person by the Company; (ii) any Claims in respect of which a Charge is granted pursuant to the Initial Order; (iii) any Claim required to be paid in priority to Noteholder Claims, including in accordance with section 6(3), (5) or (6) of the CCAA; and (iv) any Claim, other than a Noteholder Claim, which is secured by a lien or encumbrance on the property of the Company, which lien is valid, perfected and enforceable pursuant to applicable law, to the extent of and limited to the value of such property.

“Voting Deadline” means the date on which votes are due in respect of the Plan, as established by the Meeting Order to be entered in the CCAA proceedings, as the same may be amended by Order of the Court or with the consent of the Company and the Initial Consenting Noteholders, each acting reasonably.

SCHEDULE C**JOINDER AGREEMENT**

This Joinder to the Support Agreement (this “**Joinder Agreement**”) is made as of _____, 2012, by and among _____ (the “**Consenting Party**”), the Company (as defined below) and the Direct Subsidiaries (as defined therein) in consideration of the mutual covenants herein contained and benefits to be derived herefrom.

WITNESSETH:

WHEREAS, reference is made to a certain Support Agreement dated as of March 30, 2012 by and among the Initial Consenting Noteholders (as defined therein), the Direct Subsidiaries (as defined therein) and Sino-Forest Corporation (the “**Company**”), as amended, modified, supplemented or restated and in effect from time to time, the “**Support Agreement**”). All capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Support Agreement;

WHEREAS, the Consenting Party desires to become a party to, and to be bound by the terms of, the Support Agreement; and

WHEREAS, pursuant to the terms of the Support Agreement, in order for the Consenting Party to become party to the Support Agreement, the Consenting Party is required to execute this Joinder Agreement;

NOW, THEREFORE, in consideration of the premises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Joinder and Assumption of Obligations

Effective as of the date of this Joinder Agreement, the Consenting Party hereby acknowledges that the Consenting Party has received and reviewed a copy of the Support Agreement, and hereby:

- (a) acknowledges and agrees to:
 - (i) join in the execution of, and become a party to, the Support Agreement as a Consenting Noteholder thereunder, as indicated with its signature below;
 - (ii) subject to subsection (iii) below, be bound by all agreements of the Consenting Noteholders under the Support Agreement with the same force and effect as if such Consenting Party was a signatory to the Support Agreement and was expressly named as a party therein; and
 - (iii) assume all rights and interests and perform all applicable duties and obligations of the Consenting Noteholders under the Support Agreement

other than those expressed therein to be solely the rights, interests, duties and obligations of the Initial Consenting Noteholders; and

- (b) confirms each representation and warranty of the Consenting Noteholders under the Support Agreement with the same force and effect as if such Consenting Party was a signatory to the Support Agreement and was expressly named as a party therein.

2. Binding Effect

Except as specifically amended by this Joinder Agreement, all of the terms and conditions of the Support Agreement shall remain in full force and effect as in effect prior to the date hereof.

3. Miscellaneous

- (a) This Joinder Agreement may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, and all of which together shall constitute one instrument. Delivery of an executed signature page of this Joinder Agreement by email or facsimile transmission will be effective as delivery of a manually executed counterpart hereof.
- (b) This Joinder Agreement expresses the entire understanding of the parties with respect to the transactions contemplated hereby. No prior negotiations or discussions shall limit, modify, or otherwise affect the provisions hereof.
- (c) Any determination that any provision of this Joinder Agreement or any application hereof is invalid, illegal or unenforceable in any respect and in any instance shall not affect the validity, legality, or enforceability of such provision in any other instance, or the validity, legality or enforceability of any other provisions of this Joinder Agreement.
- (d) This Joinder Agreement shall be governed by, construed and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein (excluding any conflict of laws rule or principle which might refer such construction to the laws of another jurisdiction) and all actions or proceedings arising out of or relating to this Joinder Agreement shall be heard and determined exclusively in the courts of the Province of Ontario.

[Signature Pages Follow]

STRICTLY CONFIDENTIAL

Accepted and agreed to as of the date first above written.

SINO-FOREST CORPORATION

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-PANEL HOLDINGS LIMITED

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-GLOBAL HOLDINGS INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-PANEL CORPORATION

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-WOOD PARTNERS, LIMITED

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-CAPITAL GLOBAL INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

**SINO-FOREST INTERNATIONAL
(BARBADOS) CORPORATION**

By: _____
Name:
Title:

By: _____
Name:
Title:

SINO-FOREST RESOURCES INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

SCHEDULE D

FORM OF SALE PROCESS ORDER

TAB 6

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 COMPROMISE OR
ARRANGEMENT OF SINO-FOREST CORPORATION**

AFFIDAVIT OF DANIEL E. H. BACH

I, Daniel E. H. Bach, of the City of Toronto, in the Province of Ontario, MAKE OATH
AND SAY:

1. I am a lawyer in the class actions department of Siskinds LLP ("Siskinds"), co-counsel for the plaintiffs (the "Plaintiffs") in the class proceeding styled *Trustees of the Labourers' Pension Fund of Central and Eastern Canada v Sino-Forest Corporation et al.*, bearing (Toronto) Court File No. CV-11-431153-00CP (the "Ontario Class Action").
2. As such, I have knowledge of the matters to which I hereinafter depose. Where that knowledge is based on information obtained from others, I have so indicated and believe that information to be true.
3. I swear this affidavit in support of the Plaintiffs' motion for an order, *inter alia*, terminating these proceedings under the *Companies' Creditors Arrangement Act* ("CCAA") and appointing a receiver of the assets, undertakings and properties of Sino-



Forest Corporation ("Sino"). No portion of this affidavit is meant to waive, nor should it be construed as a waiver of, solicitor-client, litigation or any other privilege.

CLASS ACTION LITIGATION INVOLVING SINO

The Ontario Class Action

Overview of the Ontario Class Action

4. On July 20, 2011, the Trustees of the Labourers' Pension Fund and the Trustees of the International Union of Operating Engineers commenced the Ontario Class Action by way of a notice of action. In addition to Sino, the action names 25 defendants, including Sino's former auditors, various underwriters and a forestry valuation company.
5. By way of a notice of action issued on November 14, 2011, Messers. Grant and Wong commenced an action (the "Grant-Wong Action"), arising out of the same facts, against Sino and certain of the other individual and corporate defendants.
6. On December 13, 2011, the plaintiffs in the Grant-Wong Action filed a statement of claim.
7. On January 6, 2012, the Honourable Justice Perell granted the Plaintiffs carriage of the Ontario Class Action, and consolidated the Ontario Class Action and the Grant-Wong Action.
8. On direction from court staff, the Plaintiffs filed an amended notice of action and a statement of claim on January 26, 2012 (the "Claim"). A copy of the Claim is attached and marked as Exhibit "Y" to the affidavit of Judson Martin, sworn March 30, 2012, which Sino has filed in this proceeding (the "Martin Affidavit").

9. Following the filing of the Claim on January 26, 2012, we undertook to Justice Perell, the case management judge assigned to the Ontario Class Action, to serve and file by no later than April 2, 2012 our clients' motions for certification (the "Certification Motion") under the *Class Proceedings Act, 1992* (the "CPA") and for leave to assert the statutory cause of action for secondary market misrepresentation (the "Leave Motion") under Part XXIII.1 of the *Ontario Securities Act* (the "OSA"). The Plaintiffs brought a motion seeking to have the Certification Motion and Leave Motions heard in late August 2012. This motion was scheduled for March 22, 2012.
10. However, on February 16, 2012, the Ontario Court of Appeal issued its decision in *Sharma v Timminco Limited*, 2012 ONCA 107 (CanLII). In that decision, the Court held, in essence, that the limitation period under Part XXIII.1 of the *OSA* was not tolled in that action by the filing of a pleading wherein the plaintiff declared an intention to seek leave to assert the Part XXIII.1 cause of action (as the Plaintiffs have done from the outset of the Ontario Class Action).
11. Immediately following the issuance of the *Timminco* decision, out of an abundance of caution, Dimitri Lascaris of Siskinds LLP wrote to counsel to those of the defendants in the Ontario Class Action against whom a Part XXIII.1 claim is sought to be asserted (the "Leave Defendants"), and requested that they enter into a tolling agreement, failing which the Plaintiffs would seek to have the Leave Motion heard on March 22, 2012.
12. On March 2, 2012, by which time none of the Leave Defendants had agreed to toll the Part XXIII.1 limitation period, we served upon counsel to the Leave Defendants the Plaintiffs' motion record in support of the Leave Motion. Pursuant to Part XXIII.1 of the *OSA*, a copy of that motion record was also served upon the Ontario Securities

Commission (the "OSC"). Attached and marked as **Exhibit "A"** is a disk containing an electronic copy of the motion record filed by the Plaintiffs in support of the Leave Motion.

13. On March 6, 2012, the Leave Defendants entered into a tolling agreement with the Plaintiffs. Pursuant to the tolling agreement, the parties agreed that the running of time for the purpose of asserting Part XXIII.1 claims was to be suspended as of March 6, 2012 until February 28, 2013. On that basis, the Plaintiffs agreed to postpone the hearing of the Leave Motion and Certification Motion until a date in the summer or fall of 2012 so that the defendants would have time to prepare responding materials and allow for full preparation.
14. The expiration date of February 28, 2013 was carefully crafted by the parties in the Ontario Class Action with the assistance of the Honourable Justice Perell in order for the Leave Motion to be prepared and heard, and for a decision to be rendered by him, before the expiration of the tolling agreement. As such, any interruption or delay to the timetable will have a pass-on effect, with the result being that the decision on the Leave Motion might not be released before February 28, 2013. This puts the Class Members at risk of having some or all of their claims extinguished as a result of the potential expiry of a limitation period.
15. In support of their Leave Motion, the Plaintiffs filed a proposed Fresh as Amended Statement of Claim (the "Amended Claim"). The Amended Claim, which will be filed with the Court in accordance with the reasons of Justice Perell, is different from the Claim. Among other things, the Amended Claim incorporates information revealed to the public for the first time by the special committee established by Sino's Board to

investigate the Muddy Waters allegations (the "SC"). It also incorporates information obtained through our own, ongoing, investigation and analysis, which was aided by various experts, and which was also aided by investigators based in Hong Kong. A copy of the Amended Claim is marked and attached as **Exhibit "B"**.

16. The Amended Claim alleges that Sino, certain of its officers and directors, its auditors, and its underwriters made material misrepresentations regarding the operations, revenues, net income and assets of Sino. The Claim seeks an aggregate of \$9.2 billion in damages and is brought on behalf of:

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

17. The Amended Claim defines "Excluded Persons" as 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.
18. The Amended Claim defines the Class Period as "the period from and including March 19, 2007 to and including June 2, 2011."

The Evidence Supporting the Leave Motion

19. The Part XXIII.1 cause of action which the Plaintiffs principally seek to assert is set forth in s. 138.3(1) of the *OSA*, which states in part:

138.3(1) Where a responsible issuer or a person or company with actual, implied or apparent authority to act on behalf of a responsible issuer releases a document that contains a misrepresentation, a person or company who acquires or disposes of the issuer's security during the period between the time when the document was released and the time when the misrepresentation contained in the document was publicly corrected has, without regard to whether the person or company relied on the misrepresentation, a right of action for damages against,

- (a) the responsible issuer;
- (b) each director of the responsible issuer at the time the document was released;
- (c) each officer of the responsible issuer who authorized, permitted or acquiesced in the release of the document;
- [...]
- (e) each expert where,
 - (i) the misrepresentation is also contained in a report, statement or opinion made by the expert,
 - (ii) the document includes, summarizes or quotes from the report, statement or opinion of the expert, and
 - (iii) if the document was released by a person or company other than the expert, the expert consented in writing to the use of the report, statement or opinion in the document.

20. Under s. 138.8(1) of the *OSA*, an action may be commenced under Part XXIII.1 only with leave of the Court, which shall be granted if (1) the plaintiff is acting in good faith; and (2) there is a reasonable possibility that the action will be resolved at trial in favour of the plaintiff. Section 138.8 (2) of the *OSA* stipulates that, in an application for leave, the plaintiff and each defendant shall serve and file one or more affidavits setting forth the material facts upon which each intends to rely.
21. In support of the Leave Motion, the Plaintiffs have filed the following affidavits, all of which were served on counsel to Mr. Martin approximately four weeks before he swore the Martin Affidavit:

- (a) One affidavit from each of the five plaintiffs;
 - (b) An affidavit sworn by me, to which is attached, among other things, a large number of Sino disclosure documents, and which also touches upon other matters, including Sino's historical results as compared to the results of its peers;
 - (c) An affidavit from Steven Chandler, a former senior law enforcement official from Hong Kong (the "Chandler Affidavit");
 - (d) An affidavit of Alan Mak, an expert in forensic accounting from the Toronto-based firm of Rosen & Associates;
 - (e) An affidavit of Dennis Deng, a lawyer qualified to practice in the PRC, and a partner in a law firm that is one of Beijing's leading law firms and is also one of China's largest law firms (the "Deng Affidavit"); and
 - (f) An affidavit of Carol-Ann Tjon-Pian-Gi, a lawyer qualified to practice in the Republic of Suriname (the "Tjon-Pian-Gi Affidavit").
22. Below I summarize the four affidavits on which the Plaintiffs principally rely to establish the merits of their proposed Part XXIII.1 claims.

The Chandler Affidavit

23. Among other things, Mr. Chandler examined various business records that had been filed with the Administration of Industry and Commerce of the PRC (the "AIC"), as well as certain filings with the Courts of Hong Kong. Based in part upon that examination, Mr. Chandler found, *inter alia*, that:

- (a) A company from which Sino had claimed to have generated substantial sales was in fact a shell and never did any business from the time of its establishment;
- (b) Neither Sino nor any of its subsidiaries appeared to have an interest in a Shanghai-based company of which Sino claimed to be part-owner;
- (c) Sino failed to disclose that one of its officers was a major shareholder of a subsidiary of Homix Limited (a company discussed in the Martin Affidavit) at the time that Homix was acquired by Sino; and

- (d) Contrary to statements made in the Final Report of the SC, maps are in fact allowed and have been widely used in the PRC for at least the last three years.

The Tjon-Pian-Gi Affidavit

24. Ms. Tjon-Pian-Gi opines on Sino's assertion that one of its subsidiaries, The Greenheart Group ("Greenheart"), was granted well in excess of 150,000 hectare of forestry concessions in the Republic of Suriname. Ms. Tjon-Pian-Gi's opinion undermines this assertion or, at a minimum, constitutes evidence that Greenheart's concessions may not be compliant with the laws of Suriname. In particular, the *Forest Management Act* of the Republic of Suriname prohibits a person or legal entity, or various legal entities in which a person or legal entity has a majority interest, from being granted more than 150,000 hectares of forestry concessions.

The Deng Affidavit

25. In essence, Mr. Deng opines, *inter alia*, that:
- (a) It is unlawful in the PRC, and potentially punishable with severe criminal penalties, for forestry companies or their representatives to give gifts to employees of forestry bureaus (the SC disclosed that "there are indications in emails and in interviews with [Sino] Suppliers that gifts and cash payments are made to forestry bureaus and forestry bureau officials");
 - (b) Sino's BVI subsidiaries are likely engaging in "business activities" in the PRC in violation of PRC law, and the unauthorized conduct of "business activities" in the PRC is potentially punishable with severe penalties;
 - (c) It is likely that certain of Sino's authorized intermediaries and suppliers refused to produce requested documentation to the SC because that documentation may demonstrate that they were engaging in illegal tax evasion; and
 - (d) In the PRC, standing timber may not be purchased without purchasing land use rights, and because foreign forestry companies are not allowed to purchase land use rights, the standing timber purchase contracts entered into by Sino's BVI subsidiaries are void and unenforceable under PRC law.

The Mak Affidavit

26. Essentially, Mr. Mak opines, *inter alia*, that:
- (a) From an accounting and financial reporting perspective, and based on publicly available information (including the SC's reports), sufficient appropriate evidence does not exist to justify Sino's reporting of timber assets and revenues for the vast majority of Sino's standing timber activities in 2006 to 2010;
 - (b) The annual audited financial statements of Sino for much or all of the period 2005-2010 should not have been issued to the public;
 - (c) The legal ownership and occurrence of *bona fide* economic transactions have not been established by Sino or by the investigation of the SC;
 - (d) Given the 'closed circuit' nature of Sino's standing timber business model, a serious possibility (if not high probability) is that Sino's entire standing timber business is an accounting fiction;
 - (e) Sino's timber assets, revenues and profits from at least 2006 to 2010 were grossly overstated;
 - (f) In direct contravention of Canadian GAAP, Sino grossly overstated its "cash flows from operating activities," a figure that is extensively relied upon by financial analysts to compute valuations of the company; and
 - (g) Ernst & Young and BDO failed to conduct their audits in accordance with Generally Accepted Auditing Standards, and failed to detect material misstatements in Sino's financial statements.

The Proposed Representative Plaintiffs in the Ontario Class Action

27. The trustees of the Labourer's Pension Fund of Central and Eastern Canada ("Labourers") are proposed representative plaintiffs in the Ontario Class Action. Labourers' is a multi-employer pension plan providing benefits for employees working in the construction industry. The fund is a union-negotiated, collectively-bargained defined benefit pension plan established on February 23, 1972 and currently has approximately \$2 billion in

assets, over 39,000 members, over 13,000 pensioners and beneficiaries and approximately 2,000 participating employers. A board of trustees representing members of the plan governs the fund. The plan is registered under the *Pension Benefits Act*, RSO 1990, c P.8 and the *Income Tax Act*, RSC 1985, 5th Supp, c.1. Labourers' purchased Sino's common shares over the TSX during the Class Period and continued to hold shares at the end of the Class Period. In addition, Labourers purchased Sino's common shares pursuant to a prospectus and in the distribution to which that prospectus related.

28. The trustees of the International Union of Operating Engineers ("Operating Engineers") are proposed representative plaintiffs in this action. Operating Engineers is a multi-employer pension plan providing pension benefits for operating engineers in Ontario. The pension plan is a union-negotiated, collectively-bargained defined benefit pension plan established on November 1, 1973 and currently has approximately \$1.5 billion in assets, over 9,000 members and pensioners and beneficiaries. The fund is governed by a board of trustees representing members of the plan. The plan is registered under the *Pension Benefits Act*, RSO 1990, c P.8 and the *Income Tax Act*, RSC 1985, 5th Supp, c.1. Operating Engineers purchased Sino's common shares over the TSX during the Class Period, and continued to hold shares at the end of the Class Period.
29. Sjunde AP-Fonden ("AP7") is the Swedish National Pension Fund. As of June 30, 2011, AP7 had approximately \$15.3 billion in assets under management. Funds managed by AP7 purchased Sino's common shares over the TSX during the Class Period and continued to hold those common shares at the end of the Class Period.
30. David Grant is 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 those Notes at the end of the Class Period.

31. Robert Wong is an individual residing in Kincardine, Ontario. During the Class Period, he purchased Sino's common shares over the TSX and continued to hold some or all of such shares at the end of the Class Period. In addition, Mr. Wong purchased Sino common shares pursuant to a prospectus and continued to own those shares at the end of the Class Period.
32. Collectively, the Plaintiffs held in excess of 1.1 million Sino shares and 100 Sino notes at the end of the class period (on June 2, 2011).

Other Class Members' Involvement in the Ontario Class Action.

33. Our firm was recently retained by U.S.-based Davis Selected Advisors L.P. ("Davis") in connection with, among other matters, the Ontario Class Action and this proceeding. Davis held approximately 31 Sino million shares, or 12.6% of Sino's outstanding shares, as of April 29, 2011, as well as various notes of Sino-Forest. I understand that that Davis is currently Sino's second largest shareholder.
34. Davis has instructed us to advise this Honourable Court that it completely supports the granting of the relief sought in this motion.
35. In addition, on April 10, 2012, I spoke to Richard Edlin of Greenberg Traurig, counsel to U.S.-based Paulson & Co. ("Paulson"). I understand that Paulson held approximately 34 million Sino shares, or 14.1% of Sino's outstanding shares, as of April 29, 2011, but that Paulson sold its Sino stake in June 2011, after publication of the initial Muddy Waters

report. Mr. Edlin advised me that Paulson completely supports the granting of the relief sought in this motion.

36. Finally as of April 11, 2012 Siskinds and Siskinds Desmeules had been contacted by 311 putative class members, and Koskie Minsky had been contacted by 204 putative class members.

The Defendants

37. Sino purports to be a commercial forest plantation operator in the People's Republic of China and elsewhere. Sino is a corporation formed under the *CBCA*. At material times relevant to the Ontario Class Action, Sino was a reporting issuer in all provinces of Canada, and had its registered office located in Mississauga, Ontario. At the material times, Sino's shares were listed for trading on the TSX under the ticker symbol "TRE," on the Berlin exchange as "SFJ GR," on the over-the-counter market in the United States as "SNOFF" and on the Tradedgate market as "SFJ TH." Sino securities were also listed on alternative trading venues in Canada and elsewhere including, without limitation, AlphaToronto and PureTrading. Sino's shares also traded over-the-counter in the United States. Sino has various debt instruments, derivatives and other securities that are traded in Canada and elsewhere.
38. Allen Chan is a co-founder of Sino, and was the Chairman, Chief Executive Officer and a director of the company from 1994 until his resignation from those positions on or about August 25, 2011.
39. David Horsley is Sino's Chief Financial Officer, and has held this position since October 2005. Mr. Horsley resides in Ontario.

40. Kai Kit Poon is a co-founder of Sino, and has been the President of the company since 1994. He was a director of Sino from 1994 to May 2009, and he continues to serve as Sino's President. Mr. Poon resides in Hong Kong, China.
41. Peter Wang is a director of Sino, and has held this position since August 2007. Mr. Wang resides in Hong Kong, China.
42. Judson Martin has been a director of Sino since 2006, and was appointed vice-chairman in 2010. On or about August 25, 2011, Mr. Martin replaced Allen Chan as Chief Executive Officer of Sino. Mr. Martin was a member of Sino's audit committee prior to early 2011. He resides in Hong Kong, China.
43. Edmund Mak is a director of Sino and has held this position since 1994. Mr. Mak was a member of Sino's audit committee prior to early 2011. Mr. Mak resides in British Columbia.
44. Simon Murray is a director of Sino and has held this position since 1999. Mr. Murray resides in Hong Kong, China.
45. James M.E. Hyde is a director of Sino, and has held this position since 2004. Mr. Hyde was previously a partner of the defendant, Ernst & Young. He is the chairman of Sino's Audit Committee and a member of the Compensation and Nominating Committee. Mr. Hyde resides in Ontario.
46. William E. Ardell is a director of Sino, and has held this position since January 2010. Mr. Ardell is a member of Sino's audit committee. He resides in Ontario.

47. James P. Bowland was a director of Sino from February 2011 until his resignation from the Board of Sino in November 2011. While on Sino's Board, Mr. Bowland was a member of Sino's Audit Committee. He was formerly an employee of a predecessor to Ernst & Young. Mr. Bowland resides in Ontario.
48. Mr. Bowland was initially a member of the SC. However, on November 4, 2011, in the middle of the SC's investigation into the Muddy Waters allegations, Sino issued a press release announcing that Mr. Bowland had resigned as a director of Sino. No reasons were given in that press release for his resignation. Attached and marked as **Exhibit "C"** is a copy of the November 4, 2011 press release.
49. Garry J. West is a director of Sino, and has held this position since February 2011. Mr. West was previously a partner at the defendant, Ernst & Young. Mr. West is a member of Sino's Audit Committee. He resides in Ontario.
50. Ernst & Young was engaged as Sino's auditor from August 13, 2007 to April 4, 2012. Ernst & Young was also engaged as Sino's auditor from Sino's creation through February 19, 1999, when Ernst & Young resigned during audit season and was replaced by the now-defunct Arthur Andersen LLP. Ernst & Young was also Sino's auditor from 2000 to 2004, when it was replaced by BDO Limited.
51. BDO Limited is the successor of BDO McCabe Lo Limited, the Hong Kong, China based auditing firm that was engaged as Sino's auditor during the period of March 21, 2005 through August 12, 2007, when they resigned at Sino's request, and were replaced by Ernst & Young.

52. Pöyry (Beijing) Consulting Company Limited is an international forestry consulting firm which purported to provide certain forestry consultation services to Sino.
53. A number of underwriters are also named as defendants in the Amended Claim. These underwriters include Banc of America Corporation, Cannacord Financial Ltd., CIBC World Markets Inc., Credit Suisse Securities (Canada) Inc., Credit Suisse (USA) LLC, Dundee Securities Corp., Maison Placements Canada Inc., Merrill Lynch Canada Inc., RBC Dominion Securities Inc., Scotia Capital Inc., and TD Securities Inc.
54. The various defendants are represented in the Ontario Class Action by the following firms:
- (a) Bennett Jones LLP – Sino, Edmund Mak, Simon Murray, Judson Martin, Kai Kit Poon, Peter Wang;
 - (b) Wardle Daley Bernstein LLP – David Horsley;
 - (c) Miller Thomson – Allen Chan;
 - (d) Osler, Hoskin & Harcourt LLP – William Ardell, James Bowland, James Hyde, Garry West;
 - (e) Lenczner Slaght Royce Smith Griffin LLP – Ernst & Young LLP;
 - (f) Affleck Greene McMurtry LLP – BDO Limited;
 - (g) Baker & McKenzie LLP – Pöyry (Beijing) Consulting Company Limited; and
 - (h) Torys LLP – all Underwriters.

*Other Class Proceedings*Parallel Ontario Actions

55. On June 6, 2011, the law firm of Rochon Genova LLP commenced an action (the "Smith Action") against Sino and certain other defendants arising out of the same set of allegations as those advanced in this action.
56. On September 26, 2011, the law firm of Kim Orr Barristers commenced an action (the "Northwest Action") against Sino and certain other defendants arising out of the same set of allegations as those advanced in this action.
57. By an order dated January 6, 2012, Justice Perell stayed the Smith Action and the Northwest Action, and carriage of the action was granted to the Plaintiffs. A copy of those reasons are marked and attached as **Exhibit "D"**.

Parallel Quebec Action

58. On June 9, 2011, Siskinds Desmeules, a Quebec City law firm affiliated with Siskinds, filed a petition for an order authorizing the bringing of a class action and granting the status of representative in the Quebec Superior Court (the "Quebec Proceeding"). The petition in the Quebec Proceeding defines the proposed Class as:

all persons or entities domiciled in Quebec (other than 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 an immediate member of the families of the individual named defendants) who purchased or otherwise acquired, whether in the secondary market, or under a prospectus or other offering document in the primary market, equity, debt or other securities of or relating to Sino-Forest Corporation, from and including March 19, 2007 to and including June 2, 2011.

59. I am advised by Simon Hebert, the lawyer at Siskinds Desmeules with carriage of the Quebec Proceeding, that he anticipates that, prior to the hearing of the Quebec Proceeding, the class definition will be revised so that it is limited to Quebec residents eligible to participate in a class proceeding under the Quebec *Code of Civil Procedure*, which expressly excludes entities employing more than 50 persons from participating in a class proceeding.
60. By virtue of our relationship with Siskinds Desmeules, we believe we can coordinate the progress of the Quebec Proceeding and the Ontario Class Action in a complimentary and efficient manner.

Parallel United States Action

61. On January 27, 2012, the Washington, DC-based law firm of Cohen Milstein Sellers & Toll PLLC commenced a proposed class action against Sino and certain other defendants in the New York Supreme Court (the "U.S. Action"). The U.S. Action defines the proposed class as:
- (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.
62. I am not aware of any material steps having been taken by the plaintiff in the U.S. Action to advance that action.
63. To my knowledge, Sino has no offices or operations in the United States.

Parallel Saskatchewan Action

64. On December 1, 2011 the Merchant Law Group LLP commenced a proposed class action against Sino and certain other defendants in the Saskatchewan Court of Queen's Bench styled as *Haigh v Sino-Forest Corporation* (the "Saskatchewan Action"). The proposed class in the Saskatchewan Action is defined as:

All persons and entities wherever they may reside who acquired securities of Sino during the Class Period either by primary distribution in Canada or an acquisition on the TSX or other secondary market in Canada, other than 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 an immediate family member of an Individual Defendant.

65. I am not aware of any material steps having been taken by the plaintiff in the Saskatchewan Action to advance that action.
66. To my knowledge, Sino has no offices or operations in the Province of Saskatchewan.
67. I am not aware of any other civil actions having been commenced in Canada or elsewhere against any of the Defendants in relation to the facts pleaded in the Claim.

The Status of the Ontario Class Action

Motions Relating to the Ontario Class Action

68. There are currently four motions scheduled to be heard in the Ontario Class Action. These are:
- (a) The Plaintiffs' motion for certification for the purpose of settlement only as against the defendant, Pöyry (Beijing) Consulting Company Limited ("Pöyry"). The Plaintiffs have reached a settlement with Pöyry, and the motion for

certification is brought on consent. The motion is scheduled to be heard on April 17, 2012. In order for this settlement to be effected, it will also have to be approved by way of motion by the Quebec Superior Court. Attached and marked as **Exhibit "E"** is a disk containing an electronic copy of the motion record filed by the plaintiffs in support of the motion for certification for the purpose of settlement. .

- (b) The Plaintiffs' motion for approval of a litigation funding agreement reached between the Plaintiffs and Claims Funding International, PLC ("CFI"). In the motion, the Plaintiffs also seek an order that all communications between CFI, class counsel and the Plaintiffs are confidential, that CFI provide security for costs, and that class counsel and the Plaintiffs may provide documents to CFI on the condition that CFI and its staff are subject to the deemed undertaking pursuant to Rule 30.1.03 of the *Rules of Civil Procedure*. The motion is also scheduled to be heard on April 17, 2012. Attached and marked as **Exhibit "F"** is a disk containing an electronic copy of the motion record filed by the plaintiffs in support of the litigation funding motion.
- (c) The Leave Motion and the Certification Motion, the latter of which was served on the defendants on April 2, 2012. These motions are scheduled to be heard from November 21 to 30, 2012.

Timetable of Pending Motions

69. On March 22, 2012, the Honourable Justice Perell heard a contested motion regarding the date on which the Leave and Certification Motions would be heard. All of the defendants

made submissions and opposed the scheduling of the certification motion for November 2012.

70. In reasons dated March 26, 2012, the Honourable Justice Perell ordered that any Leave Defendant who elects to file an affidavit in opposition to the Leave Motion would be required to serve a Statement of Defence. The defendants in the Ontario Class Action had opposed an order requiring them to serve a defence before adjudication of the Leave and Certification Motions.
71. In his March 26, 2012 reasons, Justice Perell also set a timetable for the Plaintiffs' motion for funding approval, Leave Motion, and Certification Motion. The reasons for decision are marked and attached as **Exhibit "G"**.
72. The timetable, as set out at paragraph 93 of those reasons, is as follows:

Funding Approval Motion

March 9, 2012: Plaintiffs to deliver motion record (completed)

March 30, 2012: Defendants to deliver responding records, if any

April 6, 2012: Plaintiffs to deliver factum

April 13, 2012: Defendants to deliver factum

April 17, 2012: Hearing of the motion

Leave and Certification Motion

April 10, 2012: Plaintiffs to deliver motion record

June 11, 2012: Defendants to deliver responding records

July 3, 2012: Plaintiffs to deliver reply records, if any

September 14, 2012: Cross-examinations to be completed

October 19, 2012: Plaintiffs to deliver factum

November 9, 2012: Defendants to deliver factum

November 21-30, 2012: Hearing of the motion

Osler's Dual Roles in the SC's Investigation and in the Ontario Class Action

73. Osler, Hoskin & Harcourt LLP ("Osler") is counsel to the defendants William Ardell, James Bowland, James Hyde, and Garry West in the Ontario Class Action. Each of these individuals was a director of Sino during the Class Period.
74. On June 3, 2011, Sino-Forest issued a press release announcing the creation of the SC, which initially consisted of the defendants, William Ardell, James Bowland, and James Hyde. The mandate of the SC was said to be to "thoroughly examine and review the allegations contained in Muddy Waters' report". The SC appointed Osler as its legal counsel. A copy of the June 3, 2011 press release is marked and attached as **Exhibit "H"**.
75. On January 31, 2012, the SC released its final report to Sino's board of directors. The SC concluded that although there remain outstanding issues that have not been fully answered, the SC had reached the point of diminishing returns. Attached and marked as **Exhibit "I"** is a copy of the final report.
76. In an article dated February 13, 2012, William Ardell disclosed that Sino had then spent approximately \$50 million on its internal investigation. Attached and marked as **Exhibit "J"** is a copy of that article.

Sino's Performance from its Listing on the TSX to 2012

77. From 1994, when Sino became a TSX-listed company, to 2010, Sino's reported annual revenues increased from US\$20.5 million to US\$1.9 billion, or 9,291%, and its year-over-year reported revenues decreased only once, in 2000. During that same period, Sino's reported net income increased from US\$3.0 million to US\$395.4 million, or

13,037%, and its year-over-year reported net annual income decreased only twice, in 2000 and 2001. Finally, from 1994 to 2010, Sino's reported total assets as at year-end increased from US\$30.6 million to US\$5.7 billion, or 18,616%. During that period, Sino's year-over-year reported assets never decreased.

78. For none of the sixty quarters comprising the years 1996 to 2010 did Sino report a net loss; rather, for 100% of all such quarters, Sino reported significant net income.
79. From the commencement of 1996 to the current time, Sino's first and only quarter in respect of which it reported a net loss was for the quarter ended March 31, 2011. For that quarter, Sino reported a net loss of \$22.1 million on revenue of \$338.9 million. However, for the subsequent quarter ended June 30, 2011, Sino reported a net profit of \$447.1 million on revenue of \$317.4 million.¹
80. According to Sino's audited annual financial statements for the year ended December 31, 2010, Sino's revenues and net income for each of 2008, 2009 and 2010 were as follows:

Year	Revenue	Net Income
2008	\$901,295,000	\$228,593,000
2009	\$1,238,185,000	\$286,370,000
2010	\$1,923,536,000	\$395,426,000
TOTAL	\$4,063,016,000	\$910,389,000

81. Thus, for the period commencing on January 1, 2008 and ending on June 30, 2011, Sino reported total revenues of approximately \$4.7 billion and total net income of approximately \$1.3 billion.

¹ Sino has filed no interim or annual financial statements on SEDAR for periods ending after June 30, 2011.

CLAIMS AGAINST THE MEMBERS OF SINO'S BOARD AND CERTAIN MEMBERS OF SINO'S MANAGEMENT

82. The following chart sets out the claims being asserted in the Ontario Class Action against the members of Sino's Board and certain members of Sino's senior management:

	OSA s. 130 (prospectus)	OSA s. 138.3 (offering memorandum)	Negligent Misrepresentation (secondary market)	Negligent Misrepresentation (prospectus/offering memo)	Negligence	Unjust Enrichment	CBCA Oppression	Conspiracy
Chan	X	X	X	X	X	X	X	X
Horsley	X	X	X	X	X	X	X	X
Poon	X	X	X	X	X	X	X	X
Wang	X	X	X	X	X		X	
Martin	X	X	X	X	X	X	X	
Mak	X	X	X	X	X	X	X	
Murray	X	X	X	X	X	X	X	
Hyde	X	X	X	X	X		X	
Ardell		X	X				X	
Bowland		X	X				X	
West		X	X				X	

Resignation of Sino-Forest's Auditor

83. On April 5, 2012, Sino issued a press release announcing that Ernst & Young had resigned as the company's auditors effective April 4, 2012. In its resignation letter to Sino, Ernst & Young noted that the company had not prepared December 31, 2011 consolidated financial statements for that audit. It also noted that in Sino's March 30, 2012 filing under the *CCAA*, Sino said that it remained unable to satisfactorily address outstanding issues in relation to its 2011 annual financial statements. Attached and marked as **Exhibit "K"** is a copy of the April 5, 2012 press release.

Actions of the Ontario Securities Commission Relating to Sino-Forest

84. On June 8, 2011 Sino announced that the OSC had commenced an investigation into the company. A copy of the June 8, 2011 press release is marked and attached as **Exhibit "L"**.
85. On August 26, 2011, the OSC issued temporary cease trade order against Sino's securities and in respect of certain members of Sino's management, including the defendant Allen Chan. In recitals to the temporary cease-trade order, the OSC stated that "Sino-Forest, through its subsidiaries, appears to have engaged in significant non-arm's length transactions which may have been contrary to Ontario securities law and the public interest", that "Sino-Forest and certain of its officers and directors appear to have misrepresented some of its revenue and/or exaggerated some of its timber holdings by providing information to the public in documents required to be filed or furnished under Ontario securities laws and which may have been false or misleading in a material respect contrary to section 122 or 126.2 of the [Ontario Securities] Act and contrary to the public

interest” and that “Sino-Forest and certain of its officers and directors including Chan appear to be engaging or participating in acts, practices, or a course of conduct related to its securities which it and/or they know or reasonably ought to know perpetuate a fraud on any person or company contrary to section 126.1 of the Act and contrary to the public interest.” Attached and marked as **Exhibit “M”** is a copy of the OSC temporary cease trade order.

86. The temporary cease trade order made on August 26, 2011 was later extended and continues in force. On April 5, 2012, Sino received an Enforcement Notice from the OSC staff. Enforcement Notices were also received that day by Allen Chan, David Horsley, Alfred Hung, and George Ho, among others.
87. The Enforcement Notice against Sino alleges conduct contrary to ss.122 and 126.1 of the OSA. Section 126.1 prohibits activities resulting in an artificial price of a security, or which perpetuate a fraud on any person or company. Section 122 provides for a quasi-criminal offence and penalties on conviction of up to \$5 million and imprisonment for a term of up to five years less a day.
88. Enforcement Notices are notices issued by OSC staff that usually identify issues revealed in an investigation, and advise that staff intend to commence a formal proceeding relating to those issues. Recipients of the notices are given the opportunity to make submissions before OSC staff make a final decision to commence formal proceedings.
89. I have reviewed the website of the OSC. It states that the OSC pursues cases in court under s. 122 “in order to seek sanctions and penalties that send a strong message of deterrence to those who try to exploit investors.”

90. According to Sino's website, which I viewed on April 11, 2012:
- (a) Allen Chan currently holds the position of Founding Chairman Emeritus;
 - (b) David Horsley currently holds the position of Senior Vice President and Chief Financial Officer;
 - (c) Alfred Hung currently holds the position of Vice President, Corporate Planning and Banking; and
 - (d) George Ho currently holds the position of Vice President, Finance (China).

Attached and marked as **Exhibit "N"** is a printout from Sino's website which describes these individuals and their positions.

MEDIA COVERAGE OF SINO-FOREST'S CCAA PROCEEDING

91. Attached and marked as **Exhibit "O"** is an article recently published by Reuters regarding Sino's CCAA proceeding.

THE DEFENDANTS' ABILITY TO PAY

92. The Plaintiffs understand that, given the financial position of Sino and the serious doubts as to the legitimacy of its business and, in particular, as to its title to its claimed assets, they are unlikely to obtain any significant recovery from Sino.
93. It appears, however, that all of the remaining defendants (with the possible exception of Pöyry) have the ability to pay significant damages arising out of the Ontario Class Action.

94. The objective of our clients, including Davis, is to pursue their claims against the individual defendants, the underwriter and Sino's former auditors.

Directors and Officers

95. According to Sino's proxy circular of May 30, 2011 (the last proxy circular that Sino filed on SEDAR):

In 2010, the Corporation purchased, at its expense, directors' and officers' liability insurance in the aggregate amount of \$60,000,000 for the protection of its directors and officers against liability incurred by them in their capacities as directors and officers of the Corporation and its subsidiaries. For the financial year ended December 31, 2010, the Corporation paid a premium of \$230,823 (inclusive of applicable taxes) in respect of such insurance.

Auditors and Underwriters

96. The defendants, other than Sino and its directors and officers, are, or are controlled by, large business organizations each having hundreds of millions to billions of dollars in annual revenues:

- (a) Ernst & Young reported US\$22.9 billion in global revenue for the year ended June 30, 2011. Attached and marked as **Exhibit "P"** is a copy of Ernst & Young's Global Review 2011.
- (b) Banc of America Corporation and Merrill Lynch Canada Inc are wholly owned subsidiaries of Bank of America Corporation. In 2011, Bank of America reported revenue of US\$94.4 billion and net income (excluding goodwill impairment charges) of US\$4.6 billion. Attached and marked as **Exhibit "Q"** is an excerpt from Bank of America's 2011 annual report.

- (c) Canaccord Financial Ltd. (now Canaccord Genuity) is a subsidiary of Canaccord Financial Inc. In 2011, Canaccord Financial Inc. reported revenue of CAD\$803 million and net income of CAD\$98 million. Attached and marked as **Exhibit "R"** is an excerpt from Canaccord Financial Inc.'s 2011 annual report.
- (d) CIBC World Markets Inc. is a subsidiary of CIBC. In 2011, CIBC reported revenue of CAD\$12.25 billion and net income of CAD\$3 billion. Attached and marked as **Exhibit "S"** is an excerpt from CIBC's 2011 annual report.
- (e) Credit Suisse Securities (Canada) Inc. and Credit Suisse (USA) LLC are subsidiaries of Credit Suisse Group. In 2011, Credit Suisse Group reported revenue of CHF26.2 billion and net income of CHF 2.79 billion. One CHF is equal to approximately CAD 1.088. Attached and marked as **Exhibit "T"** is an excerpt from Credit Suisse Group's 2011 annual report.
- (f) Dundee Securities Corp. (now DWM Securities Inc.) is a subsidiary of DundeeWealth Inc. On March 9, 2011, DundeeWealth Inc. became a wholly owned subsidiary of ScotiaBank. In 2010, DundeeWealth Inc. reported revenue of CAD\$1.04 billion and net income of CAD\$118.7 million. Attached and marked as **Exhibit "U"** is an excerpt from DundeeWealth Inc.'s 2010 financial statements.
- (g) RBC Dominion Securities Inc. is a principal subsidiary of the Royal Bank of Canada. In 2011, the Royal Bank of Canada reported revenue of CAD\$27.4 billion and net income of CAD\$4.8 billion. Attached and marked as **Exhibit "V"** is an excerpt from Royal Bank of Canada's 2011 annual report.

- (h) Scotia Capital Inc. is a principal subsidiary of Scotia Bank. In 2011, ScotiaBank reported revenue of CAD\$17.3 billion and net income of CAD\$5.26 billion. Attached and marked as **Exhibit "W"** is an excerpt from ScotiaBank's 2011 annual report.
- (i) TD Securities Inc. is a principal subsidiary of the Toronto-Dominion Bank. In 2011, Toronto-Dominion Bank reported revenue of CAD\$21.5 billion and net income of CAD\$5.9 billion. Attached and marked as **Exhibit "X"** is an excerpt from Toronto-Dominion Bank's 2011 financial statements.
97. Attached and marked as **Exhibit "Y"** is a chart that sets out the claims against each of the defendants in the Ontario Class Action other than the individual defendants.

Pöyry

98. As indicated above, the plaintiffs have entered into a settlement agreement with Pöyry, which is to be reviewed by Justice Perell on April 17, 2012. The settlement agreement essentially provides that Pöyry will provide information and cooperation to the plaintiffs for the purposes of prosecuting the Ontario Class Action against the remaining defendants.
99. In exchange for information and cooperation, there would be a release of claims against Pöyry and a bar order preventing claims for contribution, indemnity and other claims over in respect of the released claims. If it is later determined that the non-settling defendants have such rights of contribution, indemnity, or claim over against Pöyry, then the class members would not be entitled to claim or recover from the non-settling

defendants the proportion of any judgment that the Ontario court would have apportioned to Pöyry.

100. The settlement agreement provides that the parties shall consent to certification for the purpose of settlement and that Pöyry will pay the first \$100,000 of the costs of providing notice of certification and fairness hearing and half of any such costs over \$100,000. A copy of the settlement agreement is marked and attached as **Exhibit "Z"**

Compensation and Proceeds of Stock Sales of Certain Individual Defendants

101. Over the course of their involvement with Sino, the defendants Allen Chan, Kai Kit Poon, and David Horsley received substantial compensation from Sino. The following information regarding these defendants' salary and bonus from Sino was compiled from the Management Information Circulars from 2007 to 2010, which are marked and attached as **Exhibits "AA" to "DD"**. Information regarding the net proceeds of these defendants' sale of Sino's securities was compiled from insider transaction detail reports retrieved from the System for Electronic Disclosure by Insiders ("SEDI"), which are marked and attached as **Exhibits "EE" to "GG"**

102. According to these documents, Allen Chan received

- (a) \$1,047,947 in net proceeds from his sale of Sino securities; and
- (b) \$22,698,775 in salary and bonuses between 2007 and 2010.

103. According to these documents, Kai Kit Poon received

- (a) \$48,522,642 in net proceeds from his sale of Sino securities; and

TAB A

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

ONTARIO
SUPERIOR COURT OF JUSTICE

BETWEEN:

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

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly
known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN,
KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND,
JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY J.
WEST,

PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT SUISSE
SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES
CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC
WORLD MARKETS INC., MERRILL LYNCH CANADA INC., CANACCORD
FINANCIAL LTD., MAISON PLACEMENTS CANADA INC., CREDIT SUISSE
SECURITIES (USA) LLC, and BANC OF AMERICA SECURITIES LLC

Defendants

Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF STEPHEN GOWAN CHANDLER
(sworn February 29, 2012)

I, STEPHEN GOWAN CHANDLER, of the city of Hong Kong, in the country of the People's
Republic of China, MAKE OATH AND SAY:

1. I am a consultant to Key Business Connections Ltd. ("KBC") a company incorporated in
Hong Kong, in the People's Republic of China ("PRC").

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2. I have knowledge of the matters to which I hereinafter depose. Where that knowledge is based on information obtained from others, I have so indicated and believe that information to be true.
3. I swear this affidavit in support of the plaintiffs' motion seeking an order granting leave to the plaintiffs to pursue the causes of action under Part 23.1 of the Ontario *Securities Act*, RSO 1990, c S 5. I swear this affidavit for no improper purpose.

I. KBC'S BACKGROUND AND MY QUALIFICATIONS

4. I am a permanent resident of Hong Kong, where I act as a consultant to KBC.
5. KBC was incorporated in Hong Kong on June 12, 2007, for the purpose of providing a broad spectrum of investigative services. Such services include, among other things, due diligence, background investigations, litigation support, management of intellectual property, and grey market investigations, all primarily in the PRC. Since 2007, KBC has provided litigation support for hedge funds, law firms, and banks in Hong Kong and elsewhere. KBC works with a number of contractors. For matters in the PRC, KBC works with Intellect Consultancy Ltd. ("Intellect Consultancy"), a company incorporated in Hong Kong. Intellect Consultancy conducts research and investigations in the PRC, and has offices and staff in Shenzhen and Shanghai.
6. I hold a Doctorate degree in Education from Bristol University and a Masters in Training from Leicester University, both of which are in the United Kingdom ("UK"). I have obtained professional qualifications and experience, together with formal awards, in the area of criminal investigations during more than thirty-five years of employment with the Northumbria Police in the United Kingdom and the Hong Kong Police in China. I am a Fellow of the Chartered Management Institute (UK) and a member of the Asian Crisis and Security Group. I have been qualified as an expert in the areas of counterfeit security script by courts in Malaysia, Portugal (Macau), and Hong Kong.
7. With respect to my professional police qualifications, I have obtained or completed the

following:

- a. A Certificate in Police Studies from Framwellgate College, Durham UK;
 - b. The UK Police Force professional promotion examination for the rank of Sergeant;
 - c. Police Senior Professional examinations for promotions to the ranks of Inspector, Chief Inspector, and Superintendent in the Special Administrative Region ("SAR") of Hong Kong;
 - d. Detective Training in the UK and Hong Kong SAR;
 - e. The Inspectors Command Course and the Senior Police Command Course in the Hong Kong SAR;
 - f. The Senior Police Command Course in Scotland, UK;
 - g. Advanced Hostage Negotiator and incident management training delivered by the UK, United States (Joint Services Training) and Hong Kong; and
 - h. Counterfeit and forgery techniques and investigation studies with the US Secret Service and security printers/paper makers both in the United States and Great Britain
8. I spent the first seven years of my police career in the UK, followed by 28 years with the Royal Hong Kong Police (now referred to as the Hong Kong SAR Police). I specialised in criminal investigations and worked with a number of law enforcement bodies outside of Hong Kong and China, while undertaking commercial crime investigations involving Chinese companies and nationals. In 1995, I was awarded the Colonial Police Medal by Her Majesty the Queen of England. In 2004 I was awarded the Chief Executive of Hong Kong's Commendation.
9. I have extensive experience investigating commercial crime. I worked in the Commercial Crime Bureau of the Hong Kong Police for five years in the ranks of inspector, senior inspector, and chief inspector. I undertook several complex investigations into commercial fraud and received a number of commendations for my work from the Hong Kong Police, Hong Kong Judiciary, United States Secret Service, and the Hong Kong and Shanghai Banking Corporation.
10. Upon promotion to Superintendent of Police in 1985 I was attached to the Internal Investigation Branch. Upon promotion to Senior Superintendent of Police in 1991, I was

made head of the Joint Services Anti-Smuggling Task Force, which focused upon eradicating cross-border smuggling and tax evasion in Hong Kong and Mainland China. During this period I worked very closely with Mainland Chinese government officials for over two years.

11. I was promoted to Chief Superintendent of Police in 1996 and took up the position as head of the Complaints and Internal Affairs Bureau of the Hong Kong Police Force. In this position, I undertook due diligence investigations into individuals who were being considered for sensitive posts or promotion to senior ranks within the Hong Kong Police. I also assisted other government departments in their due diligence enquires. As part of my duties, I conducted and managed a number of complex and sensitive internal investigations into criminality and misconduct alleged against police officers. I left this post upon my promotion to the Assistant Commissioner of Police in December 2000.
12. I retired from the Hong Kong Police in 2005 to take up an appointment on the board of management of the Hong Kong Jockey Club as the Executive Director Security and Corporate Legal Services. The Hong Kong Jockey Club is a not for profit charitable organisation with over US\$15 billion in turnover in the gaming and leisure market including horse racing, sports betting, hotel/restaurants, golf courses, equestrian centres, and retail outlets in Hong Kong and China. This was a key position within the organization with responsibility for the maintenance of the ethics, integrity and for corporate governance. During this period I personally conducted or managed due diligence investigations of vendors, suppliers, new employees, as well as potential business partners. I also conducted internal investigations to assist the Audit Department in their support of good corporate governance. I left the Hong Kong Jockey Club in December 2010.
13. Since December 2010, I have worked as a consultant, conducting due diligence research and investigations in Asia. During this period I have undertaken work on a number of due diligence investigation matters for the Casino Regulatory Authority of the Singapore Government.
14. I currently provide consultancy services to KBC.

II. MY RETAINER IN THIS MATTER

15. On or about July 2, 2011, KBC was retained by Siskinds LLP and Koskie Minsky LLP to provide investigative services in support of a proposed class proceeding in which the primary defendant was Sino-Forest Corporation ("Sino-Forest").
16. I was retained in this matter on January 24, 2012. I was tasked by Siskinds LLP and Koskie Minsky LLP to conduct an inquiry into the specific matters addressed below.

III. MATERIALS REVIEWED

17. During the course of my investigation, I have reviewed the following documentary material:
 - a. Muddy Waters Research report on Sino-Forest, dated June 2, 2011 ("Muddy Waters Report");
 - b. The statement of claim in this action;
 - c. The First Interim Report of the Independent Committee to the Board of Directors of Sino-Forest Corporation ("First Report"), the Second Interim Report of the Independent Committee of the Board of Directors of Sino-Forest Corporation ("Second Report"), and Final Report of the Independent Committee of the Board of Directors of Sino-Forest Corporation ("Final Report") and all schedules and attachments thereto;
 - d. The following *Globe and Mail* articles relating to Sino-Forest:
 - i. "Sino-Forest On Track With Operations And First Quarter Reporting; Not Aware Of Any Reason For Share Price Decline", Dated: Wednesday, May 25, 2011
 - ii. "Pöyry Releases Sino-Forest's China Forest Asset 2010 Valuation Reports" Dated: Friday, May 27, 2011
 - iii. "Sino-Forest Signs Long-Term Master Agreements To Acquire 266,000 Hectares Of Plantation Forests In Shaanxi And Yunnan Provinces" Dated: Monday, May 30, 2011
 - iv. "Sino-Forest Releases Supporting Evidence Against Allegations From Short Seller" Dated: Monday, June 06, 2011

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- v. "Key partner casts doubt on Sino-Forest claim" Dated: June. 20, 2011
 - vi. "On the trail of the truth behind Sino-Forest" Dated: September 2, 2011
 - vii. "Sino-Forest Responds To Request To Commence Action Against Certain Insiders And Others" Dated: Friday, October 14, 2011
 - viii. "Sino-Forest Announces Resignation Of Director" Dated: Friday, November 04, 2011
 - ix. "Sino-Forest Announces The Resignation Of Allen Chan As Chairman And Chief Executive Officer And His Appointment As Founding Chairman Emeritus" Dated: Sunday, August 28, 2011
 - x. "The empire Sino Forest built and the farmers who paid the price" Dated: November. 10, 2011
 - xi. "Sino-Forest Announces Findings Of The Independent Committee" Dated: Tuesday, November 15, 2011
 - xii. "Sino-Forest executives linked to key timber supplier" Dated: December. 12, 2011
 - xiii. "Sino-Forest Releases Final Report Of The Independent Committee" Dated: Tuesday, January 31, 2012
 - xiv. "Why Sino-Forest's web is so hard to untangle" Dated: February 1, 2012
- e. Various Sino-Forest filings with the Ontario Securities Commission, as set out below;
 - f. Various media and Internet material relating to Sino-Forest, both in English and Chinese;
 - g. Statutory filings by Sino-Forest subsidiaries, associates, suppliers and customers in Hong Kong and China; and
 - h. Subscription databases in Hong Kong and China.
18. Statutory information on companies incorporated in Hong Kong and China can be downloaded from government and commercial databases via the Internet. Corporate statutory documents are available at the offices of the Registrar of Companies in Hong Kong, as well as on the Internet via a website known as ICRIS, which is operated by the Registrar of Companies.

19. The Administration of Industry and Commerce ("AIC") in China is a government office that retains detailed records of companies in China. Through KBC's agents in China, we have ordered the entire AIC records for certain subsidiaries, associates, joint ventures, customers and suppliers of Sino-Forest. These documents are written in Chinese, and have been translated to English for my review. I verily believe that the translation of the files, documents, and records which I have obtained and reviewed are true and accurate translations of the original documents.
20. The AIC files identified in this affidavit are voluminous. Accordingly, I attached only the relevant excerpts from those records and the translations. Copies of the complete AIC files have been retained and are available for examination on request.
21. The translation of the vast majority of the exhibits in this affidavit have been prepared by Wong Kam Yee of Intellect Consultancy. Since 1981, Ms. Wong has provided translation services to regulatory agencies in Hong Kong and China, law firms and multi-nationals seeking to enforce their commercial rights or make criminal complaints. She has translated investigation reports, supporting documents (including extracts from AIC files) and letters of complaint. Ms. Wong has translated thousands of documents over that period of time which have been accepted and exhibited to legal actions in the Courts of Hong Kong.
22. In limited circumstances we also used Diners Professional Translations Services Ltd ("Diners") to provide translations. Diners is a professional translation service incorporated in Hong Kong. Diners provides professional translation services to law firms and other institutions, and specialises in technical translations of legal, contractual, and sophisticated commercial documents. Diners provided translations of certain of the Leizhou EJV documents which are footnoted below. The remainder of the exhibits referred to in this affidavit were, in all cases translated by Madam Wong Kam Yee. The person at Diners that was responsible for the translation of documents attached to this affidavit was Mr. Lam Shing-Ming. Mr. Lam has a Masters of Arts in translation from the Chinese University of Hong Kong and is a member of the Chartered Institute of Linguists.

23. Attached and marked as Exhibits "SSS" and "TTT" are copies of the Chinese AIC documents and their translations, along with a notarized declaration from Wong Kam Yee and Lam Shing-Ming the individuals who translated those documents. Where I refer to specific AIC documents in this affidavit, those documents have been extracted from Exhibits "SSS" and Exhibit "TTT".
24. Persons resident in Hong Kong and China are issued an identity card with a unique number. It is possible to have both a Hong Kong identity card and a PRC identity card. For example, Allen Chan Tak Yuen ("Allan Chan") who is also known by the pinyin translation of his name, Chen Deyuan, has an identity card issued to him by the Hong Kong government: ID #: E459151(1). When analyzing corporate filings both in Hong Kong and China, I have relied on these unique identifiers as evidence that specific named individuals are directors and shareholders of relevant companies.

IV. FINDINGS

25. Based on our review, and as set out in more detail below, we found:
- a. Allen Chan and New Ross Investments Ltd. ("New Ross") the company of which he was the principal shareholder and director, were sued by a PRC state-owned company for failing to properly invest monies invested with New Ross and for passing bad cheques.
 - b. It appears that Zhanjiang Leizhou Eucalyptus Resources Development Co. Ltd., a company that purported to provide sales for Sino-Forest, was a shell and never did any business from the issuance of its business licence and the commencement of the joint venture.
 - c. Despite claims in Sino-Forest's public disclosure that it had invested in Shanghai Jin Xiang Timber Ltd. ("SJXT"), it appears that neither Sino-Forest nor any of its subsidiaries had any such investment.
 - d. With respect to Homix Limited:

- i. Sino-Forest disclosed that one of its subsidiaries acquired Homix Limited ("Homix"). However, it failed to disclose that one of Sino's vice presidents, Chen Hua, was a major shareholder of a Homix subsidiary at the time of the acquisition.
 - ii. The patents that belong to Homix and its subsidiaries do not correspond with the description of those patents in Sino-Forest's disclosure documents.
- e. Contrary to the statements made in the Final Report of the Independent Committee of Sino-Forest, maps are in fact allowed and have been widely used in Mainland China for at least the last three years.
 - f. Chen Jun, a member of Sino-Forest's management, was still recorded as a fifty-percent shareholder of Sonic Jita Engineering Company Limited ("Sonic Jita") at the time that Muddy Waters released its report on Sino-Forest on June 2, 2011.

(a) Allen Chan and New Ross Investments Ltd.

26. On December 19, 1990, Allen Chan and the company of which he was the principal shareholder and director, New Ross, were sued by the China Foreign Trade Leasing Corporation and Sunlease Investment Ltd for the sum of US\$799,979.92. A copy of this writ, High Court Writ 8671 of 1990, which was filed with the Supreme Court Registry in Hong Kong, is attached and marked as **Exhibit "A"**.
27. New Ross was incorporated in Hong Kong on September 1, 1988. Allen Chan was a director along with a corporate nominee named Ramillies Limited. On November 29, 1988, Allen Chan was issued 499,998 shares at HK\$10 per share out of 500,000 shares. Attached and marked as **Exhibit "B"** are a copy of the certificate of incorporation and copies of statutory corporate filings by New Ross with the Registrar of Companies for the period September 1, 1988 to February 28, 1997, together with a notice from the Registrar of Companies advising that New Ross was struck off the Register of Companies for failing to make annual corporate returns and to pay the fines levied by the government.

28. China Trade Foreign Leasing Corporation was a Chinese government organization, Sunlease Investment Ltd was a company incorporated in Hong Kong whose majority shareholder was the China Foreign Trade Leasing Corporation. The writ alleged that Allen Chan and New Ross were loaned US\$647,474.75 for the purpose of buying the issued shares of "Tai Yuen Shipyard Limited and in no circumstances shall the same be used for any other Purpose".
29. The writ alleges that Allen Chan admitted he had not used the money advanced for the purpose of the purchase of the shares of Tai Yuen Shipyard as required by the agreement. It also alleges that Mr. Chan did not provide development plans, financial reports, and profit and loss accounts prepared by qualified accountants and reports on business management.
30. The writ alleges that, once this conduct came to the plaintiffs' attention, Allen Chan requested an extension of time and modification of the restriction on the use of the funds. The parties agreed to the extension and modification of the restrictions as part of a second agreement. The writ further alleges that, in the second agreement, Allen Chan was advanced US\$683,551 for the purposes of repaying the first agreement.
31. The writ alleges that Allen Chan gave the plaintiff two post-dated cheques for HK\$300,000 and HK\$700,000 and that they were dishonoured on presentation on the due dates. This was *prima facie* an offence against section 18(1) of the Theft Ordinance, Laws of Hong Kong if the cheques were handed over in Hong Kong and there was no intention of repaying the funds on the due dates.
32. The files in relation to this action have been archived by the Supreme Court and there is no public access to that material. However, as there is no recorded judgment, it is likely the plaintiffs either did not pursue the action or the parties came to a settlement.
33. It should be noted that Allen Chan or his representatives failed to file the required statutory returns for New Ross with the Hong Kong Government and on February 28, 1997, New Ross was struck off the Register of Companies.

(b) The alleged sales through Leizhou EJV

34. The statement of claim alleges that, initially, Sino-Forest's business was conducted primarily through an equity joint venture ("EJV") with the Leizhou Forestry Bureau, Zhanjiang Leizhou Eucalyptus Resources Development Co. Ltd. ("Leizhou"). The statement of claim further alleges that Leizhou did not generate the sales that Sino claimed or its sales were overstated.
35. Our review of the AIC records and other materials as set out below supports this conclusion. In particular, it would appear that Leizhou EJV was a shell and never did any business from the issuance of its business licence and the commencement of the joint venture.

AIC Filings for Leizhou

36. The Leizhou EJV filings with the AIC consisted of 240 pages in Chinese. I asked Wong Kam Yee to review those 240 pages and I instructed her to identify those pages that disclose information in relation to the incorporation, legal representatives, shareholders, directors, financial status or material changes of the Leizhou EJV.
37. Attached and marked as Exhibit "C" to Exhibit "J" are copies of the Chinese-language pages so identified, along with the English translations made by Ms Wong. Documents marked at Exhibit "K" to Exhibit "S" are from the same AIC file but were translated by Diners.
38. The following is a summary of corporate information from the AIC Leizhou EJV file, including details of directors and shareholders:

Company Name	Zhanjiang Leizhou Eucalypt Resources Development Co., Ltd. 湛江雷州桉树资源发展有限公司
Business License No.	Qi Du Yue Zhan Zong Zi No.000571
Company Type	Solely owned Hong Kong company
Legal Representative	Chan Tak Yuen 陈德源
Registered Capital	USD1.4 million

Paid-up Capital	USD12.6 million
Registered Address	No.33 Middle Renmin Avenue, Zhanjiang City 湛江市人民大道中 33 号
Date of Incorporation	1994--1-29
Company Telephone	3215649/3334788
Business Line	Forestry business; wood processing; manufacturing and selling wood products and forest chemical products.
Company Status	Cancelled

The AIC file is not clear as to how the registered capital is less than the paid up capital however there is a possibility that there was at some stage a reduction in the paid up capital.

Shareholders are reflected as follows:

Shareholders	Contracted Contribution		Actual Paid-up	
	Amount	Percentage of contracted Investment	Amount	Percentage of contracted investment
Leizhou Forestry Bureau 雷州林业局	USD11.75 million	47%	USD11,640,000	46.56%
Sino-Wood Partners Limited 嘉汉木业集团有限公司	USD13.25 million	53%	USD1,000,000	0.04% Note: The capital verification report indicates 0.04%. We believe the accountant made an error with their decimal point and the figure should read 4%.

39. I have also reviewed the statutory annual returns of Sino Wood Partners Limited ("Sino Wood") with the Hong Kong Registrar of Companies for the years 1996 through to 2000, copies of which are attached hereto and marked as **Exhibit "T"**. They indicate that the directors of Sino Wood for the period 1996 through 2000 include Allen Chan Tak Yuen, Chan Wai Ling and Poon Kai Kit. The returns indicate that Sino-Wood's shareholders were Allen Chan (1 share) and Sino-Forest Corporation (9,999 shares).

Sino-Forest's extensive references to Leizhou in its public disclosure

40. I have read through the disclosure documents of Sino-Forest and reproduce below a number of statements made by Sino-Forest regarding its interest in the Leizhou EJV.

41. Sino-Forest's predecessor, Mt. Kearsage Minerals Inc., described the Leizhou EJV at page 34 of its information circular dated February 11, 1994:

Leizou Joint Venture

Zhanjiang Leizhou Eucalypt Resources Development Company Limited (the "Leizhou Joint Venture") is owned 53% by Sino-Wood and 47% by State owned Leizhou Forestry Bureau (the "Bureau"). The Bureau is a district forestry bureau of the forestry bureau of Guangdong Province and is located in the southern-most part of Guangdong Province,

Eucalypt is an important hardwood resource for the production of paper and board products. The PRC is second to Brazil in terms of land under plantation for eucalypt trees. Due to the climate requirements, most of the PRC's eucalypt plantation is located in southern PRC, which is on a latitude equivalent to Cuba.

Established in 1954, the Bureau operates a 53,000 hectares eucalypt tree plantation, wood chip processing facilities and manufactures related products. The Bureau engages in extensive research and development in the proration and growing of eucalypt trees. This work has resulted in the opinion of the Bureau in achieving a high yield of tree proration (15-25 cubic meters per hectare per annum) and a short growth cycle (Five to six years).

Under the Joint Venture Documents, as amended, the following assets, having an agreed value of US\$2.49 million, are to be transferred to the Leizhou Joint Venture by the Bureau as the first instalment of its capital contribution:

- about 3,500 hectares (or 190,345 cubic meters) of eucalypt plantation; and
- wood chip processing facilities with an annual capacity of 100,000 tonnes.

Additional capital contributions up to the Bureau's full obligation under the joint venture contract of US\$4.7 million will be made within two years from the date of the business licence and by injection of additional plantation and processing facilities.

Sino-Wood has agreed to make a total capital contribution of US\$5.3 million to the Leizhou Joint Venture, of which the first instalment of US\$1.0 million is to be made on or before April 28, 1994 and the balance before January 28, 1996.

42. Page 7 of the information circular dated May 15, 1995 provides:

Through Sino-Wood the Corporation owns interests varying between 53% and 55% in six Chinese foreign equity joint ventures ("the Joint Ventures") in Guangdong and Jiangxi Provinces in the People's Republic of China. Pursuant

to joint venture agreements ("the Joint Venture Agreements") relating to the Joint Ventures, Sino-Wood agreed to contribute to the Joint Ventures a total of US\$22,240,000 of which US\$3,895,000 was made in March 1994 and the balance of US\$18,345,000 must be made before the end of January, 1996.

The Board at Directors believes that the Corporation should raise additional equity funding of approximately US\$10,000,000 (approximately C\$13,700,000) in order to contribute to the financing of the obligations of Sino-Wood under the Joint Venture Agreements and to provide additional working capital for the Corporation's expansion of its forestry plantation business in South China in the current year

43. Page 2 of Sino-Forest's financial statements for the year ended December 31, 1996 provides:

Wood chip production in the Leizhou EJV in 1995 accounted for approximately 60.6% of total production. In 1996, wood chip production in the Leizhou EJV accounted for approximately 35.8% of total production. As we continue to ramp up the phase-in of our CJV plantations over the next few years, the Leizhou EJV's production of wood chips will be less and less significant to the total production level. In 1996, the Leizhou EJV produced 212,500 BDMT of wood chips compared to 204,200 in 1995.

44. On Page 5 of Sino-Forest's Annual Report for the year ended December 31, 1996 it was claimed that 20,000 hectares of forest had already been phased in through the Leizhou EJV, and on page 8, it was reported that:

Sales in the Leizhou EJV remained relatively constant over 1995. Sales were \$23 million in 1996 consisting of approximately 212,500 BDMT of wood chip shipments compared to 204,200 BDMT in 1995.

45. At Page 10 of Sino-Forest's Annual Report and Financial Statements for the year ended December 31, 1996, the following statements were made:

The Leizhou EJV

Under the Leizhou EJV joint venture agreement, the Company's wholly-owned subsidiary, Sino-Wood Partners, Limited ["Sino-Wood"] is committed to provide \$5,300,000 in capital to acquire its 53% equity interest in the Leizhou EJV. An initial capital contribution of \$1,000,000 was made in 1994 with the balance due January 1996. During 1996, Sino-Wood's EJV partner, the Leizhou Forestry Bureau ["LFB"] agreed to extend payment of the balance of the capital contribution to December 1996. No capital contribution was made in December 1996 as Sino-Wood has agreed with the LFB to settle its capital contribution to the Leizhou EJV concurrent with the settlement of amounts due to the Leizhou EJV by the LFB.

46. Page 2 of the Sino-Forest prospectus dated January 28, 1997 states:

"Leizhou EJV" means the EJV subsidiary operating the eucalyptus tree plantation Zhanjiang Leizhou Eucalypt Resources Development Company Ltd. in Guangdong Province.

47. On the same page, "EJV" is defined as an Equity Joint Venture established under EJV law, while page 10 charts the 53% holding of the Leizhou EJV as being through Sino Forest Partners Ltd, a wholly owned subsidiary of Sino-Forest.

48. At page 8 of the Sino-Forest 1997 prospectus, the following statements are made:

Timber from the Leizhou EH/ Plantation

The Leizhou EJV operates 20,000 hectares of eucalyptus tree plantation. The eucalyptus tree plantation of the Leizhou EJV is located on the Zhanjiang Leizhou peninsula in Guangdong Province. This plantation supports crops of eucalyptus trees which in management's experience have a cycle (from planting to harvesting) of approximately five years and which are specifically genetically engineered for the soil and semi-tropical climate conditions of southern China. In 1994 and 1995, there were approximately 156,300 BDMT and 204,200 BDMT, respectively, of eucalyptus wood chips produced by the Leizhou EJV. In 1996, the Company expects to maintain its production volume from the Leizhou EJV plantation at approximately 200,000 BDMT.

49. On page 19 of the Sino-Forest 1997 prospectus, it states:

BUSINESS STRATEGY

Based on the success of its original eucalyptus plantation investment in the Leizhou EJV in 1994, the Company focused its efforts on expanding rapidly

in the management and operation of, and investment in, tree plantations in the PRC and the production of wood chips, while at the same time reducing its involvement in the forestry and board chemical businesses

50. On page 22 of the Sino-Forest 1997 prospectus, it states:

BUSINESS OPERATIONS

Wood chips produced by the Leizhou EJV are sold in the export market by the Company's joint venture partner under an arrangement that was established in 1994. This arrangement is expected to terminate by the end of 1996.

The \$12,177,000 due from the Leizhou EJV joint venture partner as at September 30, 1996 represents cash collected from the sale of wood chips by the Leizhou EJV joint venture partner on behalf of the Leizhou EJV. As originally agreed by the Company, the cash is being retained by the Leizhou EJV joint venture partner to fund the ongoing plantation costs of the Leizhou EJV. At the end of 1995, the Company commenced discussions with the Leizhou EJV joint venture partner for the repayment of some or all of the amount due by early 1997. The Leizhou EJV joint venture partner has incurred planting and maintenance costs on behalf of the Leizhou EJV which could be applied against part of the amount due to the Company. In addition, the balance could be used to offset the required remaining capital contribution of U.S.\$4,300,000 owing to the Leizhou EJV by the Company, or be repaid to the Company.

Total export shipments (including those from the Leizhou EJV) estimated for 1996 account for approximately 60% of the total estimated wood chip shipments of the Company. Export shipments for the nine months ended September 30, 1996 represent 66.7% of total shipments. Of the 259,574 BDMT in total export sales of wood chips by the Leizhou EJV and the Guangxi CJV for the nine months ended September 30, 1996, approximately 60% were to Japan which is the world's largest importer of wood chips.

51. On page 23 of the Sino-Forest 1997 prospectus, it states:

BUSINESS OPERATIONS

Chipping Facilities

The Company's Leizhou EJV operates a three-line chipping plant with an annual capacity of approximately 250,000 tonnes of wood chips. The plant is located approximately 50 km from the Leizhou EJV plantation and approximately 80 km from the Zhanjiang port. Zhanjiang port is one of the ports that the Company uses to export its wood chips to Japan, South Korea and Taiwan. All of the Company's eucalyptus trees harvested in the Leizhou

EJV are chipped in this facility. The wood chips produced in this facility are generally stored in the plant for no more than one week before being transported by trucks to the Zhanjiang port for export.

52. On page 24 of the Sino-Forest 1997 prospectus, it states:

Fibre Supply and Process

The Company currently produces its wood chips from two sources of supply: (1) standing timber purchased from the local forestry bureaus and (2) timber grown on the Leizhou EJV's eucalyptus plantations.

The Company currently manages and operates 20,000 hectares of tree plantation lands in the Leizhou EJV. The Company has phased-in approximately 30,000 hectares (including the 20,000 hectares from the Leizhou EJV, or approximately 5% of the lands currently under contract.

53. On page 28 of the 1997 prospectus, it is stated that:

Research and Development

Research and development is carried out at the research facilities of the Leizhou EJV and by independent laboratories and research centres.

54. Subsequent to the date of the 1997 prospectus, Sino-Forest reported changes in the relationship with the Leizhou EJV.

55. In the 3rd quarter 1997 report to shareholders it was stated that:

As at September 30, 1997, the amount due to Leizhou EJV from the Leizhou Forestry Bureau amounted to \$16,755,000, of which the Company's equity position in the Leizhou EJV represents \$8,880,000. The Leizhou EJV receivable was satisfied in November 1997 through a payment to the Company of timber holdings of a value approximately \$8,880,000.

56. At page 10 of Sino-Forest's Annual Report for the year ended December 31, 1997, the following information was set out:

In 1997, wood chip shipments totalled 1,160,560 BDMT compared to 592,800 BDMT shipped in 1996, an increase of approximately 96%. Of the total wood chips shipped in 1997, 311,300 BDMT were exported to Japan, South Korea and Taiwan and 849,260 BDMT were sold in the domestic PRC market. For

the year ended December 31, 1997, the Company acted as principal on 184,400 BDMT and as an agent on 931,160 BDMT. Wood chip shipments from Leizhou EJV in 1997 were 45,000 BDMT compared to the 212,500 BDMT shipped in 1996. The decrease was due to the decision to restructure Leizhou EJV, which was completed in the fourth quarter of 1997 as explained below. As a result of this decision, wood chip orders which could have been shipped by the Leizhou EJV were filled by the Heyuan CJV and the Guangxi CJV partner which together reported a 193% increase in shipments from 380,300 BDMT in 1996 to 1,115,560 BDMT in 1997. Export shipments have decreased approximately 10% from 346,400 BDMT in 1996 to 311,300 BDMT in 1997 as a result of the continuing weak economy in Japan and the economic downturn in Asia. Demand for wood chips in China remains strong and was the reason for the significant increase in shipments from 246,400 BDMT in 1996 to 849,260 BDMT in 1997, an increase of 245%.

57. Page 11 of that Annual Report deals with a change in the relationship with the Leizhou EJV. This change was said to have occurred with the agreement of the Leizhou Forestry Bureau:

LEIZHOU EJV

As part of the Company's strategy to operate and manage its plantation business under the preferred CJV structure, the Company entered into an agreement with the Leizhou Forestry Bureau ("LFB"), its partner in the Leizhou EJV, to cease operations and distribute the net assets of the Leizhou EJV according to their respective equity interests. The Company's share of the net assets of the Leizhou EJV, as at the effective date of the partners' withdrawal of their equity interests, October 1, 1997, amounted to \$12.4 million. As part of the agreement with the LFB, the LFB agreed to exchange the Company's interest in the net assets of the Leizhou EJV for 730,440 cubic meters of standing timber owned by the LFB. The standing timber is to be provided by the LFB to the Company over a three-year period as required by the Company. The Company is responsible for harvesting and transportation costs. The remaining capital contribution of \$4.3 million, which was due to the Leizhou EJV, was also settled as a result of the agreement with the LFB. The Company is in discussions with a potential new partner in the Leizhou region to establish a new CJV on a similar basis to its existing CJVs.

Findings

58. In addition to reviewing the AIC file and Sino-Forest's disclosure documents, I reviewed a letter from the Leizhou Forestry Bureau dated February 27, 1998 regarding the Leizhou joint venture. The statements in Sino-Forest's disclosure documents are inconsistent with that letter. In particular, the letter states that the capital contribution of the Leizhou EJV was

not paid up by Sino-Forest. Moreover, despite Sino-Forest's claim of an amicable parting with the Leizhou Forestry Bureau, the Bureau complained about Sino-Forest to the Zhanjiang Municipal Foreign Economic Relations & Trade Commission. The Bureau's letter dated February 27, 1998 is attached and marked as Exhibit "D".

59. The letter states that Leizhou EJV was a shell and never did any business from the issuance of its business licence and the commencement of the joint venture.
60. I have also identified financial statements for the financial year 1996 in the AIC files of the Leizhou AIC, copies of which are attached and marked as Exhibit "Q". There are no entries for "Return on Investment", "Profit for the year" or "Undistributed profit".
61. Furthermore, in a letter dated June 25, 1998, the Zhangjiang Sino-Forest Technology Center informed the Zhanjiang Administration for Industry and Commerce that "Leizhou Forestry Bureau had failed to contribute forestry land, factory facilities and investment as agreed in the joint venture thus affecting the normal operations of the joint venture". A copy of the letter is attached and marked as Exhibit "E".

(c) Sino-Forest's alleged investment in Shanghai Jin Xiang Timber Ltd. ("SJXT")

62. The statement of claim alleges that Sino-Forest had claimed in its public disclosure that it had acquired a 20% equity interest in "Shanghai Jin Xiang Timber Ltd." ("SJXT"). It further alleged that Sino never invested in a company called "Shanghai Jin Xiang Timber Ltd."
63. We have examined the AIC records and other documents, as set out below, to determine if there was any evidence that Sino-Forest had an equity interest in SJXT. It appears that neither Sino-Forest nor any of its subsidiaries held shares of SJXT.

Sino-Forest's extensive references to SJXT in its disclosure

64. I have read through the disclosure documents of Sino-Forest and reproduce below a number of statements made by Sino-Forest regarding its interest in SJXT.

65. On page 11 of Sino-Forest's 1997 Annual Report, under the heading "Wood-Based Panel and Contract Supply," it was stated that:

To establish strategic partnerships with key local wood product suppliers and to build a strong distribution network for the wood-based product and contract supply businesses, the Company has acquired a 20% equity interest in Shanghai Jin Xiang Timber Ltd. ("SJXT"), an EJV that was formed in 1997 by the Ministry of Forestry in China. The operation of SJXT is to organize and manage the first and only official market for timber and log trading in eastern China. The investment in SJXT will provide the Company good accessibility to a large base of potential customers and companies in the timber and log businesses in eastern China. The total investment of SJXT is estimated to be \$9,662,000 (RMB80 million) of which the Company will be required to contribute approximately \$1,932,000 for 20% of the equity interest. As at December 31, 1997, the Company has made capital contributions to SJXT in the amount of \$1,037,000.

66. At page 27 of Sino-Forest's Annual Information Form, dated May 20, 1998, under "Sales and Marketing", it was stated that:

The Company will initially focus on the Greater Shanghai Region and take advantage of Shanghai Timber's sales network in the region. Currently, the Company is in negotiation with several customers to secure between U.S. \$40 and U.S. \$50 million of contract supply business. To establish strategic partnerships with key local wood product suppliers and to build a strong distribution for the wood-based product and contract supply businesses, the Company has acquired a 20% equity interest in Shanghai Jin Xiang Timber Ltd. ("SJXT"), an EJV that was formed in 1997 by the Ministry of Forestry in China. The operation of SJXT is to organize and manage the first and only official market for timber and log trading in Eastern China. The investment in SJXT is expected to provide the Company with good accessibility to a large base of potential customers and companies in the timber and log businesses in Eastern China.

67. On page 5 of Sino-Forest's Annual Report for the year ended December 31, 1998, under the heading "Lumber and Wood Products Trading – a Promising Opportunity," it was stated that:

Sino-Forest's 20% equity interest in Shanghai Jin Xiang Timber Ltd. ("SJXT" or the Shanghai Timber Market) represents a very significant development for our lumber and wood products trading business. The market is prospering and continues to look very promising. Phase I, consisting of 100 shops, is

completed. Phases II and III are expected to be completed by the year 2000. This expansion would triple the size of the Shanghai Timber Market.

The Shanghai Timber Market is important to Sino-Forest as a generator of significant new revenue. In addition to supplying various forest products to the market from our own operations, our direct participation in SJXT increases our activities in sourcing a wide range of other wood products both from inside China and internationally. The Shanghai Timber Market is also very beneficial to the development of the forest products industry in China because it is the first forest products national sub-market in the eastern region of the country.

In October 1998, we announced an Agency Agreement with SJXT, under which Sino-Forest will provide 130,000 m³ of various wood products to SJXT over an 18 month period. Based on current market prices, we expect this contract to generate significant revenue for Sino-Forest amounting to approximately \$40 million. The market also greatly facilitates Sino-Forest's networking activities, enabling us to build new industry relationships and add to our market intelligence, all of which increasingly leverage our ability to act as principal in our dealings.

68. On page 5 of Sino-Forest's Annual Report for the year ended December 31, 1999, under the heading "Lumber and Engineered Wood Products Trading," it was stated

The lumber and engineered wood products trading business diversifies Sino-Forest's revenue base; provides a high return; and further expands our position in the huge and rapidly growing Asian market for engineered wood products. The Shanghai Timber Market provides us with a market for our wood products as well as being a source of a wide range of wood products from both Chinese and international markets. The market also facilitates networking opportunities for Sino-Forest and enables us to build new and beneficial industry relationships.

69. On pages 12 and 13 of that same Annual Report, in the section titled "Review of Opportunities," it is stated that:

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

and wood products trading business. To date, the timber market has been a significant source of new revenue for Sino-Forest, both as a way to market our products and a way to source a wide range of other wood products from inside China and internationally. Sino-Forest's lumber and wood products trading business generated revenue of \$37.2 million for the Company in 1999. This represents an increase of 219 per cent over the \$11.7 million in revenues generated in 1998 and an increase of 1,591 per cent over the \$2.2 million in revenues generated in 1994.

70. On pages 18-19 of that same Annual Report, in the section titled "Review of Operating Results," it is stated that:

Sales from lumber and wood products trading increased 264% to \$34.2 million compared to \$9.4 million in 1998. The increase in lumber and wood products trading is attributable largely to the increase in new business generated from our investment in Shanghai Jin Xiang Timber Ltd. (SJXT) and a larger sales force in 1999.

71. On page 20 of that same Annual Report, under the heading "Investment in SJXT," it is stated that:

The Company held a 34.4% equity interest in SJXT, an equity joint venture (EJV) that was formed by the Ministry of Forestry in China. The purpose of the investment is to establish strategic partnerships with key local wood products suppliers and to build a strong distribution network for the lumber and wood products trading and the wood-based panel businesses. The total capital investment of SJXT is \$1,509,000 [Chinese renminbi 12.5 million] of which the Company's required capital contribution is \$519,000. As at December 31, 1999, the Company's required capital contribution of \$519,000 was fully made. The operation of SJXT is to organize and manage the first and only national submarket for timber and log trading in eastern China. The investment in SJXT will provide the Company with accessibility to a large base of potential customers and companies in the timber and log businesses in eastern China. The investment in SJXT has contributed to the significant growth of the lumber and wood products trading business, which has recorded an increase in sales of 219% from \$11.7 million in 1998 to \$37.2 million in 1999.

72. In Sino-Forest's Annual Report for the year ended December 31, 2000, on p. 18 under the heading "Investment in SJXT," the following was stated

The Company has a 34.4% equity interest in Shanghai Jin Xiang Timber Ltd. ("SJXT"), an equity joint venture ("EJV") that was formed by the Ministry of Forestry in China. The purpose of the investment is to establish strategic partnerships with key local wood product suppliers and to build a strong distribution network for the lumber and wood products trading and wood-based panel businesses. The total capital investment of SJXT was \$1,509,000 [Chinese renminbi 12.5 million] of which the Company's required capital contribution was \$519,000. As at December 31, 2000, the Company's required capital contribution of \$519,000 was fully made. The operation of SJXT is to organize and manage the first and only national sub-market for timber and log trading in eastern China. The investment in SJXT will provide the Company good accessibility to a large base of potential customers and companies in the timber and log businesses in eastern China.

73. Sino-Forest's 1997 Annual Report indicates that Sino-Forest would acquire a 20% interest in SJXT through an estimated capital contribution of US\$1,932,000 (comprising approximately 20% of the total estimated capitalization of US\$9,662,000 of SJXT). Sino-Forest disclosed that it had made an investment of US\$1,037,000 towards its required contribution. However, the 1999 Annual Report refers to a 34.4% equity interest in SJXT. Further, in contrast to the 1997 report, the 1999 Annual Report indicates that the total capital investment of SJXT was US\$1,509,000, of which the capital contribution of Sino-Forest was US\$519,000. We have examined all the AIC records for SJXT and Sino-Forest disclosures and can find no explanation for how this has changed.

74. Finally, Sino-Forest's disclosure documents issued after its 2000 Annual Report removed all mention of SJXT. The only exception was a reference in Sino-Forest's 2001 Annual Report, which stated, at page 9, that:

One market for Sino-Forest products is the Shanghai Timber Market in eastern China. The Market consists of suppliers offering wood and wood products for the wholesale domestic market.

AIC Filings relating to SJXT/SJXTM

75. I am informed by Yu How Wun, an agent of Intellect Consultancy, and I believe that he conducted a search for the AIC file in the name of "Shanghai Jin Xiang Timber Ltd.", but that he found no company by this name.
76. However, further AIC searches by Yu Ho Wun ascertained that a company by the name of Shanghai Jinxiang Timber Wholesale Market Management Co., Ltd. 上海金翔木材批发市场经营管理有限公司 ("SJXTM") was incorporated on July 9, 1997 and that an individual by the name of Pan Jiajie 潘家杰 (holding Chinese identity # 441623194001061314) was a director. The name Pan Jiajie is the Pinyin or simplified Chinese character name for Poon Kai Kit, who was the president and a director of Sino-Forest. He holds Chinese identity # 441623194001061314 and Hong Kong identity # H328031(6).
77. The AIC file for SJXTM consists of 311 pages in Chinese. I asked Wong Kam Yee to review those pages and I instructed her to identify those pages that disclosed information in relation to the incorporation, legal representatives, shareholders, directors, material changes and financial information of SJXTM up to the year 2005. Attached and marked as Exhibit "U" to Exhibit "EE" are copies of the Chinese versions of those pages and of the English translations
78. According to the AIC records, SJXTM was incorporated on July 9, 1997. The registered address for the company is at No.2755, Fengxiang Road, Nanxiang Town, Jiading District Shanghai 嘉定区南翔镇丰翔路 2755 号. The business of the company is reflected to be "Providing market management services for the dealers of timber and decoration materials."
79. From incorporation until the mid-point of 2005, the following were the shareholders of SJXT holding their shares in the proportions as set out:

Shareholders	Subscription	Percentage
Shanghai Jinsen Material Trade Co., Ltd. 上海金森物资贸易公司	Renminbi 0.5 million	17 (rounded)

Shanghai Changxiang Industrial Co., Ltd. 上海昌翔实业有限公司	Renminbi 2.5 million	83 (rounded)
Total	Renminbi 3 million	100%

80. The recorded directors of SJXTM are as follows:

Name	Document No.	Position
Cai Xuelin 蔡学麟	320204500812001	Chairman
Zhang Jinde 张锦德	310222195204130814	Director
Qu Rongguo 瞿荣国	310222195512230817	Supervisor
Zhang Yulin 张玉林	310222195706110418	Director
Ma Cong 马聪	320106690914243	Director
Poon Kai Kit 潘家杰 @ Pan Jiejie	441623194001061314	Director

81. Consequently, for the period up until mid 2005, SJXTM had a paid up capital of three million renminbi which would have roughly equated to US\$375,000. Shanghai Jinsen Material Trade Co., Ltd., held 17% of the shares and Shanghai Changxiang Industrial Co., Ltd., held 83% of the shares. Exhibit "U" which is a document from the files of the AIC for SJXTM describes SJXTM as a joint venture invested by a collective and a State owned enterprise. In subsequent investigations of the shareholding and structure of both Shanghai Jinsen and Shanghai Changxiang, Shanghai Jinsen is a collective whilst in looking at the the shareholders of Shanghai Changxing, the two companies which hold shares in Shanghai Changxiang are also collectives and not state owned companies. Neither Sino-Forest nor any of its subsidiaries are identified as shareholders.

82. I have also reviewed the financial statements for SJXTM filed with the AIC for the years 2000 and 2002, copies of which are attached and marked as Exhibits "EE".

83. For the financial year ending 31st December 2000, SJXTM had a balance sheet which reflected assets of RMB 47,413,236 and liabilities of RMB 34,673,473. The box for business revenue was not filled in; however profit was RMB 350,348. For the financial year ending 31st December 2002, SJXTM had a balance sheet which reflected assets of RMB

40,349,657 and liabilities of 27,783,161. Business revenue was RMB 66,392,044 on which profit was RMB 12,391.

84. On August 6, 2005, SJXTM's shareholders, Shanghai Jinsen Material Trade Co., Ltd and Shanghai Changxiang Industrial Co., Ltd., agreed to terminate their joint venture. A copy of the Agreement to Terminate Joint Venture Business is attached and marked as Exhibit "X".
85. The agreement states that Shanghai Jinsen Material Trade Co Ltd. decided to terminate its involvement on January 15 2000, but that the termination procedures had not been completed. On completion, Shanghai Jinsen Material Trade Co., Ltd withdrew its capital of RMB 500,000.
86. Subsequently, on August 11, 2005, Shanghai Changxiang Industrial Co. Ltd.¹ withdrew RMB 540,000, thus reducing the capital of SJXTM to RMB 1,960,000. Copies of the capital verification report and a report of the People's Government of Nanxiang Town are attached and marked Exhibits "Z" and "Y".
87. On August 25, 2005, the following changes to SJXTM were approved:

We have received your request on Jinxiang Timber Wholesale Market's restructuring and capital increase. Upon review, we agree that Shanghai Jinxiang Timber Wholesale Market 上海金翔木材批发市场 changes from a collective ownership to a limited company (Joint Venture by domestic companies) and increases its registered capital to RMB8.46 million, including RMB1.96 from Shanghai Nanxiang Industrial Development Zone Industrial Co., Ltd. 上海南翔工业开发区实业有限公司 and RMB6.50 million from Shanghai Jincai Industrial Co., Ltd. 上海金材实业有限公司. Its business scope covers market management service for suppliers of timbers, plywood and decorative materials in Jinxiang Timber Market. We hope that your company would get changes registered in time.

A document issued by the People's Government of Jiading District Nanxiang Town is attached and marked as Exhibit "CC".

¹ known by its new name, Shanghai Nanxiang Industrial Development Zone Industrial Co., Ltd.

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88. Subsequent to these changes the following people became directors of SJXTM: Zhang Jinde 张锦德, Poon Kai Kit 潘家杰, Zhang Yulin 张玉林, Ma Cong 马聪, Cai Xuelin 蔡学麟. Attached and marked as Exhibit "DD" are a resolution of the company and certificates of appointment as directors.

AIC Filings relating to SJXTM's shareholders

AIC Filings relating to Shanghai Jinsen (SJXTM's shareholder until 2005)

89. Shanghai Jinsen Material Trade Co., Ltd ("Shanghai Jinsen") is one of the two shareholders of SJXTM. The filing with the AIC consisted of 37 pages in Chinese. I asked Wong Kam Yee to review those 37 pages and instructed her to identify the pages which disclosed information in relation to the incorporation, legal representatives, shareholders, directors, material changes and financial status of Shanghai Jinsen. Attached and marked as Exhibit "FF" to Exhibit "JJ" are those Chinese-language pages, along with the English translations.
90. According to the AIC records, the Shanghai Jinsen business licence was revoked on February 4, 2005. Prior to that date, it was a collective-owned company and no shareholders or directors are listed. None of the individuals listed as management and staff appear to relate to Sino-Forest or its subsidiaries and associates. A copy of the collective staff list is attached and marked as Exhibit "GG".
91. Further, on February 4, 1993, a firm of accountants under the name of Huihua CPA firm listed on the capital verification report, carried out a capital verification. It showed that the capital subscription of Shanghai Jinsen was solely from its own funds. There was no suggestion of external investment and no changes have been filed over the period from 1997 to 2000, when Sino-Forest alleged it had a capital interest in Shanghai Jin Xiang Timber Limited. A copy of the capital verification report is attached and marked as Exhibit "HH".

Company Name	Shanghai Jinsen Material Trade Co., Ltd 上海金森物资贸易公司
Registration No.	3101151005437
Registered Address	No. 1208, Pudong Avenue 浦东大道 1208 号
Legal Representative	Ji Zonglin 纪宗林

Registered Capital	RMB1 million
Date Established	--
Registering Authority	Shanghai AIC Pudong New District Branch
Business Scope	Wood and related products, metal materials, chemical materials, building materials, construction hardware, auto parts, hardware
Business model	Wholesale, retail, and purchase & sale agency
Status	Revoked
Date of revoking	February 4, 2005

AIC Filings relating to Shanghai Changxiang

92. Shanghai Changxiang Industrial Co., Ltd. 上海昌翔实业有限公司 (“Shanghai Changxiang”) is the second shareholder of SJXTM. The filings with the AIC consisted of 84 pages in Chinese. I asked Wong Kam Yee to review those 84 pages and instructed her to identify the pages which disclosed information in relation to the incorporation, legal representatives, shareholders, directors, material changes and/or financial status of Shanghai Changxiang. Attached and marked as Exhibit “KK to Exhibit “QQ” are those Chinese-language pages and the English translations. I note that Shanghai Changxiang has changed its name to Shanghai Nanxiang Industrial Development Zone Industrial Co Ltd.

93. Details relating to this company compiled from the AIC file are as follows:

Company Name	Shanghai Nanxiang Industrial Development Zone Industrial Co., Ltd 上海南翔工业开发区实业有限公司
Registration No.	310114001805623
Registered Address	Room 104, Building No. 4, Qianjiaqiao, Shejia Village, Nanxiang Town, Jiading District, Shanghai 嘉定区南翔镇沈家村钱家桥 4 幢 104 室
Legal Representative	Xu Long 徐龙
Registered Capital	RMB12 million
Date Established	November 19, 1996
Period of Operation	From 1996-11-19 to 2026-11-18
Company Type	Limited Company
Registering Authority	Shanghai AIC Jiading Branch
Business Scope	Sales of hardware, building materials, decoration materials, steel, machinery and electronic products, garments, daily necessities, automobile accessories, plastic products; business consulting

Status	Active
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94. The share holdings of Shanghai Changxiang are as follows:

Name	Shanghai Nanxiang Economic Development Co., Ltd 上海南翔经济发展总公司
Subscription (RMB)	10,000,000
Percentage	83.3%

Name	Jiading Nanxiang Industrial Co., Ltd 嘉定南翔工业公司
Subscription (RMB)	2,000,000
Percentage	16.7%

95. The directors of Shanghai Changxiang are listed as follows:

Name	Position
Zhang Qingzhong 章庆忠	Director
Xu Long 徐龙	Director
Zhang Jinde 张锦德	Executive Director
Li Yuxing 李玉兴	Supervisor

96. From an examination of the AIC file, there is no identifiable capital involvement by Sino-Forest, its subsidiaries or associates in Shanghai Changxiang. I have obtained the two AIC files for those companies which are shareholders of Shanghai Changxiang namely Shanghai Nanxiang Economic Development Co., Ltd and Jiading Nanxiang Industrial Co., Ltd. I instructed Wong Kam Yee to examine these filings. She advises me, and I believe, that there is no apparent Sino-Forest capital involvement in these two companies as they are both collectives and have not filed details of any shareholders or directors. They have filed details of their Legal Representatives and none of them are names which have been associated as far as has been determined, with Sino-Forest. Consequently, it is unclear how Sino-Forest could hold its stated shareholding over the 1997 to 2000 period in SJXTM.

AIC Filings relating to Shanghai Jincui (SJXTM's shareholder from 2005)

97. Shanghai Jincai Industrial Co., Ltd 海金材实业有限公司 (“Shanghai Jincai”) is reflected in the AIC files as holding share capital of SJXTM totalling RMB 6,500,000 effective from about August 25, 2005. This is also around the time that Poon Kai Kit became a director of SJXTM. Shanghai Jincai filings with the AIC consisted of 65 pages in Chinese. I asked Wong Kam Yee to review those 65 pages and instructed her to identify the pages that disclose information in relation to the incorporation, legal representatives, shareholders, directors, material changes and/or financial status of Shanghai Changxiang. Attached and marked as Exhibit “RR” to Exhibit “XX”, are those Chinese-language pages, along with the English translations.
98. The AIC records for Shanghai Jincai indicate the company was established on August 22, 2005. It is a limited liability company with an issued registered capital of RMB 15,000,000. Pan Jiajie 潘家杰 (i.e. Kai Kit Poon) is the legal representative. The following is a summary of the AIC records.

As at February 8, 2012

Company Name	Shanghai Jincai Industrial Co., Ltd. 上海金材实业有限公司
Registration No.	310114001483490
Registered Address	No. 8 Fengxiang Road, Nanxiang Industrial Development Zone, Jiading District, Shanghai 上海市嘉定区南翔工业开发区丰翔路8号
Legal Representative	Pan Jiajie 潘家杰
Registered Capital	RMB 15,000,000
Date Established	August 22, 2005
Period of Operation	August 22, 2005 to August 21, 2015
Company Type	Limited Liability Company
Registering Authority	Shanghai Jiading AIC
Business Scope	Processing of wooden products; sales of woods, manmade boards, plywood and architecture decoration materials; commercial consultancy; conference service; design and production of computer graphics.
Status	Active

Shareholders

Name	Subscription (RMB)	Percentage
Pan Jiajie 潘家杰	RMB 10,500,000	70%

Cai Xuelin 蔡学麟	RMB 4,500,000	30%
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Key Executives

Name	Position	ID No.
Pan Jiajie 潘家杰	Executive Director	441623194001061314
Cai Xuelin 蔡学麟	Supervisor	32020419500812001X

Name	Pan Jiajie 潘家杰
Nationality	Chinese
Date of Birth	January 6, 1940
Address	No. 3 Gongyuan Road, Yuanshan Township, Lianping County, Guangdong 广东省连平县元善镇公园路3号
ID No.	441623194001061314
Photo	Nil

Changes

27- Nov -2007 – Change of registration number

Before	After
3101142119687	310114001483490

27- Nov -2007 – Change of shareholders

Before	After
Ma Cong 马聪 (ID No.: 320106690914243) RMB 10,500,000 - 70%	Pan Jiajie 潘家杰 (ID No.: 441623194001061314) RMB 10,500,000 - 70%
Cai Xuelin 蔡学麟 (ID No.: 320204500812001) RMB 4,500,000 – 30%	Cai Xuelin 蔡学麟 (ID No.: 32020419500812001X) RMB 4,500,000 – 30%

27- Nov -2007 – Change of directors

Before	After
Ma Cong 马聪 (ID No.: 320106690914243) Executive Director– Legal Representative	Pan Jiajie 潘家杰 (ID No.: 441623194001061314) Executive Director– Legal Representative
Cai Xuelin 蔡学麟 (ID No.: 320204500812001) Supervisor	Cai Xuelin 蔡学麟 (ID No.: 32020419500812001X) Supervisor

99. The first application for a company name was under that of Shanghai Jinjia Industrial Co Ltd. Shanghai Jincai was one of the alternative names. This is the only reference that has

been found in any of the shareholders files where the name "Sino-Forest" has been identified. The application for pre-approval of company name is attached and marked as Exhibit "RR".

100. The two initial investors in Shanghai Jincai, as of July 26 2005, were Ma Cong (RMB 10,500,000) and Cai Xuelin (RMB 4,500,000). It was not until November 13, 2007 that Poon Kai Kit contributed RMB 10,500,000. This corresponded to the withdrawal of an identical amount of capital by Ma Cong. Copies of documents evidencing these events are attached and marked as Exhibits "VV" and Exhibit "XX". In any event, I can find no capital interest in the name of Sino-Forest, its subsidiaries or associates in Shanghai Jincai at any time.

Findings

101. As set out above, Sino-Forest claimed in its various disclosure documents that it initially had a 20% interest in the capital of SJXT, which purportedly increased to 34.4%. However, based on our review of the AIC records there appears to have been no Sino-Forest subsidiary holding shares in SJXTM. Moreover, the paid up capital of SJXTM over the period to the year 2005 does not appear to equate to that which was stated during that period.

(d) The alleged misrepresentations relating to Homix Limited

102. The statement of claim alleges that on January 12, 2010, Sino-Forest issued a press release in which it announced the acquisition by one of its wholly-owned subsidiaries of Homix Limited. The statement of claim alleges that Sino-Forest failed to disclose that Homix was a related party to Sino-Forest, contrary to Canadian generally accepted accounting principles.

103. Our review of the AIC records indicates that one of Sino-Forest's vice presidents was also a major shareholder of a Homix subsidiary at the time of the acquisition by Sino-Forest.

Sino-Forest's references to Homix in its disclosure

104. I have read through the disclosure documents of Sino-Forest and reproduce below a number of statements made by Sino-Forest regarding its interest in Homix.

105. In the Sino-Forest 2009 Annual Report, on page 20, it states:

HOMIX acquisition

In accordance with our strategy to focus on research and development and to improve the end-use of our wood fibre, we acquired HOMIX Ltd. in January 2010 for \$7.1 million. This corporate acquisition is small but strategically important adding valuable intellectual property rights and two engineered-wood processing facilities located in Guangdong and Jiangsu Provinces to our operations. Homix has developed environment-friendly technology, an efficient process using recomposed technology to convert small-diameter plantation logs into building materials and furniture. Since we plan to grow high volumes of eucalypt and other FGHY species, this acquisition will help us achieve our long-term objectives of maximizing the use of our fibre, supplying a variety of downstream customers and enhancing economic rural development.

106. At page 31 of that Annual Report, the following statement was made:

Acquired HOMIX Limited on January 4, 2010, the Company acquired all of the issued and outstanding shares of HOMIX Limited ("HOMIX"), a company engaged in research and development and manufacturing of engineered-wood products in the PRC, for an aggregate consideration of \$7,100,000. The acquisition included HOMIX's facilities and its patents in the PRC.

107. On p. 81 of that Annual Report, it states:

SUBSEQUENT EVENT

On January 4, 2010, the Company acquired all of the issued and outstanding shares of Homix Limited, which is engaged in research & development and in manufacturing engineered-wood products, for aggregate cash consideration of \$7.1 million.

108. On page 5 of Sino-Forest's 3rd quarter 2010 report to shareholders, it stated that:

Acquired Homix Limited

On January 4, 2010, the company acquired all of the issued and outstanding shares of Homix limited ("Homix"), a company engaged in research and development and manufacturing of engineered-wood products in the PRC, for an aggregate consideration of \$7,100,000. The acquisition included homix's facilities and its patents in the PRC.

Hua Chen's role at Sino-Forest

109. On page 85 of Sino-Forest's 2009 Annual Report, the Senior Vice President Administration and Finance for China for Sino Forest is identified as Hua Chen. It states that she joined Sino-Forest in 2002.

110. I have conducted enquiries to identify the Chinese identity card number of Hua Chen, or as she would be known in China, "Chen Hua". In this context, I have been advised by Wong Kam Yee as a result of name searches that she was a legal representative of a number of companies associated with Sino-Forest in China, including:

- i. Sino-Forest (Suzhou) Trading Co., Ltd;
- ii. Sino-Forest (Guangzhou) Co., Ltd;
- iii. Sino-Forest (China) Investment Co., Ltd;
- iv. Sino-Forest (Yangjiang) Co., Ltd;
- v. Sino-Forest (Heyuan) Co., Ltd;
- vi. Sino Wood (Heyuan) Co., Ltd; and
- vii. Sino-Forest (Anhui) Co., Ltd.

111. From this research, I have determined that Hua Chen has been issued with an identity card by the Chinese government authorities, # 320503196107311027.

Background on Homix Limited and Hua Chen's role in Homix

112. Homix Limited is registered in the British Virgin Islands, and has two subsidiary companies incorporated in the PRC as follows:

Guangzhou Dacheng Panyu Wood Company Ltd.

广州市番禺大成木业有限公司

Jiangsu Dayang Wood Company Ltd

江苏大阳木业有限公司

113. The AIC records relating to Jiangsu Dayang Wood Co., Ltd. 江苏大阳木业有限公司 (“Jiangsu Dayang”) included a print-out of corporate changes and information relating to the financial status of the company. Wong Kam Yee translated the records showing the historic and current shareholding, legal representative and directorships in that company. Copies of the Chinese print-out with accompanying English translations are attached and marked as Exhibit “YY”.

114. The AIC records show that Jiangsu Dayang was established on August 19, 2003. It is a limited company with registered capital of RMB 80 million. Allen Chan Tak Yuen 陈德源 (i.e. Allen Chan) is the legal representative. Details of the current business registration and the legal representatives, directors and shareholders are as follows:

Company Name	Jiangsu Dayang Wood Co., Ltd. 江苏大阳木业有限公司
Registration No.	321300000010898
Registered Address	No. 322 Fumin Avenue, Economic Development Zone, Suqian City 宿迁经济开发区富民大道 322 号
Legal Representative	Chan Tak Yuen 陈德源
Registered Capital	RMB 80 million
Date Established	August 19, 2003
Period of Operation	55 years – (2003-08-19 to 2058-08-19)
Company Type	Limited Company (WOFE)
Registering Authority	Jiangsu Suqian AIC
Business Scope	Wood processing and engineering technology consultancy service; research, development, manufacture and sale of artificial boards.
Status	Active

115. Homix Limited is currently the sole shareholder of Jiangsu Dayang. After Sino-Forest acquired Homix, the key executives of Jiangsu Dayang were as follows:

Name	Position	ID No.
Chan Tak Yuen 陈德源	Chairman of the board	E459151(1)
Li Mingchen 李明臣	General Manager	110108197204252319

Chen Hua 陈华	Director	320503196107311027
Zhao Weimao 赵伟茂	Director	110108195711182213
Wu Yongzheng 吴永争	Supervisor	452502197110098238

116. The following represents corporate changes to Jiangsu Dayang from 2003 forward:

Date	Status Change	Before Date	After Date
25-11-2003	Registered Capital	RMB 1 million	RMB 6 million
12-12-2003	Name	Suqian Dayang Wood Co., Ltd.	Jiangsu Dayang Wood Co., Ltd.
5-3-2004	Increase in Registered Capital	RMB 6 million	RMB 10 million
	Increase in Paid-in Capital	RMB 35.9 million	RMB 10 million
	Shareholders	Chen Hua 陈华 (RMB 1.8 million) Huang Qingliu (RMB 3.6 million) Xiong Xueping (RMB 0.6 million)	Chen Hua 陈华 (RMB 3 million) Huang Qingliu (RMB 6 million) Xiong Xueping (RMB 1 million)
21-07-2004	Directors	Chen Hua (Chairman of the board of directors) Xiong Xueping (Director/General Manager) Lin Xiaomei (Supervisor) Huang Qingliu (Director) Xiong Fangwen (Supervisor) Liao Changlu (Chairman of the board of supervisors)	Chen Hua (Chairman of the board of directors) Wang Huisheng (Director/General Manager) Wang Wei (Supervisor) Huang Qingliu (Director) Chen Liyun (Supervisor) Li Qiong (Supervisor)
	Shareholders	Chen Hua (RMB 3 million) Huang Qingliu (RMB 6 million) Xiong Xueping (RMB 1 million)	Chen Hua (RMB 3 million) Huang Qingliu (RMB 6 million) Wang Huisheng (RMB 0.5 million) Huang Zhigang (RMB 0.5 million)
16-11-2004	Legal	Chen Hua	Guo Qingquan

	Representative		
	Directors	Chen Hua (Chairman of the board of directors) Wang Huisheng (Director/General Manager) Wang Wei (Supervisor) Huang Qingliu (Director) Chen Liyun (Supervisor) Li Qiong (Supervisor)	Guo Qingquan (Chairman of the board of directors) Wang Huisheng (Director/General Manager) Huang Zhigang (Director/Deputy General Manager) Gao Meng (Director) Luo Guilian (Director) Wang Wei (Supervisor) Chen Liyun (Supervisor) Li Qiong (Supervisor)
	Shareholders	Chen Hua (RMB 3 million) Huang Qingliu (RMB 6 million) Wang Huisheng (RMB 0.5 million) Huang Zhigang (RMB 0.5 million)	Guo Qingquan (RMB 3 million) Luo Guilian (RMB 3 million) Gao Meng (RMB 3 million) Wang Huisheng (RMB 0.5 million) Huang Zhigang (RMB 0.5 million)
12-04-2006	Address	Economic Development Zone, Suqian City	No. 322 Fumin Avenue, Economic Development Zone, Suqian City
28-01-2008	Shareholders	Guo Qingquan (RMB 3 million) Luo Guilian (RMB 3 million) Gao Meng (RMB 3 million) Wang Huisheng (RMB 0.5 million) Huang Zhigang (RMB 0.5 million)	Guo Qingquan (RMB 3 million) Chen Hua (RMB 3 million) Gao Meng (RMB 3 million) Wang Huisheng (RMB 0.5 million) Huang Zhigang (RMB 0.5 million)
29-06-2010	Registered Capital	RMB 10 million	RMB 80 million
	Paid-in Capital	RMB 10 million	RMB 80 million
	Legal Representative	Huang Zhigang	Chan Tak Yuen
	Directors	Huang Zhigang (Chairman of the board/General Manager)	Chan Tak Yuen (Chairman of the board) Chen Hua/Zhao Weimao

		Liao Chunhe (Director) Cheng Lin (Director) Wang Huisheng (Supervisor)	(Director) Wu Yongzheng (Supervisor) Li Mingchen (General Manager)
	Shareholder	HOMIX LIMITED (RMB 10 million)	HOMIX LIMITED (RMB 80 million)

117. Thus, the AIC records reflect that Chen Hua was a shareholder of Jiangsu Dayang from August 19, 2003 to November 16, 2004 when she divested herself of her shares. On January 28, 2008, she again became a shareholder and there is no record that she has since disposed of her shares.

118. The AIC records further reflect that Chen Hua was a legal representative of Jiangsu Dayang from August 19, 2003 to November 16, 2004, and chairperson of the board of directors of Jiangsu Dayang for the same period.

Findings regarding disclosure of Homix as a related-party

119. As set out above, our investigation reveals that Chen Hua was a shareholder and legal representative of a Homix subsidiary at the time a Sino-Forest subsidiary acquired Homix. However, I have not identified any disclosure in the published material of Sino-Forest that reflects the previous involvement of Chen Hua with Jiangsu Dayang.

120. The Second Report states that the Independent Committee has evidence that Chen Hua did not hold a position in Jiangsu Dayang after January 28, 2008. However, the documents I have reviewed, as indicated above, indicate that Chen Hua continued to be a shareholder of Jiangsu Dayang after this date.

Records of Homix patents

121. An Intellect Consultancy agent, Chiu Kong Sang, has advised me and I believe that he has searched for any patents in the name of Jiangsu Dayang. A copy of the search is attached and marked as Exhibit "ZZ".

122. The PRC State Intellectual Property Office database records revealed that Jiangsu Dayang Wood Co., Ltd 江苏大阳木业有限公司 has two registered patents in the PRC as follows:

Application Date	Patent	Applicant No.	Inventor
2008-08-22	Wood dyeing method and equipment 木材染色的方法及其设备	200810142046.1	Che Binglei 车炳雷; Huang Xianshun 黄衍顺
2008-08-22	Wood dyeing equipment 木材染色的设备	200820146919.1	Che Binglei 车炳雷; Huang Xianshun 黄衍顺

123. As indicated earlier in this affidavit, Sino-Forest's 2009 Annual Report states that "Homix has developed environment-friendly technology, an efficient process using recomposed technology to convert small-diameter plantation logs into building materials and furniture". This description of Homix's patents is different than the patents identified in the chart above, which are described as patents for wood dyeing.

124. We have also reviewed the financial statements filed by Jiangsu Dayang for the 2009 period, immediately prior to the acquisition of Homix by Sino-Forest. Choy Suk Chung who is a Chinese accountant employed by Intellect Consultancy Ltd has examined the accounts and advised me of the following information:

Item	As at Dec. 31, 2009
Current Assets	RMB 17,353,803.26
Total Assets	RMB 45,711,989.57
Current Liabilities	RMB 47,995,288.18
Total Liabilities	RMB 47,995,288.18
Share Capital	RMB 10,000,000.00
Shareholder's Equity	RMB -2,283,298.61
Liabilities and Shareholder's Equity	RMB 45,711,989.57
Revenue	RMB 29,573,000.00
Tax	RMB 1,387,000.00
Net Profit	RMB -6,711,993.24

125. This shows negative shareholders equity and a negative net profit for Jiangsu Dayang in the year immediately preceding the acquisition of Homix Limited.

126. We also review the AIC records for Guangzhou Panyu Dacheng Wood Co., Ltd. (“Panyu Dacheng”). These records consist of 261 pages in Chinese. I asked Wong Kam Yee to review those 261 pages and instructed her to identify those pages that disclose information in relation to the incorporation, legal representatives, shareholders, directors, material changes and/or financial status of Panyu Dacheng. Copies of those Chinese documents with English translations prepared by Madam Wong Kam Yee are attached and marked as Exhibits “AAA” to Exhibit “OOO”.
127. The AIC records show that Panyu Dacheng was established on July 21, 1998. It is a limited company with an issued registered capital of RMB 1 million. Chan Tak Yuen (“Allen Chan”) is the legal representative.

Company Name	Guangzhou Panyu Dacheng Wood Co., Ltd. 广州市番禺大成木业有限公司
Registration No.	440126400000999
Registered Address	Zhi Village, Dashi Street, Panyu District, Guangzhou 广州市番禺区大石街植村
Legal Representative	Chan Tak Yuen 陈德源
Registered Capital	RMB 1 million
Date Established	21-July-1998
Period of Operation	20 years – (21-July-1998 to 21-July-2018)
Company Type	Limited Company (WOFE)
Registering Authority	Guangzhou Panyu AIC
Business Scope	Research, development and manufacture of artificial boards; sale of products manufactured on itself; wood processing and engineering technology consultancy service.
Status	Active

Shareholder

Name	Subscription (RMB)	Percentage %
HOMIX LIMITED 恒大控股有限公司	RMB 1 million	100%

Key Executives

Name	Position
Chan Tak Yuen 陈德源	Chairman of the board
Liao Chunhe 廖春和	Manager

Name	HOMIX LIMITED 恒大控股有限公司
Address	P.O. Box 3321, Drake Chambers, Road Town, Tortola, British Virgin Islands
Registration No.	1445474

Changes

Date	Change	Before Date	After Date
18-12-2000	Name	Panyu City Dacheng Wood Co., Ltd. 番禺市大成木业有限公司	Panyu Dacheng Wood Co., Ltd. 番禺大成木业有限公司
	Address	Zhi Village, Dashi Township, Panyu City 番禺市大石镇植村	Zhi Village, Dashi Township, Panyu District, Guangzhou 广州市番禺区大石镇植村
06-04-2006	Shareholders	Huang Yanshun 黄衍顺 (RMB 0.1 million) Cai Yingxin 蔡迎新 (RMB 0.9 million)	Huang Yanshun 黄衍顺 (RMB 0.1 million) Luo Guilian 罗贵连 (RMB 0.9 million)
25-06-2008	Address	Zhi Village, Dashi Township, Panyu District, Guangzhou 广州市番禺区大石镇植村	Zhi Village, Dashi Street, Panyu District, Guangzhou 广州市番禺区大石街植村
	Business Term	No Limit	1998-07-21 to 2018-07-21
11-11-2008	Shareholders	Huang Yanshun 黄衍顺 (RMB 0.1 million) Luo Guilian 罗贵连 (RMB 0.9 million)	Homix Limited 恒大控股有限公司 (RMB 1 million)
	Legal Representative	Huang Yanshun 黄衍顺	Huang Zhigang 黄志刚
	Directors	Huang Yanshun 黄衍顺 (Executive Director/Manager) Gao Xueling 高雪玲	Huang Zhigang 黄志刚 (Chairman of the board/Manager) Cheng Lin 成林/Liao

		(Supervisor)	Chunhe 廖春和 (Director) Wang Huisheng 汪惠生 (Supervisor)
	Company Type	Limited	Limited (WFOE)
	Business Scope	Research, development, processing and sale of artificial boards, wood and wooden products; engineering technology consultancy service.	Research, development and manufacture of artificial boards; sale of products manufactured on itself; wood processing and engineering technology consultancy service.
	Registration No.	4401262000027	企独粤穗总字第304265号
30-07-2009	Directors	Huang Zhigang 黄志刚 (Chairman of the board/Manager) Cheng Lin 成林/Liao Chunhe 廖春和 (Director) Wang Huisheng 汪惠生 (Supervisor)	Huang Zhigang 黄志刚 (Chairman of the board/Manager) Chen Binghua 陈炳华 /Liao Chunhe 廖春和 (Director) Qian Kaipeng 钱开鹏 (Supervisor)
	Registration No.	企独粤穗总字第304265号	440126400000999
24-05-2010	Legal Representative	Huang Zhigang 黄志刚	Chan Tak Yuen 陈德源
	Directors	Huang Zhigang 黄志刚 (Chairman of the board/Manager) Chen Binghua 陈炳华 /Liao Chunhe 廖春和 (Director) Qian Kaipeng 钱开鹏 (Supervisor)	Chan Tak Yuen 陈德源 (Chairman of the board) Chen Hua 陈华/Zhao Weimao 赵伟茂 (Director) Wu Yongzheng 吴永争 (Supervisor)
29-09-2010	Manager	Huang Zhigang 黄志刚	Liao Chunhe 廖春和

128. We have also reviewed Panyu Dacheng financial statements for the 2009 period, immediately prior to the acquisition of Homix by Sino-Forest. Choy Suk Chung has examined the accounts and advised me of the following information:

Item	As at Dec. 31, 2009
Current Assets	RMB 14,875,830.19

Non Current Assets	RMB 10,318,615.01
Total Assets	RMB 25,194,445.20
Current Liabilities	RMB 10,979,346.19
Non Current Liabilities	RMB 13,323,155.88
Total Liabilities	RMB 24,302,502.07
Share Capitals	RMB 1,000,000.00
Shareholder's Equities	RMB 891,943.13
Liabilities and Shareholder's Equities	RMB 25,194,445.20
Revenue	RMB 20,612,728.43
Net Profit	RMB 197,755.43

129. I am advised by Chiu Kong Sang of Intellect Consultancy, and I believe, that he conducted a search of the PRC State Intellectual Property Office database records. These reflect that Guangzhou Panyu Dacheng Wood Co., Ltd 广州市番禺大成木业有限公司 has not registered any patent designs in the PRC.

(c) The Possession of Maps in Mainland China by foreigners or foreign commercial organisations

130. The Final Report of the Independent Committee of the Board of Directors of Sino- Forest Corporation, dated January 31, 2012 states:

The Second Interim Report discussed the absence of maps in documentation for BVI timber purchase transactions. In response to these concerns, Management provided information regarding various issues regarding the due diligence conducted prior to entering into a BVI timber purchase contract, including maps which in the case of timber purchases were provided through forestry bureaus.

Management also provided copies of news articles regarding foreigners being subject to criminal sanctions in China for possessing maps and other geographical information that were deemed to be classified as state secrets. The IC has reviewed these responses from Management and was unable to verify all of Management's assertions regarding forestry maps or that forestry mapping information would be regarded as subject to such sanctions but recognizes that this is an area of the law in China where a conservative approach may be prudent.

In mid December 2011, Management provided a document entitled "Detailed Description of Locating Forestry Resources in China" which explains how the locations of BVI standing timber assets are determined. This document has been provided to the Board. It indicates that although certain types of stand maps and these land descriptions are available as part of PRCs, maps are not

readily available for continuing possession by persons trading in standing timber without a lease as is the case of the transactions by SF's BVI model.

Management indicates that such maps usually can be borrowed from forestry bureaus (but not retained) and are used by the survey companies as part of the Company's due diligence. Management believes the ability of a foreign company to retain such maps is unclear and has adopted a cautious approach to this issue. The advice received by the IC from independent forestry experts is that this practice is not inconsistent with the practice of other parties in China who buy and sell standing timber without leasing the underlying land.

131. From my own personal knowledge of working in China as the head of the anti-smuggling task force prior to 1997, and whilst the Assistant Commissioner of Police handling Hong Kong and Mainland China border issues, and more recently in my position as Executive Director of Security and Legal Services with the Hong Kong Jockey Club, I have experience of and exposure to the Mainland Chinese position on the public possession of and use of area maps of China.

132. From my experience, the official position of the Mainland Chinese Government and application within the Provinces has changed considerably from since 2000. Following the directive of Deng Xiao Peng regarding the opening up of China to foreign trade, there are now far fewer restrictions on the possession and use of maps. On my first visit to China in the early 1990's it was difficult to obtain any accurate provincial level maps. However, since that time, China has advanced to the stage where it now produces its own maps for Mainland China manufactured Global Positioning Systems ("GPS"), which are freely available for purchase by the general public. Furthermore, most new high end vehicles produced and sold in China are now equipped with a built-in GPS, utilising accurate maps and latitude and longitude location identification.

133. In addition, visitors to China are widely encouraged to use city maps on hand held GPS. Furthermore, China is covered by 'Google' (internet search engine) satellite photographs and map overlays to which access is not restricted in Mainland China.

134. As the executive director of security and corporate legal services at the Hong Kong Jockey Club, I was involved in the land site selection and acquisition for a new thoroughbred horse

training facility in a rural area of Guangdong Province. This is the southernmost province of China bordering Hong Kong. Detailed land maps including property ownership boundaries and satellite imaging were freely available at the various sites which were examined.

135. The only exception is that possession of a detailed map of a military installation could carry the risk of arrest and enquiry by the Public Security Bureau. However, I believe that this would also be a matter for investigation in countries other than the PRC.

136. Based on my experience, given that Sino-Forest and its subsidiaries are in an industry in which maps would be an integral part of their business, their business is legally recognised in China, and forestry title boundaries would have to be designated by means of maps, I find it implausible that Sino-Forest is unable to secure maps of the areas for which they claim to have legal title.

(f) Sonic Jita

137. At Pages 67 to 70 of the Second Report, under "RELATIONSHIPS", the allegations of Muddy Waters in relation to Yuda Wood and Sonic Jita are discussed extensively.

138. In its investigation, the Independent Committee set out the following information:

(d) Statutory Declarations

The issues of SF's relationship with Yuda Wood were still being examined by the IC Advisors in the middle of August, 2011, at a time when the Company's quarterly report for the period ending June 30, 2011 ("Q2s") were being prepared.

To address certain issues relating to Yuda Wood pending completion of the IC's review, statutory declarations were obtained by the IC and the Audit Committee from the following members of Management at the IC's request:

- Allen Chan;
- Albert Ip; and
- Chen Jun.

The declarations were prepared with assistance from the Company's counsel and

were sworn on August 15, 2011.

In his statutory declaration, Allen Chan declared that:

(i) he did not hold a direct or indirect or beneficial shareholding interest in Yuda Wood, Beijing Sonic Jita or Hong Kong Sonic Jita or their affiliates, and was not involved in their operations and that he did not have other personal arrangements with or entitlements from these entities; and (ii) to his knowledge, no officer, director or employee of SF held a direct or indirect or beneficial shareholding interest in Yuda Wood, Beijing Sonic Jita or Hong Kong Sonic Jita or their affiliates or was involved in their operations, and that to his knowledge, no other officer, director or employee of SF had any other personal arrangements with or entitlements from these entities.

In his statutory declaration, Albert Ip:

(i) denied having ever been an executive of Hong Kong Sonic Jita, held himself out to be a representative of Hong Kong Sonic Jita or entered into a contract in 2005 with Hong Jiang City, Hunan Province, on behalf of Hong Kong Sonic Jita; and

(ii) further declared that Zhan Xiaokun and Chen Jun did not become employees of SF until after resigning as directors from, and selling their shares in, Hong Kong Sonic Jita.

However, searches at Hong Kong's Companies Registry in August 2011 indicated that Chen Jun remained a director and shareholder of Hong Kong Sonic Jita since joining SF in July 2010. In response to this finding, SF counsel arranged for Chen Jun to make a statutory declaration in which he declared that he had been only a nominee shareholder in Hong Kong Sonic Jita, and had submitted a letter to the other shareholder and director of Hong Kong Sonic Jita, Huang Ran, on June 26, 2010, tendering his resignation as director and asking to transfer his shares to Huang Ran. Huang Ran appears, from the documents exhibited to Chen Jun's statutory declaration, to have only filed documents implementing such requests with Hong Kong's Companies Registry and Stamp Duty office one year later, on June 10, 2011. Those documents were dated July 30, 2010, and included minutes of a shareholders' meeting allegedly held in Hong Kong on July 30, 2010, and attended by Chen Jun, at which his resignation as director and sale of his shares was approved. Chen Jun stated in his declaration that he did not attend any such meeting.

139. Searches have been conducted by Chiu Kong Sang of Intellect Consultancy Ltd for documents filed with the High Court Registry in Hong Kong and by Tse Siu Cheung, an

employee of Intellect Consultancy Ltd in relation to any litigation in which Sino-Forest or subsidiaries of Sino-Forest has been involved. Our searches indicate that litigation was commenced in Hong Kong in which Hua Dao Shipping (Far East) Ltd and BM Shipping Group SRL sued Sino-Wood Partners in High Court Action 5439 of 1998. Sonic Jita Engineering Company Limited was identified in the statement of claim as an associated company of Sino-Wood Partners Ltd. A copy of the writ has been obtained from the Court Registry, and is attached and marked as Exhibit "PPP".

140. Searches have been conducted by myself on-line through ICRIS which is the official web site of the Registrar of Companies in Hong Kong. All of the statutory information filed by Sonic Jita Engineering Company Ltd has been downloaded for the period 2006 to the most recent return on 22nd August 2011. Copies of the documents are attached and marked Exhibit "QQQ". I have prepared a schedule of the information which has been filed with the Registrar of Companies as follows:

Company No.	435844
Company Name	Sonic Jita Engineering Ltd. (On the date of incorporation, the company name was Combine (Far East) Ltd. 永合(遠東)有限公司, the company changed to Sino-Fiber Partners Ltd. 嘉安纖維有限公司 on November 30, 1993, Vicondia Ltd. on September 7, 1995 and changed to the current name on August 1, 1997.)
Date of Incorporation	15-July-1993
Corporate Secretary	Panocean Secretarial Services Ltd. (CR No. 227964) 美信秘書服務有限公司 Room 1708, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Hong Kong
	Room 1708, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Hong Kong
	The total nominal value is HKD10,000. The authorized share capital is 10,000 shares which were issued, each with a nominal value of


	HKD1.00.
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141. According to the information we obtained from ICRIS, Chen Jun was appointed a director of Sonic Jita on February 2, 2007. The other director was Huang Run and the return was filed with the Registrar of Companies on February 2, 2007, the same date of the appointment. On that same date, Zhan Xiao Kun who was an existing shareholder transferred his 5,000 shares to Chen Jun, as evidenced by an annual return of directors and shareholders which was filed on July 25, 2007 with the Registrar of Companies.

142. Both Huang Run and Chen Jun are reflected as the two directors and shareholders of Sonic Jita until such time as a "Notification of Change of Secretary and Director (Appointment/Cessation)" was filed on June 10, 2011. This is after the date of the Muddy Waters Report in which specific allegations were made about the related party nature of Sonic Jita. The return purported to show that Chen Jun had in fact resigned as a director of Sonic Jita nearly one year earlier on July 30, 2010.

143. An annual return filed on August 22, 2011 purported to show that Chen Jun had transferred his 5,000 shares of Sonic Jita to Huang Run on July 30, 2010, more than one year after the return had been filed. There should be in existence bought and sold notes and instruments of transfer stamped to indicate that stamp duty was made within 2 days of the actual transaction which purported to be on July 30th 2010. The Inland Revenue Department of the Hong Kong Government has set out the rules governing the sale or transfer of stock in Hong Kong. I have attached a copy of such marked as Exhibit "RRR".

SWORN OR ~~AFFIRMED~~ before)
me at the Special Administrative)
Region of Hong Kong, in the)
People's Republic of China, this 29th)
day of February, 2012.)
))
))
))



Notary Public

COLIN BERNARD COHEN
Notary Public, Hong Kong SAR
2303-7 Dominion Centre
43-59 Queen's Road East
Wanchai, Hong Kong



Stephan Gowan Chandler

Trustees of the Labourers' Pension Fund of Central and Eastern Canada,
et al.
Plaintiffs

and

Sino-Forest Corporation, *et al.*
Defendants

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

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF STEPHEN GOWAN CHANDLER
(Sworn February 29, 2012)

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Lawyers for the Plaintiffs

TAB B

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

**ONTARIO
SUPERIOR COURT OF JUSTICE**

BETWEEN:

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

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly known
as BDO MCCAË 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 BANC OF
AMERICA SECURITIES LLC

Defendants

Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF CAROL-ANN TJON-PIAN-GI

I, Carol-Ann Tjon-Pian-Gi, of the city of Paramaribo, in the country of Suriname, MAKE
OATH AND SAY:

1. I am an independent lawyer and sworn translator residing in Suriname.
2. I swear this affidavit in support of the Plaintiffs' motion seeking an order granting leave
to the Plaintiffs to pursue the causes of action available under Part XXIII.1 of the Ontario

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Securities Act, RSO 1990, c S 5, and, if necessary, under the equivalent provisions of the Securities Acts of the other Canadian Provinces. I swear this affidavit for no improper purpose.

I. INTRODUCTION AND SUMMARY OF OPINIONS

3. I have been retained by Siskinds LLP and Koskie Minsky LLP, co-counsel for the Plaintiffs herein ("Class Counsel"), to provide advice and assistance as to matters of Suriname law in relations to certain allegations made in the above-captioned litigation against Sino-Forest Corporation ("Sino-Forest") and certain others.
4. Class Counsel have requested that I provide an opinion with respect to the question set forth below.

II. MY QUALIFICATIONS AND COMPENSATION

5. I was awarded a Master's Degree in Law from the University of Suriname in 2005 and thereafter completed a mandatory internship of two years. I was admitted to the Bar of Suriname in December 2008 to practice civil and criminal law in Suriname, and I am a member in good standing of the Bar of Suriname.
6. I was awarded a Bachelor's Degree in English from the Advanced Teacher Training College in 1995 and was sworn in as a translator English-Dutch/Dutch-English in December 2008.
7. Attached hereto and marked as **Exhibit "A"** is a copy of my curriculum vitae.
8. My compensation in this matter is based on the number of hours spent in the course of my retainer. My hourly rate is \$ 150.

III. MATERIALS REVIEWED

9. Prior to rendering the opinions below, I reviewed the following materials:
- Act of 18 September 1992, containing provisions with regard to forest management as well as forest exploitation and the primary lumber processing industry (Forest Management Act), S.B. 1992, no. 80, with explanatory memorandum.

IV. QUESTION POSED AND OPINION

10. Class Counsel have asked me to render an opinion in relation to the following question:

Do the laws of Suriname impose an upper limit on the size of the forestry concession(s) that may be granted to a company or an affiliated group of companies? If so, what is that limit?

11. Article 26 of the *Forest Management Act* (S.B. 1992 no. 80) of the Republic of Suriname ("Article 26") stipulates a maximum allowable concession size. That article states:

The total surface of a concession, and the total joint surface of various concessions, granted to a natural person or legal entity or to various legal entities in which a natural person or a legal entity has a majority interest, shall be no more than 150,000 hectares.

12. The explanatory memorandum to the *Forest Management Act* states:

Exceeding the maximum surface stated in article 26 shall only be possible by law in certain special cases.

13. I have researched whether any law, rule or regulation of the Republic of Suriname, or of any regulatory body thereof having jurisdiction over forestry concessions in Suriname, creates any exception to the maximum allowable concession size under Article 26 that would permit Greenheart Group Limited and its subsidiaries to exceed the limited imposed by Article 26, but I have identified no such law, rule, regulation or exception.

V. CONCLUSION

14. It is my understanding that discovery has not yet commenced in this action and, accordingly, my opinions are subject to amendment or revision based upon the development of additional evidence.

15. I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this Affidavit are true and correct;
- the reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions;
- I have reviewed Rule 4.1 of the Ontario *Rules of Civil Procedure*, and I have prepared this Affidavit having regard to the duty described therein;
- I have no present or prospective interest in the parties to this case, and I have no personal interest or bias with respect to the parties involved; and
- my compensation is not contingent on an action or event resulting from the analyses, opinions or conclusions in, or the use of, this Affidavit.

03/01/2012

Date

Carol-Ann Tjon-Pian-Gi
Carol-Ann Tjon-Pian-Gi

Produced Identification: Surinamese Passport#:R1195995
Personally Known to Me: N/A

Sworn to me this 1st day of
March, 2012, at the City of Paramaribo
in the Country of Suriname.

Michelle Isimbabi
Michelle Isimbabi
Vice Consul of the
United States of America

Republic of Suriname)
District of Paramaribo)
City of Paramaribo) SS
Embassy of the United)
States of America)

at the pleasure of the President

Notary Public

My Commission Expires

TAB C

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 BANC OF AMERICA SECURITIES LLC

Defendants

Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF DENNIS DENG

I, Dennis Deng, of the city of Beijing, in the People's Republic of China (the "PRC"), MAKE OATH AND SAY:

1. I am a senior partner in Dacheng Law Offices (“Dacheng”), a law firm based in Beijing in the PRC.
2. I swear this affidavit in support of the Plaintiffs’ motion seeking an order granting leave to the Plaintiffs to pursue the causes of action available under Part XXIII.1 of the Ontario *Securities Act*, RSO 1990, c S 5, and, if necessary, under the equivalent provisions of the Securities Acts of the other Canadian Provinces. I swear this affidavit for no improper purpose.

I. INTRODUCTION AND SUMMARY OF OPINIONS

3. On June 3, 2011, Dacheng was retained by Siskinds LLP and Koskie Minsky LLP, co-counsel for the Plaintiffs herein (“Class Counsel”), to provide advice and assistance as to matters of PRC law in regard to various allegations made by Muddy Waters LLC against Sino-Forest Corporation (“Sino-Forest”).
4. I have been requested by Class Counsel to provide opinions with respect to the questions set forth below.

II. BACKGROUND OF DACHENG

5. Founded in 1992, Dacheng is one of the first and largest law partnerships in China. On January 1, 1994, China’s *Legal Daily* reported that Dacheng had become the largest law office in China. In 2005, Dacheng was rated as Outstanding Law Firm of Beijing. In 2008, Dacheng was selected as “National Model Law Firm” of 2005-2007 by the All-China Lawyers Association.
6. Dacheng has established an extensive global legal service network, covering most of the major cities and regions in the world. Apart from its headquarters in Beijing, Dacheng

also has 34 local offices located in, among other cities in the PRC, Shanghai, Wuhan, Chongqing, Tianjin, Harbin, Zhengzhou, Hangzhou, Guangzhou, Xi'an, Nanjing, Nanning, Changzhou and Zhoushan. Dacheng also has offices in Paris, Los Angeles, Singapore, New York, Hong Kong and Taiwan.

7. There are currently over 2,600 lawyers and staff working for Dacheng, and its lawyers have expertise in areas including international trade, finance, construction, business administration, accounting, and taxation. At present, the firm's primary practice areas include corporate law, foreign direct investment, capital markets, mergers & acquisitions, finance, intellectual property, litigation, criminal defense and international trade.

III. MY QUALIFICATIONS AND COMPENSATION

8. I have been a partner of Dacheng since 2008. I have been called to practice law in the PRC since 2005, and I am a member in good standing of the bar of Beijing City. I was awarded a Masters of Law degree from Beijing University in 2003.
9. Attached hereto and marked as **Exhibit "A"** is a copy of my curriculum vitae.
10. Dacheng's compensation in this matter is based on the number of hours spent in the course of our retainer and the hourly rates of the lawyers who have rendered advice and assistance to Class Counsel. My hourly rate is \$475.

IV. MATERIALS REVIEWED

11. Prior to rendering the opinions below, I reviewed the following materials:
 - ✓ Notice of Annual and Special Meeting and Information Circular Respecting Acquisition of Sino-Wood Partners, Ltd. and Amalgamation with 1028412 Ontario Inc. to form Sino-Forest Corporation,

- 4 -

- ✓ Final Report of the “Independent Committee” of the Board of Directors of Sino-Forest Corporation (the “IC”),
- ✓ The Statement of Claim in this matter,
- ✓ Second Interim Report of the IC (the “Second Interim Report”),
- ✓ Schedules to the Second Interim Report,
- ✓ The First Report issued by Muddy Waters, and
- ✓ Company information on Shanghai Jin Xiang Wholesale Market Management Co., Ltd. (“SJXTM”).

V. QUESTIONS POSED AND OPINIONS

12. Below I set forth each of the questions in respect of which Class Counsel have asked me to render an opinion, as well as the opinion that I have provided in response thereto.

Question 1: *Under PRC law, is it lawful for forestry companies to make cash payments or to give gifts to employees of forestry bureaus? If not, what penalties are applicable under PRC law to forestry bureau employees who accept cash or gifts from such companies, and to companies who pay such cash or give such gifts?*

13. In the Second Interim Report, on p. 42, it is stated that

There are indications in emails and in interviews with Suppliers that gifts or cash payments are made to forestry bureaus and forestry bureau officials. The reasons are not clear although two Suppliers noted benefits were provided for the issuance of confirmations.

14. Under PRC law, it is unlawful for forestry companies or their representatives to make cash payments or to give “gifts” to employees of forestry bureaus. The applicable penalties vary primarily depending on the value of the payments and gifts, the recipient

of the “gift,” and the offeror. *See* The Criminal Law of the People’s Republic of China, chap. 8 (“Criminal Law”).

15. A government employee who accepts a “gift” worth more than RMB 5,000 may face criminal bribery charge punishable by criminal detention from 1 to 6 months, imprisonment from 6 months to life, or death penalty,¹ depending on the value of the “gift.” *See Id.* at §§ 383, 385, 386;² *also see* The Standards for Prosecuting Crimes by the

¹ Criminal detention is executed by the public security near where the criminal resides and its term is between 1 month to 6 months; imprisonment is incarceration in a prison for a term varying from 6 months to 20 years. *See* The Criminal Law of the People’s Republic of China, §§ 42, 43, 45, 46.

² Criminal Law:

Article 385 Any State functionary who, by taking advantage of his position, extorts money or property from another person, or illegally accepts another person’s money or property in return for securing benefits for the person shall be guilty of acceptance of bribes.

Any State functionary who, in economic activities, violates State regulations by accepting rebates or service charges of various descriptions and taking them into his own possession shall be regarded as guilty of acceptance of bribes and punished for it.

Article 386 Whoever has committed the crime of acceptance of bribes shall, on the basis of the amount of money or property accepted and the seriousness of the circumstances, be punished in accordance with the provisions of Article 383 of this Law. Whoever extorts bribes from another person shall be given a heavier punishment.

Article 383 Persons who commit the crime of embezzlement shall be punished respectively in the light of the seriousness of the circumstances and in accordance with the following provisions:

(1) An individual who embezzles not less than 100,000 yuan shall be sentenced to fixed-term imprisonment of not less than 10 years or life imprisonment and may also be sentenced to confiscation of property; if the circumstances are especially serious, he shall be sentenced to death and also to confiscation of property.

(2) An individual who embezzles not less than 50,000 yuan but less than 100,000 yuan shall be sentenced to fixed-term imprisonment of not less than five years and may also be sentenced to confiscation of property; if the circumstances are especially serious, he shall be sentenced to life imprisonment and confiscation of property.

(3) An individual who embezzles not less than 5,000 yuan but less than 50,000 yuan shall be sentenced to fixed-term imprisonment of not less than one year but not more than seven years; if the circumstances are serious, he shall be sentenced to fixed-term imprisonment of not less than seven years but not more than 10 years. If an individual who embezzles not less than 5,000 yuan and less than 10,000 yuan, shows true repentance after committing the crime, and gives up the embezzled money of his own accord, he may be given a mitigated punishment, or he may be exempted from criminal punishment but shall be subjected to administrative sanctions by his work unit or by the competent authorities at a higher level.

Id. at §§ 383, 385, 386.

- Supreme People's Procuratorate of China, § 3. Confiscation of personal properties may be also imposed in addition to imprisonment or death penalty. Criminal Law, §§ 383, 385, 386.
16. If the bribe does not constitute a crime, a government employee may nonetheless be disciplined by the bureau where the employee works, or by that bureau's immediate superior authorities. *See* Criminal Law, §§ 383, 385, 386.
17. With respect to the cash payments and "gifts" referenced in the Second Interim Report, if they were worth more than RMB 5,000, the forestry bureau employee who accepted the gift may face both bribery charge and administrative sanctions.
18. Further, an entity that offers a bribe worth more than RMB 200,000 to government employees may be charged with entity bribery. The entity may consequently face a criminal fine of 1-5 times the value of the bribe offered, and its responsible personnel may be punished by criminal detention from 1 to 6 months or imprisonment from 6 months to 5 years. Criminal Law, § 393.³

Question 2: *Under PRC law, what are the legal consequences of filing inaccurate information with the AIC?*

19. Under PRC law, a person who knowingly files inaccurate information with the AIC may be subject to administrative sanctions and criminal punishment.

³ *Id.* Criminal Law,

Article 393 Where a unit offers bribes for the purpose of securing illegitimate benefits or, in violation of State regulations, gives rebates or service charges to a State functionary, if the circumstances are serious, it shall be fined, and the persons who are directly in charge and the other persons who are directly responsible for the offence shall be sentenced to fixed-term imprisonment of no more than five years or criminal detention.

20. A company that knowingly registers with overstated registered capital may face administrative sanctions including rectification, an administrative fine from 5% to 15% of the overstated amount, and revocation of the registration and business license. Administrative Regulations of the People's Republic of China on Company Registration, § 68.⁴ The company and its shareholders may also be punished by a criminal fine from 1% to 5% of the overstated amount. Individual shareholders or responsible personnel of entity shareholders may face criminal detention from 1 to 6 months or imprisonment up to 5 years. Criminal Law, § 158.⁵
21. A company that knowingly registers with inaccurate information may face potential administrative sanctions, including rectification, an administrative fine from RMB 50,000 to RMB 500,000, and revocation of registration and business license. *Id.* Company Registration, § 69⁶.

4 Administrative Regulations of the People's Republic of China on Company Registration,

Article 68 If the registration of a company is obtained through falsification of the registered capital, the company registration organ shall order the company to make corrections and impose a fine at an amount of between 5 percent to 15 percent of the falsified registered capital. If the circumstance is severe, the company registration organ shall revoke the company registration or revoke its business license.

5 *Id.* Criminal Law,

Article 158 Whoever, when applying for company registration, obtains the registration by deceiving the competent company registration authority through falsely declaring the capital to be registered with falsified certificates or by other deceptive means shall, if the amount of the falsely registered capital is huge, and the consequences are serious or if there are other serious circumstances, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined not less than one percent but not more than five percent of the capital falsely declared for registration.

Where a unit commits the crime as mentioned in the preceding paragraph, it shall be fined, and the persons who are directly in charge and the other persons who are directly responsible for the crime shall be sentenced to fixed-term imprisonment of not more than three years or criminal detention.

6 *Id.* Company Registration,

22. A company that knowingly registers with false capital contribution may face both administrative sanctions and criminal punishment. The sanctions include rectification, an administrative fine from 5% to 15% of the false amount claimed. *Id.* at § 70⁷. The punishment includes criminal fine from 2% to 10% of the false amount claimed, and the same applicable criminal detention or imprisonment as those stated in the paragraph 20 above. Criminal Law, § 159⁸.

Question 3: *What is the definition of “business activities” under PRC law, and do the activities of Sino-Forest’s BVI subsidiaries, as their business is described in the Reports of the IC, come within that definition?*

23. The term “business activities” is not well defined under PRC law. In practice, however, “business activities” generally encompass any for-profit activities.

Article 69 If the registration of a company is acquired through a false certificate or other deceptive means, the company registration organ shall order the company to make corrections and impose a fine from RMB 50,000 Yuan to RMB 500,000 Yuan. If the circumstance is severe, it shall revoke the company registration or revoke its business license.

⁷ *Id.*

Article 70 If an initiator or shareholder of a company makes false capital contribution, fails to deliver the monetary or non-monetary property as capital contribution, or fails to deliver them on time, the company registration organ shall order him/her to make corrections and impose a fine from 5 percent to 15 percent of the amount of the false capital contribution.

⁸ *Id.* Criminal Law,

Article 159 Any sponsor or shareholder of a company who, in violation of the provisions of the Company Law makes a false capital contribution by failing to pay the promised cash or tangible assets or to transfer property rights, or surreptitiously withdraws the contributed capital after the incorporation of the company shall, if the amount involved is huge, and the consequences are serious, or if there are other serious circumstances, be sentenced to fixed-term imprisonment of not more than five years or criminal detention and shall also, or shall only, be fined not less than two percent but not more than 10 percent of the false capital contribution or of the amount of the capital contribution surreptitiously withdrawn.

Where a unit commits the crime as mentioned in the preceding paragraph, it shall be fined, and the persons who are directly in charge and the other persons who are directly responsible for the crime shall be sentenced to fixed-term imprisonment of not more than five years or criminal detention.

24. According to the description in the reports of the IC, the BVI subsidiaries' businesses are for-profit, and therefore, in my opinion, those activities likely constitute "business activities" under PRC law.

Question 4: *What penalties could be applied under PRC law, and what regulatory action might be taken by PRC authorities, if Sino-Forest's BVI subsidiaries were determined to be engaged in "business activities" in the PRC?*

25. Foreign entities engaging in business activities in the PRC are required to register to obtain and maintain a proper license. Violation of this requirement may result in both administrative sanctions and criminal punishment. Regulations on Registration of Foreign Entities, §§ 2, 3.⁹ Sanctions include banning the unlicensed business activities, confiscating illegal income and properties used exclusively therefor, and/or an administrative fine of no more than RMB 500,000.¹⁰ Criminal punishment includes a

9 Administrative Measures for the Registration of Enterprises of Foreign Countries (Regions) Engaging in Production Operations Within the Territory in China,

Article 2 In accordance with relevant laws and regulations of the state, after receiving approval from the State Council and competent authorities authorized by the State Council (hereinafter referred to as Approving Authorities), foreign enterprises engaging in production operations within the territory of China shall apply to the State Administration for Industry and Commerce or its authorized local administration for industry and commerce (hereinafter referred to as Registration Authorities) for registration. After receiving approval for registration from the Registration Authorities and obtaining a People's Republic of China Business License (hereinafter referred to as a Business License), a foreign enterprise may engage in production and business activities. No foreign enterprise may engage in production or business activities within the territory of China without receiving approval from the Approving Authorities and being approved for registration by the Registration Authorities.

Article 3 In accordance with existing laws and regulations of the state, foreign enterprises engaged in the following production and business activities shall seek registration: (1) Exploration and development of petroleum and other land and marine mineral resources...

10 Measures for Investigation into, Punishment Against, and Banning of Any Business Operation That Is Carried out Without a License,

criminal fine from 1 to 5 times the amount of the profits gained, and the responsible personnel may also be subject to criminal detention from 1 month to 6 months, or imprisonment from 6 months to 15 years.¹¹

26. Therefore, the AIC may impose sanctions on Sino-Forest's BVI subsidiaries, and those BVI subsidiaries may also be charged with criminal offenses for their illegal business activities.

Question 5: *On p. 53 of the 2nd Interim Report of the Sino-Forest "Independent Committee," it is stated that:*

The IC Advisors have received copies of the Set-off Documents related to all the BVI standing timber purchase transactions

Article 14 As regards unlicensed business operation acts, the administrative department for industry and commerce shall ban them and confiscate the illegal gains according to law; if the Criminal Law is violated, the parties concerned shall be investigated for criminal liability according to the provisions of the Criminal Law on the crime of illegal business operation, the crime of negligently causing a serious accident, the crime of major labor safety accident, the crime of causing an accident in the control of dangerous articles or any other crime; if such activities are not serious enough for criminal punishment, a fine of not more than 20, 000 yuan shall be concurrently imposed; as regards any unlicensed business operation act which is large in scale or causes serious social damage, a fine of not less than 20, 000 yuan but not more than 200, 000 yuan shall be concurrently imposed; as regards any unlicensed business operation act that harms human health, has serious hidden hazard to safety, threatens public safety or destroys environmental resources, the tools, equipment, raw materials, products (goods) and other property that are particularly used for unlicensed business operation acts shall be confiscated, and a fine of not less than 50, 000 yuan but not more than 500, 000 yuan shall be concurrently imposed.

If any law or regulation stipulates otherwise in respect of the punishments for the unlicensed business operation acts, such law or regulation shall prevail.

¹¹ Criminal Law,

Article 225 Whoever, in violation of State regulations, commits illegal acts in business operation and thus disrupts market order, if the circumstances are serious, shall be sentenced to fixed-term imprisonment of not more than five years or criminal detention and shall also, or shall only, be fined not less than one time but not more than five times the amount of illegal gains; if the circumstances are especially serious, he shall be sentenced to fixed-term imprisonment of not less than five years and shall also be fined not less than one time but not more than five times the amount of illegal gains or be sentenced to confiscation of property:

between the first fiscal quarter of 2006 and the first fiscal quarter of 2011. However, the IC Advisors have not been provided with any documents showing movement of money to confirm that such set-off arrangements have been carried out. During meetings of the IC Advisors with AIs and Suppliers, representatives from the AIs and Suppliers declined to produce such documents showing movements of money. Common reasons cited for declining to produce documents included “tax reasons” and sensitivity towards the MW allegations and the resultant publicity. Further, some AIs visited stated that they may not in fact make payment themselves as instructed by SF but would instead arrange for other parties (“fourth parties”) to make payment on their behalf. Those fourth parties may then instruct “fifth” or “sixth” parties to make payment.

In this situation, the Suppliers receiving payment will sometimes instruct its own “fourth” parties to receive payment on its behalf. All the AIs interviewed stated that these fourth parties are unrelated to SF. A common reason cited to explain the use of such expanding set-offs was for tax reasons but all AIs declined to discuss exactly how such use of fourth parties reduce taxes payable. During the meeting with Supplier #1, its legal representative explicitly stated that it would always instruct another party to receive payment from the AIs on its behalf. Reasons given for this arrangement included tax minimization and the fact that Supplier #1 did not have transactions with the AIs and therefore would be unable to account for the receipt of payment from the AIs.

Assuming that the purported transactions between Sino’s BVI subsidiaries and their AIs and suppliers were real, and were not simply illusory transactions designed to inflate Sino’s revenues, profits and assets, what “tax reasons” would explain the failure (1) to produce to the “Independent Committee” documents showing movements of money or (2) to explain to the “Independent Committee” how the use of fourth parties would minimize taxes payable? Is there a lawful way under PRC

law for an AI or Supplier to reduce taxes payable by using fourth parties to receive payments on behalf of the AI?

27. In my opinion, on the assumption stated in the question above, the reason to involve these fourth parties is likely to evade the “value added tax” (“VAT”). The VAT applies to any transaction involving a sale of goods. When there is a chain of sales transactions, one can evade multiple VAT by concealing all the intermediate transactions through the use of a related fourth party to complete the final sale. If the intermediate transactions are not traceable, the VAT will be imposed only on the final transaction.
28. With respect to that part of the above question which concerns the failure to produce documents showing the movement of money, in my opinion, it is likely that Sino’s BVI subsidiaries and their AIs and suppliers have declined to produce such documents because documents showing the movement of money may reveal the intermediate transactions, and thus, result in penalties for illegal tax evasion.
29. Evasion of VAT may result in both an administrative fine of no more than 5 times the amount of the tax evaded,¹² and criminal punishment of imprisonment for the responsible personnel.¹³

12 Law of the People's Republic of China on the Administration of Tax Levying:

Article 64 If a taxpayer or withholding agent falsifies tax basis, the tax authorities shall charge him to make corrections within a given time limit and impose a fine of up to but not exceeding RMB 50,000.

If a taxpayer fails to make declaration of tax, fails to pay or underpays the tax payable, the tax authorities shall seek the payment of the tax unpaid or underpaid as well as the late payment interest, and concurrently impose a fine of exceeding 50% but not exceeding five times of the amount of tax unpaid or underpaid.

13 The article 201 of the Criminal Law was amended in Feb. 2009. Between the original and the admendment laws, the court will apply whichever is more favorable to the defendant depending on the situation.

Article 201 Any taxpayer who fails to pay or underpays the amount of taxes payable by means of forging, altering, concealing or destroying without authorization account books or vouchers for the accounts, or overstating expenses or omitting or understating incomes in account books, or refusing to file his tax returns after the tax authorities have notified him to

Question 6: *Under PRC law, is it correct that standing timber, when not held in conjunction with a land use right, cannot be definitively proven by reference to a government maintained register? Is it correct that it is normally not possible to have Plantation Rights Certificates issued in the PRC for standing timber only?*

30. The Forestry Registration Law requires a modification request to be filed for any transfer of standing timber to change both the forestry bureau's registration record and the plantation rights certificate. Forestry Registration Law of People's Republic of China, §§ 24, 30. The transfer is completed only after the registration is modified accordingly. *Id.*
31. According to the National Forestry Bureau, the national policy after the forest land reform in 2006 is that a plantation right is a "three rights in one." The three types of

do so or filing false tax returns shall, if the amount of tax evaded accounts for over 10 percent but under 30 percent of the total of taxes payable and over RMB 10,000 but under RMB 100,000, or if he commits tax evasion again after having been twice subjected to administrative sanctions by the tax authorities for tax evasion, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also be fined not less than one time but not more than five times the amount of tax evaded; if the amount of tax evaded accounts for over 30 percent of the total of taxes payable or is over RMB 100,000, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined not less than one time but not more than five times the amount of tax evaded.

Amendment VII to the Criminal Law, Article 3

Article 201 of the Criminal Law is amended as: "Where any taxpayer declares false tax returns by cheating or concealment or fails to declare tax returns, and the amount of evaded taxes is relatively large and accounts for more than 10 percent of the payable taxes, he shall be sentenced to fixed-term imprisonment not more than three years or criminal detention, and be fined; or where the amount is huge and accounts for more than 30 percent of the payable taxes, shall be sentenced to fixed-term imprisonment not less than three years but not more than seven years, and be fined.

Where anyone bearing the withholding obligation fails to pay or fails to pay in full the withheld or collected taxes by cheating or concealment, and the amount is relatively large, he shall be punished pursuant to the preceding paragraph.

Where either of the acts as described in the preceding two paragraphs is committed many times without punishment, the amount shall be calculated on an accumulated basis.

"Where any taxpayer who committed the act as described in Paragraph 1 has made up the payable taxes and paid the late fines after the tax authority issued the notice of tax recovery in accordance with the law, and has been administratively punished, he shall not be subject to criminal liability, except one who has been criminally punished in five years for evading tax payment or has been administratively punished by the tax authorities, twice or more."

rights encompassed within a plantation right are (1) the forest land use right, (2) the right to use the standing timber on the land, and (3) the ownership of the standing timber. The three rights go together in one plantation rights certificate, and these rights may not be separated. Therefore, no plantation rights certificate may be issued for standing timber alone.

32. Except for the National Bureau's policy, no current law expressly specifies the concept of "three rights in one." In practice, some local forestry bureaus in different areas may issue plantation rights certificates for standing timber without the right of land use, even after the 2006 reform.
33. The opinions expressed in paragraphs 31 and 32 above are based on my inquiries with the National Forestry Bureau, and seven provincial forestry bureaus: Beijing, Guangdong, Yunnan, Fujian, Chongqing, Guangxi, and Heilongjiang.

Question 7: *On pp. 24-25 of the 2nd Interim Report, it is stated:*

If the BVI or WFOE has entered into a timber purchase contract to acquire standing timber, has from the local forestry bureau a written confirmation letter and does not have a Plantation Rights Certificate registered in its name or been provided the relevant Plantation Rights Certificate registered in the name of the Supplier for such standing timber: each such timber purchase contract entered into by such BVIs or WFOE is valid, effective and legally binding on the parties thereto subject to the authorization by (a) the de facto owner with the Plantation Rights Certificate for such standing timber, if any, or (b) the ultimate farmer or collective economic organization who has legally obtained the ownership of the standing timber during the reform of the collectively-owned plantation rights system, as the case may be. If the de facto owner or the ultimate farmer or collective economic organization, as the case may be, refuses to

grant the authorization to any contract, the contract will be void and the Company will have no contractual rights. However, if the Company has paid consideration to the Supplier pursuant to the contract, the Company will have a cause of action against the Supplier for the return of the consideration based on the legal theory of unjust enrichment;

Are the statements above, insofar as they relate to BVIs, correct as a matter of PRC law?

34. Subject to the local practice stated in paragraphs 32 above, a purchase of standing timber is a purchase of three types of rights under the current national policy: the right to use the timber, the ownership of the timber, and the right to use the forest land where the standing timber is. Therefore, standing timber may not be purchased without purchasing the land use right.

35. Further, foreign forestry entities are not allowed to purchase land use rights. Thus, as a foreign entity, the standing timber purchase contracts entered into by Sino's BVIs are void and unenforceable under PRC law.

Question 8: *On p. 9 of the Final Report of the "Independent Committee," it is stated that:*

Management also provided copies of news articles regarding foreigners being subject to criminal sanctions in China for possessing maps and other geographical information that were deemed to be classified as state secrets. The IC has reviewed these responses from Management and was unable to verify all of Management's assertions regarding forestry maps or that forestry mapping information would be regarded as subject to such sanctions but recognizes that this is an area of the law in China where a conservative approach may be prudent.

Generally, what land features or physical facilities are considered to constitute a "state secret" under PRC law? Assuming that a map does not encompass a military installation or other governmental facility, would possession of the map by a foreigner be subject to criminal sanctions under PRC law?

36. Anyone who holds materials that are "state secrets" may be punished by criminal detention or imprisonment. Criminal Law, § 282.¹⁴ "State secrets" are not well defined in the criminal laws of the PRC, but the Law of the People's Republic of China on Guarding State Secrets provides a broad list of items that are considered "state secrets."¹⁵ Nevertheless, the National or Provincial Secret Protection Administration shall decide whether a piece of information is identified as a "state secret."¹⁶ In practice, the Secret

¹⁴ *Id.* Criminal Law,

Article 282 Whoever unlawfully holds the documents, material or other objects classified as "strictly confidential" or "confidential" State secrets and refuses to explain their sources and purposes shall be sentenced to fixed-term imprisonment of not more than three years, criminal detention or public surveillance.

¹⁵ The Law of the People's Republic of China on Guarding State Secrets

Article 9 Where divulgence of any of the following issues which are relevant with the national security and interests may cause any harm to the national security and interests with respect to the politics, economy, national defense, foreign affairs and etc., such issues shall be cognized as the State secrets:

1. Confidential issues involved in the significant decisions on the State affairs;
 2. Confidential issues involved in the national defense development and in the activities of the armed forces;
 3. Confidential issues involved in the diplomatic activities and in activities related to foreign countries, and the secrets of which the State shall fulfill the obligations of confidentiality to foreign countries;
 4. Confidential issues involved in the national economic and social development;
 5. Confidential issues involved in the science and technology;
 6. Confidential issues involved in the activities in protecting the security of the State and in the investigation of crimes;
- and
7. other confidential issues which are cognized by the State secret-protection administration.

¹⁶ *Id.*

Article 20 Where the organs and units fail to make clear or raise disputes on whether the relevant confidential issues are subject to the State secrets or not or which category of State secrets they should be classified into, the State secret protection

Protection Administration may consider any document that is confidential to the State and not revealed to the public a “state secret,” regardless of whether the document is marked with the word “classified” or any other word or designation which makes clear that the map is a “state secret.” Any mark or designation on the document which indicates that the document contains a state secret could constitute prima facie evidence of that fact, yet the court would rely on the Secret Protection Administration’s opinion in any case involving a “state secret.” If a map encompasses a PRC military installation or other governmental facility that is not revealed to the general public, then the map might be identified as a “state secret,” and holding such a map could constitute the crime of possession of state secrets under PRC law. As a general matter, however, maps of forestry resources are not identified as state secrets under PRC law, and thus holding such maps would not constitute a crime. In fact, as I explain below, maps of pertinent forestry areas are required under PRC law to be attached to plantation rights certificates.

Question 9: *On p. 10 of the Final Report, it is stated that:*

In mid December 2011, Management provided a document entitled “Detailed Description of Locating Forestry Resources in China” which explains how the locations of BVI standing timber assets are determined. This document has been provided to the Board.

It indicates that although certain types of stand maps and these land descriptions are available as part of PRCs, maps are not readily available for continuing possession by persons trading in

administration or the secret protection administrations of the provinces, autonomous regions or municipalities directly under the Center Government shall render a decision on the aforementioned issues.

standing timber without a lease as is the case of the transactions by SF's BVI model. Management indicates that such maps usually can be borrowed from forestry bureaus (but not retained) and are used by the survey companies as part of the Company's due diligence. Management believes the ability of a foreign company to retain such maps is unclear and has adopted a cautious approach to this issue. The advice received by the IC from independent forestry experts is that this practice is not inconsistent with the practice of other parties in China who buy and sell standing timber without leasing the underlying land.

Are the underlined statements above correct as a matter of PRC law?

37. It is true that PRC forestry bureaus are not obliged to provide maps of the forestry resources within their jurisdiction to members of the public. Under PRC law, however, a map must be attached to a plantation right certificate, and that map must describe the location of the relevant forest land, its boundaries and adjacent areas, the hectarage, the number of the trees and their species. Regulations on Plantation and Forestland Rights Registration, § 11.¹⁷ Such maps do not provide information on the general forestry areas, but only on that specific piece of land to which the plantation right certificate pertains. *Id.*

Question 10: *In the PRC, is there a database for plantation rights certificates, and if so, can a member of the public gain access to that database and, if so, how?*

¹⁷ Regulations on Plantation and Forestland Rights Registration,

Article 11 The registration organ shall decide to approve it within 3 mouths, when an application should meet all the following conditions:

(1) the location, four boundaries, species, area and number of the forests, plantation, forestland shall be accurate;

.....

38. The plantation rights registration database is generally open to the public upon request. Regulations on Plantation Rights and Forestland Registration, § 20.¹⁸ Local forestry bureaus determine the precise procedure on how to obtain information from the database. Generally, any member of the public who follows those local, routine procedures and who pays the required fee, can access to the database. Moreover, certain websites also provide online inquiry services regarding the ownership of plantation rights, such as <http://www.lqfzgl.com/index.aspx>.

Question 11: *According to AIC documents, SJXTM was an equity joint venture established in May 1997 by Shanghai Changxiang Industrial Co., Ltd., a state-owned entity that held an 83% equity interest in SJXTM, and Shanghai Jinsen Material Trade Co., Ltd., which held a 17% equity interest in SJXTM. AIC documents disclose that, prior to the termination of the joint venture agreement in 2005, SJXTM was “a joint venture by state-owned enterprise and collective enterprise.”*

Given that SJXTM was a “a joint venture by state-owned enterprise and collective enterprise,” would it have been possible under PRC law for Sino-Forest, a Canadian company, to have owned, either directly or indirectly, an equity interest in SJXTM?

39. According to the AIC records provided to me by Class Counsel, SJXTM is a non-company joint venture by a wholly state-owned enterprise and a collective enterprise. Thus, as a foreign company, Sino-Forest could not have invested directly in SJXTM.

40. Sino-Forest could not have indirectly owned an equity interest in SJXTM either. A collective enterprise is owned by a specific group of individuals who are Chinese citizens.

¹⁸ *Id.*

Article 20 The registration organ shall open the registration files to the public upon request.

Thus, Sino-Forest would not have been able to invest in SJXTM through investment in the collective enterprise.

41. In conclusion, it is my opinion that it would have been impossible for Sino-Forest to own an equity interest directly or indirectly in SJXTM under PRC law.

VI. CONCLUSION

42. It is my understanding that discovery has not yet commenced in this action and, accordingly, my opinions are subject to amendment or revision based upon the development of additional evidence.

43. I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this Affidavit are true and correct;
- the reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions;
- I have reviewed Rule 4.1 of the Ontario *Rules of Civil Procedure*, and I have prepared this Affidavit having regard to the duty described therein;
- I have no present or prospective interest in the parties to this case, and I have no personal interest or bias with respect to the parties involved; and
- my compensation is not contingent on an action or event resulting from the analyses, opinions or conclusions in, or the use of, this Affidavit.

Date

Dennis Deng

Sworn to me this ____ day of
 March, 2012, at the City of Beijing,
 in the Country of the People's Republic of China.

Notary Public [or Commissioner of Oath, as appropriate]

TAB D

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 BANC OF AMERICA SECURITIES LLC

Defendants

Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF ALAN MAK


I, Alan Mak, of the City of Toronto, in the Province of Ontario, MAKE OATH AND SAY:

1. I am a chartered accountant with Rosen & Associates Limited. I have knowledge of the matters set out below. Where that knowledge is based on information obtained from others, I have so indicated and believe that information to be true.
2. Rosen & Associates Limited was asked by Siskinds LLP and Koskie Minsky LLP, counsel for the plaintiffs, to prepare a report regarding the financial reporting of Sino-

Forest Corporation and the role of its auditors. Attached as **Exhibit "A"** is a copy of the report of Rosen & Associates dated March 2, 2012. My qualifications and acknowledgement of expert's duty are included in this report.

- 3. I swear this affidavit in support of the Plaintiffs' motion for an order granting leave to pursue the cause of action available under Part XXIII.1 of the *Securities Act*, RSO 1990, c S.5, as amended (the "*OSA*").

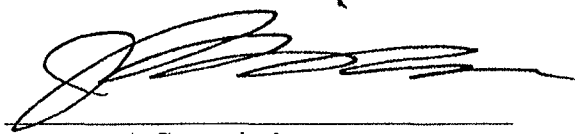
SWORN before me at the City of)
 Toronto, in the Province of Ontario,)
 this 2nd day of March, 2012.)


 _____)
 A Commissioner, etc.)
 Jonathan Bida)

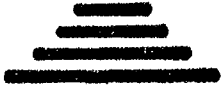


 Alan Mak

This is Exhibit "A" mentioned
and referred to in the Affidavit
of Alan Mak, sworn before me
at the City of Toronto, in the
Province of Ontario, this 2nd
day of March, 2012

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end, positioned above a horizontal line.

A Commissioner, etc.



Rosen & Associates Limited

LITIGATION AND INVESTIGATIVE ACCOUNTANTS

Forensic Accounting 727
Business Valuation
Quantification of Damages
Public Accountants' Negligence

Privileged & Confidential

REPORT OF ROSEN & ASSOCIATES LIMITED

IN THE MATTER OF:

**THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND
EASTERN CANADA ET AL**

v.

SINO-FOREST CORPORATION ET AL

March 2, 2012

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APPENDIX A – Documents That We Considered In Our Analysis

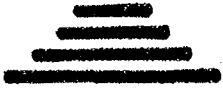
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APPENDIX E – Sino-Forest Financial Statement Summaries

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Rosen & Associates Limited

LITIGATION AND INVESTIGATIVE ACCOUNTANTS

Forensic Accounting

Business Valuation

Quantification of Damages

Public Accountants' Negligence

March 2, 2012

Privileged & Confidential

Siskinds LLP
 680 Waterloo Street,
 London, ON
 N6A 3V8

Attention: Messrs. A. Dimitri Lascaris, Michael G. Robb and Daniel Bach
**Re: The Trustees of the Labourers' Pension Fund of Central and Eastern Canada et al
 v. Sino-Forest Corporation et al**
I. INTRODUCTION

You have asked for our opinion, as professional accountants experienced in evaluating financial reporting and auditing, on the financial reports of Sino-Forest Corporation ("Sino-Forest" or "the Company"), particularly as it relates to accounting and financial reporting for the purchase and sale of its timber holdings. We understand that the Trustees of the Labourers' Pension Fund of Central and Eastern Canada and the other plaintiffs, on behalf of themselves and members of the Class, have alleged, among other things, that Sino-Forest materially misstated its timber assets, revenue (and profits) from timber sales and cash flows from operating activities.

You have also asked us to comment on the professional performance of Ernst & Young LLP ("E&Y") and BDO McCabe Lo Limited ("BDO"), being the stated independent auditors of Sino-Forest during various portions of the relevant period, with respect to their professional obligations and compliance with applicable professional standards.

You have asked us to respond to the following questions:

- A. Were the timber assets and revenues of Sino-Forest materially overstated for the years ended December 31, 2006 to December 31, 2010 according to the relevant Canadian generally accepted accounting principles (“GAAP”)?
- B. Did E&Y and BDO McCabe Lo Limited (“BDO”), as stated independent auditors of Sino-Forest, comply with Canadian generally accepted auditing standards (“GAAS”) in their examinations of Sino-Forest’s annual financial statements for the years ended December 31, 2006 through 2010, inclusive?
- C. The nature of any other financial reporting irregularities identified in the course of our analysis.

On June 2, 2011, Muddy Waters LLC, an independent investment research firm, initiated coverage on Sino-Forest. The Muddy Waters report alleged numerous improprieties at Sino-Forest, including, but not limited to, the overstatement of timber assets, non-existent sales and the perpetration of a Ponzi-type fraud. In response, Sino-Forest passed a resolution to appoint an “Independent” Committee (“IC”) to investigate the allegations.¹ The IC has issued three reports, ultimately declaring in its final report (dated January 31, 2012) that it had substantially completed its investigations and exhausted reasonable efforts to evaluate Muddy Waters’ allegations. The IC’s three reports, along with the annual and quarterly financial statements are the primary source of publicly-available information on Sino-Forest’s operations, and form the majority of the basis of our analysis of the asset and revenue reporting issues. Note that the IC’s reports disclosed for public consumption have been redacted, in important respects.

The documents that we relied upon in preparing our opinion are listed at **Appendix A**. Our professional qualification and the authors’ acknowledgement of responsibilities to the Court are attached at **Appendix B**.

¹ The composition of the IC is set out in its Second Report, dated November 13, 2011, “Introduction” section. We note that the IC was comprised of three Chartered Accountants. One of the members, Mr. James Hyde, was a retired partner of Ernst & Young, Sino-Forest’s auditor since 2007 and before 2005. Mr. Garry West, another member of Sino-Forest’s Board of Directors and also a former partner of Ernst & Young, also attended and participated in virtually all meetings. In our opinion, the objectivity of the former E&Y partners participating in the IC’s investigation must be evaluated carefully, given that E&Y was the Company’s external auditor during most of the relevant period.

It is important, in interpreting our Report, to clearly comprehend that it has been prepared solely on the basis of publicly-available information. We therefore reserve the right to amend, or revise, our opinion should additional information be made available to us subsequent to the date of this Report.

We understand that this report will be filed for the purposes of a motion seeking leave to assert a cause of action under Part XXIII.1 of the *Securities Act* of Ontario and if necessary the Securities Acts of the other Provinces.

II. SUMMARY OF OUR OPINION

In our opinion, based upon publicly-available evidence for Sino-Forest, from an accounting and financial reporting perspective, sufficient appropriate evidence does not exist to justify the reporting of timber assets and revenues for the vast majority of Sino-Forest's standing timber activities in 2006 to 2010 inclusive (i.e., purchased plantation timber being traded under the Entrusted Sale Agreements model).

The IC's investigation alone casts serious doubts on the legal and economic validity of Sino-Forest's timber trading business. Numerous discrepancies in the IC's procedures have been identified, such as the lack of external evidence to prove the actual existence of acquired or sold timber (e.g., plantation rights certificates or movements of cash among counter-parties).

Close ties exist between the Company and many of its counter-parties (with former Sino-Forest employees being shareholders, directors or officers of its suppliers and purchasers of standing timber, and with common shareholders existing among suppliers and purchasers). Such evidence, and also a lack of cash receipt evidence, indicates a failure to comply with GAAP and GAAS, and thus renders the 2006 to 2010 audited annual financial statements as being materially misleading.

The circular nature of Sino-Forest's standing timber business, and the lack of external transaction validation, suggest that Sino-Forest's standing timber business may have existed only within this closed loop of related companies. GAAP is largely based upon the reporting of bargained third party transactions. Accordingly, when sufficient third

party dealings do not exist, a GAAS audit is typically not possible to perform. In our opinion, therefore, the audited annual financial statements of Sino-Forest for much or all of the 2005 to 2010 years should not have been issued to the public.

Our further opinions follow:

A. Timber Assets

The legal ownership and occurrence of bona fide economic transactions have not been established by Sino-Forest or by the investigations of the IC. Independent verifications with Sino-Forest's alleged third-parties are not reliable, and available evidence indicates that the confirmation process used by Sino-Forest's so-called IC lacked integrity. Indeed, the IC has advised that forestry bureau confirmations do not evidence legal ownership, and title claims continue to be susceptible to challenge.

Consequently, assertions regarding asset "ownership" and "existence" as required by GAAP have not been proven. Sino-Forest should not have characterized the standing timber traded through its so-called Entrusted Sale Agreements ("ESA") (i.e., purchased plantations acquired from Suppliers through set off arrangements and sold to Authorized Intermediaries) as being "assets" or "revenues" of the Company.

Sino-Forest's purported ownership of its standing timber is fundamentally complicated by its unusual business structure. All, or substantially all, of Sino-Forest's sales and purchases of standing timber occur within a pool of Suppliers and Authorized Intermediaries ("AIs"). According to the IC, neither Sino-Forest nor its subsidiaries (British Virgin Island incorporated entities, or "BVIs") have ever received cash from the sale of timber to AIs. The proceeds of sale are supposedly held in trust for Sino-Forest by the AIs and are to be paid to Suppliers in "set-off" arrangements. Similarly, we understand that Sino-Forest apparently has never directly paid cash to its Suppliers for the purchase of standing timber.

Importantly, the IC was not able to verify any cash movements between the AIs and Suppliers. The complete absence of accounting “realization” (e.g., the collection or payment of cash in commercial transactions) is a glaring anomaly and raises many doubts as to the legitimacy of Sino-Forest’s operations. Such lack of transparency is enormously significant given the apparent inter-relationships among Sino-Forest, its Suppliers and AIs, and little available evidence on the existence of independent third parties.

Given the “closed circuit” nature of Sino-Forest's standing timber business model, a serious possibility (if not high probability) is that Sino-Forest's entire standing timber business is an accounting fiction. External, verifiable proof of commercial trades in standing timber does not appear to exist, or exists for only a very narrow scope of transactions. Too many “red flags” occur and cast doubt on the plausibility of Sino-Forest’s business model. Too many excuses would be needed to explain Sino-Forest’s deviations from “normal” commercial practice. Each and every one of Sino-Forest’s explanations must be believed in order for a person to accept the legitimacy of its standing timber business.

In our opinion, reliable evidence has not been offered by the Company or uncovered by the IC to establish the legal ownership and the realization of commercial trade (i.e., cash collection). The apparent close ties and related party status of Sino-Forest’s main trading parties for standing timber cast further doubt on the legitimacy of the purchases and sales. From a financial reporting perspective, inadequate proof exists to support the assertions that Sino-Forest owned and sold standing timber under its “ESA” model.

Consequently, it is our view that Sino-Forest's timber assets, revenues and profits from at least 2006 to 2010 were grossly overstated. Accordingly, in our opinion, the audited annual financial statements for at least 2006 to 2010 inclusive were materially misstated, contrary to the written assertions in the auditors’ reports.

B. Transactions with Authorized Intermediaries and Suppliers (Related Parties)

Serious concerns exist regarding Sino-Forest's timber trading model. A particular oddity is the practice of buying and selling within a same group of Suppliers and AIs. The IC confirmed that many of Sino-Forest's counter-parties are owned or managed, at least in part, by former employees or contractors of the Company. Importantly, the IC does not appear to have devoted much attention to indirect relationships, such as friends and family of former employees, which would indicate an even greater scope of undisclosed influence.

From an accounting perspective, the existence of related parties could nullify the presumption of arm's-length fair market value transaction terms. Transactions between related parties are not necessarily bargained on the basis of competing self-interests. Hence, prices, payment terms and warranties may be manipulated to convey a particular message (such as increasing profits or assets) when such would not be the case, in reality. Non-independent trading partners could even engage in fictitious transactions, such as for the purchase and sale of goods.

Sino-Forest's disconcerting business model (the closed nature of its buying and selling activities), the absence of independent evidence of commercial trade (e.g., forestry bureau confirmations and cash movements) and the interrelationships among Sino-Forest, its Suppliers and its AIs, all corroborate our strong suspicion that the entire standing timber trade business was a carefully-constructed fiction from an accounting perspective. Further investigations for our suspicions are therefore in order.

C. Manipulation of Reported Cash Flows

Further evidence of Sino-Forest having engaged in misleading financial reporting can be found in its cash flow statements for at least the years ended December 31, 2006 through to 2010, inclusive. In direct contravention of Canadian GAAP, Sino-Forest grossly and materially overstated its "cash flows from operating activities" by excluding the cost of the timber that it supposedly had sold each year. Rather

than reporting the timber available for sale as “inventory”, and deducting such sold inventory costs from revenue to arrive at a net profit (or operating cash flow), Sino-Forest categorized timber purchases as a long-term “investment”. Such long-term treatment was clearly incongruous with the purported use of the standing timber stock (purchased plantations), which in fact was being sold frequently in trade.

Furthermore, rather than recognizing the cost of timber as it was sold as being an operating cost, Sino-Forest chose to characterize the same as a (non-cash) depletion expense. Depletion is added back to net income in calculating cash flows because it is a non-cash expense. Hence, Sino-Forest was able to completely and inappropriately exclude the cost of acquiring the timber that it supposedly had sold, when computing its cash from operations.

The effect of Sino-Forest's misleading “cash flow from operating activities” accounting treatment was to grossly overstate operating cash flows, a figure that is extensively relied upon by industry financial analysts to compute valuations of the company. “Operating cash flows” (excluding what are called changes in non-cash current assets and liabilities), or similar terminology such as EBITDA (earnings before interest, taxes, depreciation and amortization) are used extensively by financial analysts across many industries. Such usage is widely known to financial statement preparers and auditors.

E&Y and BDO, Sino-Forest's auditors, accepted the inappropriate and misleading timber acquisition and sale reporting each year. This was contrary to their audit reports' wording of seeking out and avoiding materially misstated financial results.

D. Professional Standards and Auditors (E&Y and BDO)

E&Y and BDO each issued audit reports proclaiming that they had conducted their audits in compliance with GAAP and that Sino-Forest's financial statements fairly presented the results of its assets, liabilities, operations and cash flows. In our opinion, E&Y and BDO both failed to perform their audits in accordance with

GAAS and failed to detect material misstatements in Sino-Forest's financial statements. In particular, E&Y and BDO (at a minimum) failed to:

1. Obtain an understanding of Sino-Forest's business operations, especially the peculiar manner in which it claimed to do business (e.g., the "ESA", the use of AIs, the "set off" arrangements, the trading within a small group of Suppliers and AIs at any given time and similar), as well as of the circumstances and effects of its transactions with impacts on related party measurement deficiencies.
2. Grasp the significance of Sino-Forest's business practices as they impacted on GAAP, such as the lack of cash collections, the extensive inter-relationships among Sino-Forest, its Suppliers and AIs, and the absence of formal land title transfers/registrations). Despite their professional obligations to obtain sufficient and appropriate evidence of the reality of Sino-Forest's reported transactions each year, it is highly doubtful that E&Y and BDO would have gathered the necessary evidence so as to become aware of these peculiarities. Such lack of evidence constitutes major non-compliance with GAAS.
3. Perform basic auditing procedures to test the validity of Sino-Forest's assertions regarding its ownership of standing timber, the sale and realization of proceeds of sale of standing timber, and the purchase of standing timber. In the alternative, if such procedures are claimed to have been performed, sufficient and appropriate audit evidence was not obtained (and could not have been obtained given the circumstances explained by the IC) so that logical and justifiable conclusions could be supported.
4. Object to Sino-Forest's inappropriate and non-GAAP-compliant financial reporting with respect to:
 - (a) Standing timber being labelled as "assets" of the Company on the audited financial statements;

- (b) The sale of standing timber, based on GAAP requirements as applicable for determining when sales revenue may be recorded;
- (c) Cash flows relating to the purchase and sale of standing timber; and their location within the audited cash flow statements; and,
- (d) The nature of relationships among Sino-Forest, its Suppliers and AIs, and the consequences of non-recognition of revenue and compulsory financial statement note disclosure.

Overall, it is our opinion that E&Y and BDO seriously failed to fulfill their basic obligations to test Sino-Forest's significant financial statement assertions. Had they met even the minimum requirements, E&Y and BDO would have identified the many discrepancies that were encountered by the IC. In the alternative, if E&Y and BDO should claim that they performed the necessary auditing procedures, then they inappropriately accepted Sino-Forest's accounting choices, which were not within GAAP and which materially overstated the Company's assets, revenues, profits and operating cash flows.

Overall, in our opinion, contrary to the assertions in the annual audit reports, Sino-Forest's financial statements were materially misstated, at least from 2006 to 2010.

III. BACKGROUND

Our understanding of the material facts follow:

- A. Sino-Forest Corporation is a Canadian company with an administration office based in Mississauga, Ontario and its executive offices based in Hong Kong. Sino-Forest purports to be a commercial forest plantation operator in the People's Republic of China. Until August 25, 2011, Sino-Forest was traded on the Toronto Stock Exchange under the ticker symbol "TRE".
- B. Ernst & Young LLP is a firm of chartered accountants with offices across Canada. E&Y was Sino-Forest's external auditor prior to 2005, and again commencing in the 2007 fiscal year.

C. BDO McCabe Lo Limited is a firm of certified public accountants based in Hong Kong. BDO was Sino-Forest's auditor the years ended December 31, 2005 and 2006.

D. On or about June 2, 2011, Muddy Waters LLC, an investment research firm, initiated coverage on Sino-Forest. Muddy Waters' report made numerous, serious allegations that Sino-Forest was a massive fraud. Among the allegations:²

1. Sino-Forest materially overstated its timber holdings.
2. The foundation of Sino-Forest's Ponzi-scheme type of fraud is its business model that utilizes a complex network of British Virgin Island ("BVI") subsidiaries that deal exclusively with Authorized Intermediaries ("AIs") in related transactions.
3. This network of AIs allowed Sino-Forest to fabricate unwarranted sales.

E. Sino-Forest's business prior to 2011 was comprised of three business segments:

1. Plantation fibre (tree plantation, including standing timber);
2. Wood log and wood products purchases and sales; and,
3. Manufacturing or processing.

The Plantation division was its largest operation and comprised the majority of its assets and revenues.

F. The Plantation Fibre division was operated as follows:

1. Sino-Forest applied two business models: Purchased Plantation and Planted Plantation:³

² Muddy Waters LLC Report on Sino-Forest Corporation, June 2, 2011.

³ Second Interim Report of the IC, dated November 13, 2011, pages 14 and 15.

(a) Purchased Plantations involved buying and selling standing timber or logs via BVI/AI structures and through wholly foreign owned entities (“WFOE”, incorporated in the Peoples Republic of China, “PRC”).

(b) Planted plantations have been operated entirely through WFOE.

2. As of December 31, 2010, Sino-Forest reported 711,000 hectares of purchased plantation assets (466,826 via BVIs and 214,182 via WFOEs).
3. As of December 31, 2010, Sino-Forest reported 77,700 hectares of planted plantations.
4. Sale of timber from planted plantations was alleged to have been made in cash, to customers.
5. Sale of purchased plantations, via BVIs, were not sold directly to customers, but rather sold under contract to AIs. Such transactions were made through Entrusted Sale Agreements (“ESA”). The typical wording of an ESA specifies that an AI is “entrusted” to sell timber on behalf of Sino-Forest’s BVI subsidiaries.
6. BVI timber sales were alleged to have been settled by the AI by its making payments to Sino-Forest suppliers on behalf of Sino-Forest. No cash flowed through to the BVIs.

G. Sino-Forest’s BVI/AI network supposedly operated as follows:⁴

1. AIs are Chinese incorporated companies that were engaged in timber trading. AIs enter into ESAs to sell timber on behalf of the BVIs. AIs are sometimes referred to as “selling agents”.
2. The ESAs stipulate that an AI is liable for paying Sino-Forest the sale price, and such obligation is not conditional upon the AI selling its timber to end customers.

⁴ Second Interim Report of the IC, dated November 13, 2011, pages 15 to 18 and 50 to 54.

3. The AI is responsible for finding its own customers.
4. Payment terms typically were alleged to be 20% of the sale price within 60 days, 40% within 150 days and balance within 270 days of signing.
5. However, according to the IC, no cash has ever actually flowed from the AIs to Sino-Forest/BVIs. Funds were held by the AI until directed by the Company to use the proceeds to pay for new BVI standing timber purchases. Funds were directed to "set-off" the cost of new timber acquisitions.
6. Funds to pay for new BVI standing timber purchases could originate from the proceeds of multiple ESAs (or from different AIs). From Sino-Forest's records, the set-off payments were alleged to have been applied to the partial or complete settlement of the Supplier's account.

An AI may also have been directed to purchase standing timber for a different BVI (from the entity from which the AI purchased standing timber and to whom it owes payment).

IV. RELEVANT PROFESSIONAL STANDARDS

Sino-Forest purportedly (according to its annual audited financial statements) applied Canadian GAAP in its financial reporting for the fiscal years ending on and prior to December 31, 2010.

Excerpts of selected pronouncements from GAAP are listed at **Appendix C**.

As a brief summary, revenue represents the inflow of cash or other benefits as a result of completing the normal, income-generating activities of a business. A key element of revenue recognition is the transfer of the risks and rewards of ownership that are associated with the asset(s) that has purportedly been sold to the buyer by the seller business. Under Canadian GAAP, the certainty of collecting cash from the buyer is an especially important consideration.

“Assets” represent resources or benefits that are available to a business. A key characteristic is that the reporting entity must be able to control, or be entitled to exploit, the resource in order to claim ownership as an “asset”.

Importance of Third-Party Validity

Financial reporting in Canada until December 31, 2010 was based on a vital presumption that transactions would primarily be recorded only when they were based on the occurrence of completed third party transactions.⁵ Such transactions were thought to have produced bargained prices and terms, and enforceable contracts when third parties had been involved. Payment to sellers was considered to be assured under such third party bargained contract terms.

Given its emphasis on the need for third party involvement, GAAP included stipulations or rules that, where a third party relationship did not exist, disclosure notes to financial statements had to be appended. For example, for the 2006-2010 period, the CICA Handbook required the following note disclosures:

“DISCLOSURE

➤ An enterprise should disclose the following information about its transactions with related parties:

- (a) a description of the relationship between the transacting parties;
- (b) a description of the transaction(s), including those for which no amount has been recognized;
- (c) the recognized amount of the transactions classified by financial statement category;
- (d) the measurement basis used;
- (e) amounts due to or from related parties and the terms and conditions relating thereto;
- (f) contractual obligations with related parties, separate from other contractual obligations;
- (g) contingencies involving related parties, separate from other contingencies.”

⁵ As of January 1, 2011, Canadian GAAP was replaced by International Financial Reporting Standards for publicly-traded companies.

What was missing from Canadian GAAP was a requirement to have transactions between related parties recorded and reported at "current fair market values." Accordingly, the dollar figures that were actually being reported under GAAP still required a careful examination to ascertain their reasonableness and credibility.

In the case of Sino-Forest, and its financial dealings, the following considerations applied and yet were largely not specified:

- A. Of the reported transactions, which dollar amounts were conducted with third parties at bargained prices?
- B. Similarly, which transactions were related party exchanges at agreed upon prices which were not at fair market value? What was the dollar difference between fair market value and the transacted prices?
- C. For the related party (or non-arm's-length) transactions:
 1. did the buyers pay the sellers in cash, or was a non-cash intercompany account system utilized?
 2. when did the cash settlements, if any, occur? (How many dollars each year represented cash settlements?)
 3. if non-cash assets were being traded, which mechanisms were used to establish intercompany trading prices? (Were comparisons made to third party dollar figures?)
 4. how many dollars of trades in each calendar year during 2006-2010 inclusive had to be cancelled because of legal restrictions, non-availability of product, and similar reasons?
 5. how many dollars of trades in each calendar year occurred among or between related companies that were not 100% owned by Sino-Forest companies? (Who held the minority ownership shares?)

In short, what was the overall degree of related party transactions that had the effect of cancelling each other, and yet were being reported as the equivalent of third party transactions? Did Sino-Forest's accountants really know who were the related parties, and who were not? Additionally, were Sino-Forest's auditors in agreement with the company, and which processes did they undertake as auditors to gather the necessary related party evidence?

What was actually reported under the title "Related Party Transactions" in Sino-Forest's 2010 annual audited financial statements were references to:

- A. executive officers' pay being directed to their personal companies;
- B. accrued consultancy fees to these same executives' companies;
- C. references to the acquisition of shares and bonds of a related company;
- D. actual acquisition of shares of a related company; and
- E. acquisition by a director of Sino-Forest of convertible notes of a related company.

Missing from the related party note disclosure were vital references to the nature of relationships among Sino-Forest and its suppliers and purchasers of timber products. Absences of such a significant nature in Sino-Forest's disclosures would lead readers to conclude that suppliers and purchasers were legitimate third parties. Hence, transactions would have been assumed to have been made at fair market values. Yet, according to the IC, considerable doubt would seem to exist.

The IC's inquiries mentioned the existence of many related party circumstances in various entities that dealt with Sino-Forest. Thus, the assumptions that investors likely would have made about bargained third party prices would not have been valid.

The related party note disclosure in Sino-Forest's audited financial statements was therefore misleading. More troublesome is that a major concept of GAAP, being necessary reliance on third party transactions for appropriate dollar figures in financial

statements, had been ignored by Sino-Forest and its auditors. Indeed, much of Sino-Forest's audited financial statement package each year could have been fictional.

V. SINO-FOREST'S ACCOUNTING POLICIES

Excerpts of selected declarations from Sino-Forest's stated accounting policies for timber holdings and revenue are listed at **Appendix D**.

Notably, no references have been made in the annual audited financial statements to the Company's extensive use of AIs in the purported sale of timber. Similarly, the notes do not disclose the absence of cash flows to Sino-Forest for the timber sales (i.e., the "set off" arrangements between AIs and Sino-Forest's suppliers).

VI. ANALYSIS OF SINO-FOREST ACCOUNTING AND REPORTING

A. Historical Financial Results

A summary of Sino-Forest's annual balance sheet, income statement and statement of cash flows is set out at **Appendix E**, along with the analyses that were derived therefrom. The revenue, profit, net asset and cash flows that were reported by the Company all show extraordinarily positive trends. Yet, as will be discussed herein, especially serious fundamental flaws existed in Sino-Forest's accounting choices, often rendering them in violation of GAAP for material amounts of dollars.

Sino-Forest's audited financial statements showed:

1. Revenues increased each year from 2006 to 2010, from \$555 million to nearly \$2 billion.
2. Likewise, gross profits and net income from continuing operations remained positive and increased each year from 2006 to 2010.
3. Reported cash flows from operating activities consistently increased from 2006 to 2010.

4. The sale of timber and logs comprised approximately three-quarters of Sino-Forest's total revenues.
5. Timber holdings increased nearly four-fold since 2006, from \$753 million to over \$3.1 billion in 2010.
6. Timber Holdings comprised 54.5% to 70% of the Company's total assets each year from 2006 to June 30, 2011.
7. Timber holdings were recorded as a long-term asset until 2010 (under GAAP). Timber holdings were reclassified in 2011 with the portion expected to be sold within 12 months characterized as a current asset (and valued at historical cost) and the remainder characterized as a long-term asset (and valued at fair value).
8. Transactions in timber holdings were often inappropriately reported as follows (up to December 31, 2010):
 - (a) Purchases were recorded as "Investing" activity cash outflow on the cash flow statement. The supposed "Asset" was recorded on the balance sheet as "Timber Holdings", in the long-term asset section.
 - (b) Sales were recorded as revenue on the income statement; the accompanying "Cost of Sales" was comprised of costs taken from "Inventory" as well as an expense charge for "Depletion" from "Timber Holdings". The "Depletion" charge on the income statement resulted in a reduction of Sino-Forest's Timber Holdings assets.
 - (c) Being a non-cash "depletion" charge, the Timber Holdings cost was eliminated (or added back) when calculating Operating Cash Flows on the cash flow statement.
9. With respect to inventory, Sino-Forest appears to have been very adept at turning over its timber stock. Annual turnover ranged from 5 to 18 times of its average stock on hand each year from 2006 to 2010.

The seemingly favourable financial reporting trends were based upon the accounting choices selected by management and approved by the external auditors. As will be elaborated herein, such accounting treatments were not appropriate given the available evidence (or lack thereof).

B. Ownership of Timber

In order to report timber holdings as an “asset”, certain fundamental attributes must exist. Such characteristics, as outlined in the CICA Handbook, are summarized at **Appendix C** in accounting for “assets”. The ability to exploit a resource (obtain economic benefits) and to control such exploitation are necessary criteria. One measure of an entity’s ability to obtain benefits is its having legal title to the ownership of an economic resource.

Based upon the documentation that we have reviewed, Sino-Forest’s claims to legal ownership of standing timber acquired under the purchased plantation model have been, and continue to be, subject to challenge. Reliable independent evidence of ownership has not been obtained.⁶

The ownership of Sino-Forest’s timber holdings was the subject of much attention in both the Muddy Waters’ report and the IC’s investigation. Muddy Waters alleged that Sino-Forest’s reported holdings were overstated and not plausible (given various geographic, legal and economic facts in China).

As a result, the IC sought to confirm Sino-Forest’s ownership, and learned the following, according to them:⁷

1. The IC verified registration of title to only 17.9% of the planted plantations.
2. The IC verified contractual claims to 81.3% of plantations.

⁶ According to the IC confirmations from local forestry bureaus do not constitute official documents and cannot be relied upon as evidence of ownership. Transaction documents with Suppliers and AIs are suspect given the undisclosed (and apparently, extensive) inter-relationships between the Company and the counter-parties via former employees and contractors.

⁷ Second Report of the IC, dated November 13, 2011, page 4.

3. The IC chose to verify ownership through review of original contracts.

However, the nature of the IC verifications demand questioning. The Second Report advises that Sino-Forest did not obtain registered title to BVI purchased plantations (planted plantations, for which titles are registered, are not of primary concern).⁸ Original contracts bear little, if any, evidentiary value given concerns regarding relationships between Sino-Forest and its Suppliers.

As a result, the IC has purportedly verified some of the ownerships by visiting forestry bureaus, suppliers and AIs to verify the chain of title and confirmation of payments. Purchase contracts, set-off arrangements and forestry bureau confirmations were relied upon by the IC as evidence. On its face, the verification procedures would appear to be reasonably robust. Yet, the further explanations of the IC reveal that the written confirmations and attempts to contact Sino-Forest's AIs and Suppliers were not sufficient to establish ownership for accounting purposes:

1. Forestry Bureau Confirmations:

The IC provided the following commentary on the confirmation process:

"The forestry bureau confirmations are not a form of official documents contemplated by the applicable regulatory regime. Rather, we believe, based on meetings with certain forestry bureau officials or former officials and with certain Suppliers, and discussion with Management, that they are documents issued at the request of either the Company or, more commonly, its Suppliers as a "favour" and should not be disclosed outside the Company or relied upon legally. They have what purports to be the forestry bureau's Chop on them. We believe the forestry bureau confirmations should be viewed as comfort indicating that the relevant forestry bureaus do not dispute SF's claims to the standing timber to which they relate, but which are not documents of title that could be relied upon in event of a dispute or in a court of law. However as noted below, a number of the forestry bureaus have indicated that these have been issued at SF's request and that the confirmations are for SF internal use only and may not be shown to third parties. This could limit the

⁸ Second Report of the IC, dated November 13, 2011, page 5.

usefulness of these documents in any legal dispute.”⁹ [Emphasis added.]

- (a) Forestry bureau confirmations in China are not officially recognized documents and are not title documents.¹⁰ The IC obtained little insight into the verification process of the bureaus or the methods through which confirmations can be obtained. Indeed, the IC was not able to obtain “complete comfort” into the methods by which the forestry bureau confirmations were obtained.¹¹
- (b) The IC was advised by a Supplier that Sino-Forest is the only customer who required confirmation letters for standing timber purchases (in addition to the purchase agreement). Issuing confirmations is not a typical practice and that such confirmations were provided as a “favour” at the request of the Company and Suppliers.¹²
- (c) The reliability of such confirmations is suspect in any case. The IC identified evidence that gifts or cash payments were provided to forestry officials for the issuance of confirmations.¹³
- (d) Notwithstanding the forestry bureau confirmations, the ownership of the lands and timber could be open to challenge.¹⁴
- (e) Challenges to ownership have occurred in the past, but apparently were resolved in a “manner satisfactory to the Company”.¹⁵ (The nature, frequency and particulars of past challenges to ownership are not disclosed.)
- (f) At least some of the confirmations were prepared by Sino-Forest on notional forestry bureau letterhead for local officials to “chop” (or stamp with its official mark). Management explained to Sino-Forest that the documents

⁹ Second Report of the IC, dated November 13, 2011, page 23.

¹⁰ Second Report of the IC, dated November 13, 2011, page 6.

¹¹ Second Report of the IC, dated November 13, 2011, page 6.

¹² Second Report of the IC, dated November 13, 2011, page 21.

¹³ Second Report of the IC, dated November 13, 2011, page 42.

¹⁴ Second Report of the IC, dated November 13, 2011, page 5.

¹⁵ Second Report of the IC, dated November 13, 2011, page 5.

were prepared to assist the forestry bureau officials who were providing a favour to assist the activities of the Company.¹⁶

Consequently, confirmations from local forestry bureaus provide little, if any, assurance of Sino-Forest's ownership of standing timber plots.

2. Uncertain Cash Flows:

The IC undertook to examine the process by which the Company directed payments between AIs and Suppliers. Notably, the IC was not able to verify actual movements of cash in connection with the purported "set-off" arrangements. The "set-off" process was purported to flow as follows:

- (a) A BVI that had receivables owing from an AI would issue instructions for the AI to make payments to a Supplier on behalf of that BVI, or another BVI. The instructions had to be signed and stamped, and indicated the amounts to be paid.¹⁷
- (b) Notification was given by the BVI to the relevant Supplier that payment for timber was being made through an AI on behalf of the purchasing BVI. The notification would be dated, stamped and signed, with the amount to be paid indicated.¹⁸
- (c) Upon payment, a confirmation would be issued by the AI that payment had been made to the Supplier as requested. The confirmation would not be dated, but would be stamped and indicate the amount that had been paid.¹⁹
- (d) Finally, a confirmation would be issued by the Supplier to the BVI that it had received payment from the AI. The confirmation would be dated, stamped and indicated the amount and date of payment received.²⁰

¹⁶ Second Report of the IC, dated November 13, 2011, page 42.

¹⁷ Second Report of the IC, dated November 13, 2011, page 52.

¹⁸ Second Report of the IC, dated November 13, 2011, page 52.

¹⁹ Second Report of the IC, dated November 13, 2011, page 52.

²⁰ Second Report of the IC, dated November 13, 2011, page 52.

The IC sought confirmation of actual cash movements between the AIs and Suppliers. However, Suppliers and AIs all declined to provide such confirmation. Common explanations for the refusals included unspecified “tax reasons”.²¹ Some AIs stated that they may not have in fact made payment themselves, but instead instructed other parties to make payments on their behalf.²²

The supposed tax advantages of the set-off arrangement were not explained to the IC by the AIs. On its face, several incongruities exist:

- (a) While the ESA supposedly require the AIs to withhold and remit relevant taxes on behalf of the BVIs, it is not clear how the AIs would possess the necessary information to compute the appropriate income taxes. Knowledge of the BVI’s cost of sales and other deductible expenses would be necessary to calculate taxable income.
- (b) We understand that Sino-Forest did not accrue substantial provisions for income taxes until the year ended December 31, 2010. (Charges against income would have been necessary even if they were remitted by the AIs on behalf of Sino-Forest.) The absence of income tax expenses would be logical if the “profits” were not taxable.

But another possible reason for tax exemption is that the sales were considered to be within a related group, and were not sold to an outside (or third) party. If this was in fact Sino-Forest’s position, it would be consistent with our view of the standing timber transactions, which is that the “sales” were not appropriate sales revenue, in accordance with GAAP. Transfers within one entity are not taxable in Canada.

One Supplier indicated that it would always use an intermediary to receive payments from a Sino-Forest AI. The reasons given were tax minimization and

²¹ Second Report of the IC, dated November 13, 2011, page 53.

²² Second Report of the IC, dated November 13, 2011, page 53.

the fact that the Supplier “did not have direct transactions with the AIs and therefore would be unable to account for the receipt of payment from the AIs”.²³ Such an explanation contradicts the very essence of the set-off arrangements whereby AIs were to be used to pay BVI debts owing to Suppliers. At the very least, the explanation casts doubt on Sino-Forest’s claim that set-off arrangements are common commercial practice in China.

The IC attempted to downplay the significance of missing Plantation Rights Certificates and written confirmations from forestry bureaus. Establishing the Company’s legal ownership of timber is supposedly readily done by having the *de facto* owner of the land grant authorization of the purchase contract.²⁴ The IC believes that if the Supplier refused to grant such authorization, the Company would have a claim under the theory of “unjust enrichment” against the Supplier. In light of the IC’s difficulties in locating Suppliers, and the apparent likelihood that Suppliers are simply “shell companies” devoid of assets, the practical feasibility of such claims is dubious.

In summary, the absence of proof of payment on purchases of standing timber, or collection on the sale of the same, is a serious deficiency. The absence of cash receipts is a glaring void given the importance for financial reporting purposes of establishing that Sino-Forest had the ability to access the economic benefits embodied by its purported timber holdings. In the absence of cash flows (representing the realization of the purchase and sale of the timber assets), Sino-Forest’s ownership of its timber holdings is cast into considerable doubt. Additional evidence must therefore be gathered and evaluated by an auditor before GAAP requirements can be met, such that the standing timber transactions can constitute revenues of the Company.

²³ Second Report of the IC, dated November 13, 2011, page 53.

²⁴ Second Report of the IC, dated November 13, 2011, page 24.

3. Relationships with Counter-Parties:

A major concern raised in the Muddy Waters' report was Sino-Forest's relationships with its counter-parties in the purchase and sale of standing timber. Allegations include close relationships among Sino-Forest, its Suppliers and the AIs. The effect of such relationships is that the reported purchases and sales of standing timber were fictitious or otherwise manipulated.

The IC attempted to obtain an understanding of the relationships among Sino-Forest and its Suppliers and AIs. The IC's findings are seriously troubling:

- (a) The Management of Sino-Forest had "not been forthcoming in clarifying the parties behind the Suppliers and AIs or the relationships with the forestry bureaus that Management stresses are important to the ongoing business."²⁵
- (b) The IC purportedly investigated various AIs for relationships with Sino-Forest. Of the fourteen AIs examined, nine had officers or shareholders with connections to Sino-Forest (e.g., as former employees). Many also had relationships with Suppliers.

We further understand that Sino-Forest transacted with only five AIs from 2006 to 2011 (AIs # 1, 2, 3, 4 and 6, as identified by the IC). Each of the five recently active AIs had connections to Sino-Forest. AI #6 was wholly-owned by one shareholder with connection to Sino-Forest.

Summed up, related party relationships were extensive.

A summary of the IC's findings on AI relationships is set out at **Appendix F**.

²⁵ Second Report of the IC, dated November 13, 2011, page 15.

(c) The IC also attempted to conduct site visits to confirm the existence of AIs²⁶:

- (i) Advisors to the IC were instructed to conduct unannounced site visits.
- (ii) The site visits occurred over three days, to addresses that were provided by Sino-Forest management.
 - AI #2 had three addresses listed; the company was eventually found at one of the locations but had changed its name. Brochures on site also indicated the involvement in the AI of a shareholder of one of Sino-Forest's Suppliers.
 - AI #3 was listed at two addresses. It had supposedly recently vacated one site, and could not be located at the other.
 - AI #4 could not be located at its Shanghai address.

A summary of the IC's observations is set out at Schedule V.C.II of its Second Report.

- (iii) An obvious question that was not pursued by the IC is whether AIs were ever directed to pay off Suppliers prior to the end of normal payment period or prior to the onward sale of timber by the AI. If no set-offs were directed until timber was actually sold, the arm's length status of the relationship would be cast into doubt. Coordination of cash flows would evidence close collaboration and a principal-agent relationship.
- (iv) Prior to 2010, Sino-Forest reported minimal income tax liabilities. According to the ESA, the AIs were responsible for withholding and remitting income taxes on behalf of the BVIs. Assuming that the

²⁶ Second Report of the IC, dated November 13, 2011, pages 54 to 55.

BVIs generally were subject to Chinese taxation, the conspicuously nominal amounts of income tax expenses reported suggests that the AI sales were not taxable transactions. An obvious explanation would be that the sales were made between related parties, and did not represent a culmination of profits earned for income tax purposes. Thus, the sales were not valid revenue in accordance with GAAP.

(d) Yuda Wood:

Yuda Wood was a major Supplier to Sino-Forest. The IC attempted to probe the relationship between Sino-Forest and Yuda Wood:

- (i) Huang Ran, the general manager and legal representative of Yuda Wood was discovered to not be a current employee of Sino-Forest (which suggests that he was a past employee of the Company).
- (ii) Over 50% of Yuda Wood's sales transactions were with Sino-Forest.²⁷
- (iii) Sino-Forest was the only company to whom Yuda Wood sold standing timber.²⁸
- (iv) Evidence was discovered of close cooperation between Sino-Forest and Yuda, including²⁹:
 - Administrative assistance provided by Sino-Forest;
 - Possible payment of start-up capital to Yuda Wood;
 - Joint control of Yuda Wood's bank accounts; and,

²⁷ Second Report of the IC, dated November 13, 2011, pages 71 to 72.

²⁸ Second Report of the IC, dated November 13, 2011, pages 71 to 72.

²⁹ Second Report of the IC, dated November 13, 2011, page 7.

- Correspondence (emails) indicating coordination of funding and business activities.

(v) Ran also had control of various other Suppliers to Sino-Forest.

Summed up, the close relationships should have been very disturbing for external auditors.

(e) Other Suppliers:

At least 13 of the 18 Suppliers that were examined by the IC had former employees as shareholders or officers. Many also had connections to AIs. The former employees held ownership interests ranging from 20% to 100% in their respective Supplier companies. The Suppliers' transactions with Sino-Forest ranged from tens of millions to over several billion renminbi (RMB). A summary of the IC's findings is set out at **Appendix F**.

The IC's investigation of Sino-Forest's Suppliers and AIs indicated that "close relationships" and cross-ownership and "other relationships with each other" likely existed.³⁰

The IC's investigations not only failed to disprove the existence of close relationships, but the apparent facts suggest that non-arm's length relationships were likely the disturbing norm rather than the exception. Hence, considerable evidence points to Sino-Forest's having reported material sales revenue that was not in accordance with GAAP.

The IC's reluctance to admit the obvious is likely due to its awareness of the consequences. Indeed, the Second Interim Report acknowledges that "to the extent that any of Sino-Forest's purchase and sale transactions are with related parties for accounting purposes, the value of these transactions as recorded on the books and records of the Company may be impacted".³¹ Notwithstanding the

³⁰ Second Report of the IC, dated November 13, 2011, page 7.

³¹ Second Report of the IC, dated November 13, 2011, page 7.

IC's apparent insistence upon downplaying the finding of a "smoking gun" of related party status, we believe that the existing, available evidence provides (and should have provided) more than enough reason for auditors to suspect material improprieties.

GAAP reporting requires that various conditions must be met before sales revenue may be recorded and reported. One vital requirement is that the sales have to be to third-parties, whereby dollar amounts have been bargained, and cash receipts are imminent. If third party involvement does not exist, considerable note disclosure is required under GAAP.

It is particularly important to observe that the IC's review of related parties was focused on personnel with direct connections to Sino-Forest (e.g., employees and consultants). As noted for Trading Co. #1, shareholders of companies may comprise family members of connected individuals.³² Yet the IC's shareholder analysis of AIs and Suppliers focuses on former employees and consultants. Little mention is made by the IC of Supplier shareholders who are related to the employees, such as family members or friends. Importantly, no indication exists in the IC's reports that its Advisors probed the identities or backgrounds of the non-Sino-Forest related shareholders. A serious concern exists that the 13 Suppliers (and possibly other Suppliers for which no direct connections through employees were identified) have undisclosed connections with the Company.

Similar concerns exist with AIs. Hence, audit "red flags" were extensive.

A further concern should have been connections between AIs and Suppliers. Shareholders and managers being in common create a likely risk of non-arm's length dealings occurring under Sino-Forest's set-off arrangements. Taken as a whole, Sino-Forest's network of BVIs, AIs and Suppliers operated as a closed commercial system whereby purchases and sales occurred among the same small group of counter-parties. Without outside interaction to validate

³² Second Report of the IC, dated November 13, 2011, page 80.

transaction values, or even the occurrence of transactions (e.g., the payment of cash to prove the *realization* of revenue), the risk of fraud or manipulation of transactions and values becomes immeasurably high.

In summary, in our opinion, the IC's efforts to verify ownership of timber tracts prove that substantive evidence could not be obtained to support Sino-Forest's ownership of much of its timber holdings. Such lack of evidence of ownership and third-party sales indicates that revenue should not have been reported when such conditions existed. Consequently, reported audited revenues on Sino-Forest's historical financial statements for at least 2006 through to 2010 are highly likely to have been materially overstated. The IC's findings point directly to falsified and materially misleading audited annual financial statements.

Worthy of special mention are:

1. The reliability and credibility of external confirmations obtained from forestry bureau officials is highly suspect. The confirmations do not comprise official documents, and evidence exists that Sino-Forest tampered with the confirmation process by preparing documents for the forestry bureaus.
2. Transaction documents among Sino-Forest's BVIs, the AIs and Suppliers are highly suspect given the apparent close relations among the parties.

C. Valuation of Timber Assets

The IC's conclusion regarding the value of Sino-Forest's timber assets is simply that the \$2.476 billion reported on the 2010 balance sheet "reflects the purchase prices for such assets as set out in the BVIs and WFOE standing timber purchase contracts reviewed by the IC Advisors".³³ Given the dubious nature of the relationships among Sino-Forest, the AIs and its Suppliers, verification of transaction documents hardly provides assurance that the recorded (book) values represent fair market or bargained arm's-length values.

³³ Second Report of the IC, dated November 13, 2011, page 6.

The usefulness of transaction document comparisons among related or possibly related parties are marginal at best and may be a particular example of the IC's attempt to feign an informative investigation.

The IC also sought independent valuation of Sino-Forest's purported timber assets. The valuation is ongoing as of the date of the IC's Final Report. However, if ownership is in doubt in some situations, the valuation issue may not become relevant unless cutting rights are held by Sino-Forest.

VII. CASH FLOW REPORTING

A. Background

Ernst & Young LLP rendered audit reports on the financial statements of Sino-Forest for the years prior to 2005 and for the years ended December 31, 2007 through 2010. These opinions stated, in part:

“In our opinion, the consolidated financial statements present fairly, in all material respects...cash flows...in accordance with Canadian generally accepted accounting principles.”

In our opinion, this statement is materially misleading to financial statement readers. Sino-Forest and its auditors seriously violated Canadian GAAP year after year in the preparation of the “cash flows from operating activities” section of Sino-Forest's cash flow statement. Consequently, financial analysts and investors were led to believe that Sino-Forest was far more successful in generating operating cash than was actually the case.

Similarly, for the years ended December 31, 2005 and 2006, BDO rendered the same type of deficient and misleading opinion. These BDO opinions were also materially misleading for the reasons described below.

As an example, E&Y dated its signed audit report “March 14, 2011” for the year ended December 31, 2010. “Cash flows from operating activities” for 2010 were reported as audited \$840 million U.S. dollars. What should have been reported was

a much lower dollar amount of \$94 million U.S. dollars. Sino-Forest overstated the figure by almost 900% for 2010.

In our opinion, “cash flows from operating activities” are a crucial figure that analysts and investors monitor when measuring the financial health of an entity. Cash inflows have to arise from one or more of only three sources:

1. Cash flows from operating activities.
2. Financing sources (such as the sale of bonds or shares, typically to third parties).
3. Dis-investing (or selling the entity’s long-life assets).

Dis-investing results in shrinking a company, and is usually an indicator of negative financial health. Financing sources of cash are appropriate when a company is growing, but could also be an indicator of declining financial health, and the need to borrow. It therefore has to be watched closely to ascertain the reasons for the financing(s).

Generally, “cash flows from operating activities” tends to receive the greatest attention from analysts. Low “operating activity” cash flows (absent the obtaining of greater financing) means that the company cannot pay dividends, or acquire more assets, or modernize, or engage in other vital activities so as to increase future profits. Indeed, negative “cash flow from operating activities” could be a warning of pending financial failure.

Valuations of a company’s overall worth, are often decided in significant part by applying a “valuation multiple”, such as 5 or 10 or more times, to “cash flow from operating activities” per share.

In brief, in our opinion, an overstatement by almost 900% of a company’s “cash flow from operating activities” is exceedingly serious. Issues such as the survival of the corporation would have had to have been entertained, had the company provided a reasonably accurate cash flow statement each year in its audited financial statements.

In summary, there are two deficiencies with Sino-Forest's cash flow statements; adoption of non-cash "depletion" and mismatching cash flows. These are discussed in greater detail on the following pages.

B. The Misleading Financial Statements.

In essence, in our opinion, Sino-Forest and its auditors clearly violated several basic concepts of Canadian GAAP for the several years leading up to December 31, 2010. Although a few accounting complexities existed in the general Sino-Forest business situation, what occurred in preparing the financial reporting was actually a simple, but thoroughly inappropriate and misleading, process.

Overall, when Sino-Forest acquired tracts of growing timber, the company inappropriately chose to call the purchase cost an "Investment" or investing activity on the cash flow statement. Traditionally, an "investment" would be considered to be a long-lived (or non-current) asset that would be used gradually over many future years, to generate revenue and profit. A relevant example would be a tree farm, where trees grow over many years before they become ready for harvesting.

A long-term "investment" category could be contrasted with what is called "inventory" (a current asset), which is intended to be sold, usually within the next year, or a longer life cycle for the particular business. Inventory are goods that are ready for sale without needing further growth or transformation.

On a cash flow statement, when inventory is sold, its cost in effect temporarily reduces the "cash flow from operating activities." That is, when the selling price of the inventory exceeds its cost, the net figure (selling price less inventory cost), and not the gross revenue figure, gets reported as "cash flow from operating activities." Hence, the "matching" concept of GAAP enters the picture, and requires the cash cost of the inventory to be subtracted from cash sales revenue to show any net addition to "cash flow from operating activities." By using the "net" dollar amounts of cash inflow, the financial statements would be aligned with what actually

happened, because any net cash increase from a transaction would arise from cash revenue less cash cost of inventory.

What Sino-Forest was largely reporting in its annual audited, and quarterly, financial statements was not the purchase of soon-to-be-sold inventory, but the acquisition of what Sino-Forest and its auditors labelled as a long-term investment. Categorizing timber inventory as a long-term non-current investment, particularly when that inventory is frequently being traded or sold, is a clear violation of GAAP, and has been for several decades.

In short, when soon-to-be-sold timber was acquired, the cost became an “investment” for cash flow reporting purposes under Sino-Forest’s inappropriate investing-activity reporting. But, when the timber lands were sold, the entire sales proceeds were called “cash flow from operating activities” (which was an entirely different category within a cash flow statement.) Thus, “cash flow from operating activities” became grossly overstated under Sino-Forest’s unrealistic and highly misleading reporting methods.

In Sino-Forest, no subtraction from the timber sales proceeds was being made on the cash flow statement for the cash cost of the timber tracts that had been sold. A massive overstatement of “cash flow from operating activities” thus occurred, year-after-year. “Cash flow from operating activities,” as reported in the audited financial statement, was therefore materially false because cash costs were being ignored. Gross cash increases were being reported instead of net-of-cost cash increases.

Costs or cash outlays were hidden in the “investments” or investing activities section within the cash flow statement. But, revenue or cash inflows, ignoring closely related offsetting cash costs, were permitted to be labelled “cash flow from operating activities”, which is a completely different and extremely important section of the cash flow statement.

Significantly, Sino-Forest's chosen accounting treatments for cash flow reporting of timber sales is directly contradicted by its own admissions. In responding to the Muddy Waters report, the Company stated that it did not harvest trees. Rather, it sold standing timber.³⁴ This is consistent with our view that Sino-Forest traded in standing timber, and did not treat standing timber as a long-term investment. Accordingly, it was not appropriate for Sino-Forest to have characterized standing timber in purchased plantations as an investment, for disclosure as an investing activity for cash flow reporting purposes.

C. Inventory as Investments

Categorizing inventory as "investments" constituted a serious violation of GAAP. But, there were more GAAP violations. These all resulted in an absence of "fair presentation" (as set forth in the auditors' reports) and the existence of "materially misleading" financial statements, year-after-year (contrary to the wording of the annual auditors' reports).

In our opinion, as forensic accountants who have been engaged to analyze many financial reporting discrepancies over many years, the mechanism that was employed by Sino-Forest to overstate "cash flow from operating activities" is significantly unusual, disconcerting, and highly improper. The dollar misstatements that occurred were deceptive and grossly in excess of financial reality.

Instead of using the usual procedure of deducting the cost of the sold timber lands from the sales revenue, in a "matching" exercise, the company chose a clearly non-GAAP approach year-after-year of calling the costs of sold lands a "depletion" (a non-cash concept). Such inappropriate reporting had the effect, in cash terms, of showing a zero cash cost for sold timber tracts. That is, depletion expense is a non-cash item. As such, the depletion expense (non-cash) item on the income statement was automatically turned into a zero figure on a cash flow statement, because depletion is not a cash expense. As such, non-cash cannot be reported on a cash flow financial statement. Thus, from a cash viewpoint, "cash flow from operating

³⁴ See Sino-Forest's June 3, 2011 press release "Sino-Forest Comments on Share Price Decline".

activities”, using Sino-Forest’s reporting method, results in zero cash cost for sold timber being charged against the purported revenue. Cash receipts from the sales were fully included, by Sino-Forest, essentially offset by zero costs, in the “cash flows from operating activities” section of the cash flow statement.

In our opinion, such an unsuitable and highly misleading choice required considerable “planning”. Commonly, situations which create “new” methods of financial reporting require extensive discussion with the company’s auditors. The result of the decision led directly to the financial statements being materially misleading, or containing an especially cumulative material misstatement, over many years, including from 2006 onward.

The “Independent Auditors’ Report” signed by E&Y for fiscal 2010 stated, in part:

“We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.” [Emphasis added.]

As mentioned earlier, cash inflows from Sino-Forest’s basic operating activities, which were reported at U.S. \$840 million in 2010 instead of U.S. \$94 million, unquestionably constitute a material misstatement of Sino-Forest’s cash operating results. The difference of U.S. \$746 million was caused by calling the amount “depletion of timber”, a non-cash item, instead of a cash expense normally labelled as “cost of goods sold.”

The seriousness of the misstatement becomes magnified quickly. When financial analysts apply a valuation multiple (such as 10 times operating cash flow) to the U.S. \$746 million overstatement, the overvaluation of Sino-Forest, as a company, rises into the billions.

D. False Depletion

The adoption by Sino-Forest of non-cash “depletion”, instead of typical cash-based “inventory” reporting treatment over several years, clearly was not in accordance

with Canadian GAAP. "Cash" and "non-cash" are opposites. The principal reasons for concluding that the use of "depletion" in Sino-Forest was not justified are:

1. Sino-Forest, according to its sales records, was not in the primary business of growing, and then later harvesting, timber. That is, Sino-Forest was not a long-life tree farm, which would grow trees for harvesting. Instead, Sino-Forest's audited financial statements show that it was mainly buying and fairly quickly selling large tracts of timberland, and logs.

For example, in the year ended December 31, 2009, of U.S. \$1,238 million of total revenue, U.S. \$954 million was from the "Sale of standing timber and harvested logs." (Note 20 of the 2009 audited annual financial statements.) The U.S. \$954 million accordingly represented over 77% of Sino-Forest's 2009 revenue. This same relationship occurred in each of the years from 2006 to 2010.

"Depletion", according to Sino-Forest's financial reporting, was being applied to sold timber. That is, their entire depletion expense of U.S. \$522 million was recorded as applying against the U.S. \$954 million of sold timber. Zero dollars of depletion are noted as applying to inventory of unsold logs.

Further details about the composition of "Cost of sales" and "Timber holdings" was not provided in the audited annual financial statements for most years. Hence, crucial information about the sales split between "standing timber" and "harvested logs" was withheld from investors. However, supporting further details are available for some of the years elsewhere in the earlier annual reports of Sino-Forest.

Harvesting of logs incurs the costs of labour and affiliated expense overheads, as well as the cost of logs. At Sino-Forest's year end, such unsold logs at cost should constitute "inventory." Note 5 to the 2009 audited annual financial statements shows only U.S. \$22 million of "Timber logs". Exactly which parts

of the U.S. \$22 million are made up of labour, overheads and log costs were not provided. Quite possibly inventory of logs arose solely from log purchases.

With an “inventory” turnover of about six (6) times in 2009, Sino-Forest’s harvesting revenue and related costs would not appear to be large in relation to probable sales of standing timber. Hence, the principal business operations of Sino-Forest, at least in 2009, would appear to be sales of tracts of standing and growing timber. Thus, sales of timber “investments”, using Sino-Forest’s categorization, should have been shown in the “investments” or investing activities section of the cash flow statement, and definitely not in the “cash flow from operating activities” section of a cash flow statement.

2. Further evidence that Sino-Forest’s principal business operations over the six years 2005 to 2010 were sales of standing timber, and that such sales really constituted sales of inventory (as opposed to sales of “investments”), can be obtained by comparing “Additions to timber holdings” to “Depletion of timber holdings included in cost of sales” on the “Consolidated Statements of Cash Flows” for each of the years 2005 to 2010.

In millions of U.S. dollars, for 2005 to 2010 inclusive:

	U.S. dollars in <u>millions</u>
Additions in total to timber holdings	<u>\$4,368</u>
“Depletion,” or sales cost, according to Sino-Forest	<u>\$2,756</u>
That is, sales and harvesting in the same six-year period, as a percentage of “additions” was:	<u>63%</u>

Accordingly, Sino-Forest’s main business was as a short-term trader of purchased standing timber. Such standing timber therefore clearly represented

“inventory”, which was readily available for sale. As such, the standing timber, at least in significant part, would constitute a “current asset” in accounting terms. New purchases of standing timber in effect were being turned over in less than two years (given the 63% sale rate in one year). In the resource business, such quick sales would occur for inventory traders, and not long-term tree farming and extraction industries.

3. Even when we examine the year end holdings of Sino-Forest’s “Timber holdings”, a similar quick turnover picture arises:

<u>Timber Holdings</u>	
U.S. dollars in <u>millions</u>	
Year end 2010	\$3,122
Year end 2009	2,183
Year end 2008	1,653
Year end 2007	1,174
Year end 2006	753

Using the entire “Timber holdings” at year end 2010, and the U.S. \$746 million Sino-Forest depletion figure for 2010, only about four (4) years would be required to sell or harvest their entire or total declared timber assets as of year end 2010. Obviously, if the recorded audited asset values had somehow been overstated in 2010, the four year figure would be correspondingly less. Hence, Sino-Forest, in reality, was not a long-term tree farm; its annual audited financial statements portrayed the company as an inventory trader, but one which grossly overstated actual “cash flow from operating activities.” The “depletion” concept was therefore inappropriate and misleading given the nature of Sino-Forest’s business operations.

4. In the accounting literature, the term “depletion” is usually employed with reference to diminishing assets, as occurs with the extraction of ore, natural gas and oil.

Timber constitutes a significantly different asset. Standing trees can be replenished over time through natural growth. Other resources such as oil and gas deplete as they are extracted, and cannot be replenished at the same location.

The book “Terminology for Accountants”, published by the Canadian Institute of Chartered Accountants (“CICA”), defines “depletion” as:

- “1. A reduction in quantity of wasting assets as a result of consumption or removal.
2. A charge in an accounting period to reflect that portion of the cost or other recorded value of wasting assets consumed or removed in that period.”

In effect, when trading of goods (as opposed to growing, tree farming or replenishing) is the main preoccupation of a company, the goods traded constitute “inventory”. Goods are purchased; goods are sold; inventory turnover is vital to the entity. Farming (such as growing wheat or trees) involves replenishing the product for sale, and therefore would normally encounter lesser dissipation of the land’s ingredients, over time. But, the degree of permanent consumption of resources as occurs with oil and gas extraction is usually significantly greater than for tree farming. It is the permanent exhaustion of the resources that leads to the accounting usage of the term “depletion.”

As stated previously, accounting depletion is not cash-based, but is an expense that is used in the process of measuring income, which is the purpose of an income statement. Being non-cash, depletion does not belong on a cash flow statement, which focuses on cash liquidity, and not on profitability or income.

Depletion is an “accrual accounting” income measurement term, and is a non-cash-expense. Depletion appropriately belongs on an income statement, because it is an expense of earning income. In sharp contrast, “inventory” is cash-based, and therefore logically becomes a crucial cost to be accounted for in a “cash flow” statement, being netted against cash revenue from timber sales.

In summary, Sino-Forest’s use of the non-current asset term “Timber holdings” for all of its timber asset purchases was clearly inappropriate given the nature of its proclaimed “trading” operations. Sino-Forest was not exclusively depleting land and timber resources and avoiding re-planting, as would occur in a business such as the extraction of oil and natural gas. To the extent that Sino-Forest might have been devoting a small part of its assets to tree farming, minor depletion might then apply.

But, the reported financial amounts show that timber trading was Sino-Forest’s main operating focus in 2010, 2009 and at least back to 2008. Logical accounting and financial reporting would have labelled the timber assets to be traded as “inventory”, a cash item. Sino-Forest chose otherwise, and materially violated GAAP by not offsetting cash costs of timber against revenue from sales.

E. Mismatching Cash Flows

On its annual audited cash flow statement Sino-Forest inappropriately:

1. recorded cash or equivalent receipts for most timber sales within the crucial corporate success-monitoring category, labelled “cash flows from operating activities”; but,
2. reported cash disbursements for timber tract purchases in the separate “investing activities” section of the cash flow statement.

The result was a gross mismatch and overstatement of “cash flows from operating activities” because cash disbursements for timber acquisitions were not being subtracted from cash receipts, to arrive at any net increase in cash for Sino-Forest for its “operating activities”, as opposed to “financing” or “investing” activities.

The Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”), which sets forth many aspects of GAAP, in its section dealing with the cash flow statement clearly identifies that what Sino-Forest was reporting was a serious violation of GAAP. The CICA Handbook states in part:

“Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the enterprise. Therefore, they generally result from the transactions and other events that enter into the determination of net income or loss...” [Emphasis added.] [Section 1540.16]

“Some transactions, such as the sale of a capital asset, may give rise to a gain or loss which is included in the determination of net income or loss. However, the cash flows relating to such transactions are cash flows from investing activities.” [Emphasis added.] [Section 1540.16]

“An enterprise may hold securities and loans for trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of trading assets are classified as operating activities.” [Emphasis added.] [Section 1540.17]

“Expenses are recognized in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous or combined recognition of revenue and expenses...” [Emphasis added.] [Section 1000.51]

Sino-Forest and its auditors ignored the vital “matching” foundation concept of GAAP, which is the very basis of computing accounting income. Income, in turn, especially cash income “from operating activities” is a major component in the calculation of a corporation’s stock value. Matching of cash disbursements to cash receipts is accordingly vital in a cash flow statement’s focus on cash liquidity.

Sino-Forest and its auditors faced the following two main alternatives:

1. Standing timber purchases could be called a non-current investment asset, with the emphasis being on “investment”, which would make sense for a longer term tree farming focus. If so, any eventual gains (such as arising from the eventual

selling price of timber being in excess of its acquisition cost) would be shown in the “investing” section of the cash flow statement.

2. Alternatively, acquisitions of timber tracts could have been called “inventory”, or a similar “trading” name, which is then often called a current asset. When inventory is being traded, as a fundamental business purpose of the company, both the cash purchase cost and the cash receipts on sale are automatically matched as part of “cash flows from operating activities.” That is, the main purpose of the business is “trading activities,” with the net cash effects being called “cash flow from operating activities.”

Instead of following only one of the two obvious GAAP alternatives, Sino-Forest and its auditors chose the so-called “convenient” or “best parts” of each opposing alternative, and thereby enormously inflated the fundamental yardstick measure of success labelled as “operating cash flows”. Such an appropriate combination was a clear violation of GAAP, as was described above.

The mismatch allowed cash expenditures to not be subtracted from cash receipts thereby bloating “cash flow from operating activities.” Valuation analysts thus would have been materially misled, and probably would have seriously misled their investor clients concerning the value of Sino-Forest’s shares.

“Cash flows from operating activities” are, in an important sense, “sacred” to analysts. Many analysts’ valuation models utilize terms such as “EBITDA” which are often just slight variations of “operating cash flows.”

As the CICA Handbook stated at the time, in Section 1000.11:

“...the objective of financial statements for profit-oriented enterprises focuses primarily on information needs of investors and creditors...” [Emphasis added.]

Sino-Forest’s management and its auditors’ decision to regard the timber acquisition costs as being subject to “depletion”, which is a non-cash concept, had a direct misleading and exaggerating effect on the cash flow statement. “Depletion”

types of non-cash add-backs to income caused timber acquisition costs to vanish, in accounting terms. In reality, cash resources had to have been utilized for timber acquisitions. Hence, “cash flow from operating activities” became grossly overstated by Sino-Forest, especially in the years since 2005 up to 2010.

In our opinion, such clearly inappropriate “reasoning” which resulted in Sino-Forest’s material violations of GAAP, is highly disturbing. The CICA Handbook clearly calls for a separation of “investing activities” from “operating activities.” [Section 1540.12] Valuation multiples that are commonly applied to cash generated by “operating activities” cause such “errors” or distortions in calculations of operating cash flows to become especially serious, especially when they are multiplied into becoming false corporate-wide values.

F. Changing Nature of Sino-Forest

A review of Sino-Forest’s audited annual financial statements since the year 2000 indicate that the nature of its operations was changing in material ways over the years. Revenue in 2000 of U.S. \$127 million had increased to U.S. \$1,924 for 2010. Similarly, depletion of U.S. \$1 million in 2000 rose to U.S. \$746 million in 2010.

Trading revenue from wood logs nearly doubled between 2005 and 2010, whereas revenue from “plantation fiber” increased almost six (6)-fold in the same period. Much of the increase commenced in 2005 to 2006. Trading, and not tree farming, grew rapidly in Sino-Forest, as is demonstrated by the six-fold increase.

Given the nature of Sino-Forest’s changing operations, a significant question has to be addressed: did Sino-Forest require a serious revamping of its accounting and reporting principles commencing in 2005 to 2006? Specifically, should Sino-Forest have had two sets of accounting principles for two distinct business models: tree farming vs. timber trading?

We already know that Sino-Forest wedded itself over the years to the one materially misleading cash flow model or concept of depletion of supposedly tree farming

timber holdings. Such reporting could be fitting for a tree farm operation where tree growth and harvesting occur over perhaps 40 years. But, ascertaining the amount of depletion would likely be a difficult task, given replenishment growth in a tree farm.

However, according to its significant fluctuations in year end timber holdings relative to acquisitions or purchases of timber tracts, as noted in its audited financial statements, Sino-Forest was in the trading and harvesting business over the short near term. Both trading and short-term harvesting operations have to be reflected, as main purposes of a business, in “cash flow from operating activities”, by definition.

The CICA Handbook (Section 1540) specifically addresses the problem that Sino-Forest was facing as its business changed its prime focus. A choice could have been made to report all of the short-term trading and harvesting operations in the “investing” section of the cash flow statement. In essence, Sino-Forest might have declared itself to be a long-term tree farm. However, if the timber tracts actually were for mature trees, such a declaration would be contrary to facts.

But, Sino-Forest and its auditors chose to ignore the clear language (stated earlier) of the CICA Handbook. Despite the overwhelming facts that Sino-Forest was engaged in “trading”, mainly on a short-term basis, Sino-Forest and its auditors clung to not only a non-GAAP application of depletion, but also to mismatching of cash flows by using two totally different portions of the cash flow statement. The materially mismatched cash flows had to have been obvious to both Sino-Forest and its auditors.

To make matters worse for shareholders of Sino-Forest, investors generally, and analysts, the financial item that was chosen for gross overstatement was “cash flow from operating activities.” The magnitude of overstatement in 2010 of nine (9) times applied to share price valuation multiples of, perhaps six (6) times, results in a potential overstatement of share price of fifty-four ($9 \times 6 = 54$) times. In short, the overstatement was extreme and alarming.

In our opinion, Sino-Forest and its auditors had to have known that many analysts were writing reports on Sino-Forest as a company. Overstatements of critical dollar numbers of the foregoing magnitude had to have material consequences. The life of Sino-Forest was being prolonged by misleading financial reporting.

G. Financial Analyst Reports

Based on readily available reports, many financial analysts closely followed the financial activities of Sino-Forest. Releases by Sino-Forest of its annual audited financial statements invariably led to the frequent publication of analysts' updates on its expected stock pricing.

A few of the broker companies that appeared to utilize "cash flow from operations" in important parts in their investment analyses included:

1. Dundee Capital Markets - March 16, 2010
2. Credit Suisse - March 16, 2010
3. Morgan Stanley Research - March 16, 2010
4. Scotia Capital - March 16, 2010
5. RBC Capital Markets - March 16, 2010

A similar group of analysts' reports that appeared to use "cash flow from operations" or equivalents in their valuations were issued for 2009 and prior years' Sino-Forest results.

In our opinion, as previously stated, the "cash flow from operations" figures were certainly materially misleading. Accordingly, the value of Sino-Forest as a company became seriously overstated. A collapse of Sino-Forest's share price was not surprising, if not inevitable.

H. Cash Transactions

The extent to which cash actually circulated in and out of Sino-Forest from third parties has yet to be determined. Further investigation is required.

However, the degree to which previously-mentioned questionable “cash flows from operating activities” (after having been adjusted for false non-cash depletion) would still have constituted a misstatement of facts, merely compounds the violations of GAAP reporting, as well as of auditing standards. Entities that report accounting profit that is grossly in excess of net cash receipts from operations frequently encounter liquidity crises. The fact that Sino-Forest’s actual “cash flow from operating activities” were far lower than claimed would have contributed to its current cash flow crises.

Accordingly, our earlier comments about Sino-Forest’s corporate valuation being overstated because “cash flows from operating activities” were grossly overstated, are not the full story. If, as alleged, actual cash receipts as reported were not in fact being received in cash, an additional serious problem existed in Sino-Forest.

The compounding effect of overstated “cash flows from operating activities” and reported cash flows that did not in fact occur in cash must be added together. The combination of dollars of misstatement would be hugely in excess of “material dollars” for their effects on investors, and their decisions.

Consequently, in our opinion, had E&Y and BDO performed GAAS compliant audits, they would have to have known that Sino-Forest’s financial reporting was not in accordance with GAAP. No doubt ought to have existed in the minds of experienced accountants that Sino-Forest’s annual audited financial statements were materially misstated, and had been so for multiple years leading up to December 31, 2010. But, the uncovering for shareholders of hidden numbers (however, not so hidden for auditors) was vital to grasp the material financial manipulations.

VIII. ANALYSIS OF EXTERNAL AUDITOR PERFORMANCE

A. Generally Accepted Auditing Standards

The Canadian Institute of Chartered Accountants' Handbook (the "CICA Handbook") sets out professional standards for the audit of financial statements. Additional guidance may be found in professional auditing literature, textbooks and academic research.

CICA Handbook Section 5100 (Generally Accepted Auditing Standards) states, in part:

*"Generally Accepted Auditing Standards are as follows:
The examination should be performed and the report prepared by a person or persons having adequate technical training and proficiency in auditing, with due care and with an objective state of mind...."*

[CICA Handbook Section 5100.02, as of September 1975 and effective for the relevant period.]

Technical competence, care and an independence of attitude are crucial elements for performing a GAAS financial statement audit. E&Y and BDO were required by professional standards to exercise these important attributes in their audits of Sino-Forest's financial statements.

B. Responsibilities of Auditors

The role of an auditor is to express an opinion for shareholders on management's financial statements. Preparing financial statements, including the process of maintaining financial information and assembling the underlying data for the financial statements, are the responsibility of the audited entity's management.

CICA Handbook Section 5090 (Audit of Financial Statements³⁵) sets out the following, among other, guidance:

³⁵ Section 5090 has been in effect since June 1998, but was revised effective December 14, 2004. As of December 14, 2004, the "presumption of management's good faith" was deleted as an auditing postulate. Instead, an auditor is required to consider the "honesty and integrity" of management. An auditor does not

1. An auditor often initially designs and executes audit procedures under a presumption of management's good faith. This presumption of good faith may be applied in collecting and evaluating the sufficiency and appropriateness of audit evidence. However, consideration has to be given to management's integrity. Indications that question or contradict management's good faith that may be encountered during an audit must be taken into consideration, and audit procedures modified accordingly.
2. Management's good faith is not, in itself, a source of sufficient and appropriate audit evidence. The representations and assertions of management do not, in and of themselves, constitute sufficient audit evidence. If it were otherwise, audits would provide no real assurance to the shareholders. Independent audit evidence must be gathered and evaluated.
3. An auditor is also required to exercise "professional skepticism", which means that the auditor has to be alert to any evidence that contradicts any presumption of management's good faith.

Therefore, an audit can initially presume good faith conduct by management, but auditors must be cognizant of risks that management may act otherwise. Further, an auditor cannot blindly accept evidence, but must carefully consider the reliability and validity of the evidence that is collected. Importantly, management itself cannot be considered to be an adequate or complete source of audit evidence. Corroboration of management's accounting records and assertions with external, independently-obtained evidence is a crucial aspect of a GAAS audit.

C. Knowledge of the Business

In order to effectively obtain and evaluate audit evidence, an auditor must thoroughly understand a company's business. Knowledge of the business is also

assume honesty (or dishonesty), but is required to be alert to indications of dishonesty (i.e., exercise professional skepticism).

used to evaluate the accounting policies and financial statement presentation choices that have been made by management. Professional obligations to obtain and apply a “knowledge of the entity’s business” are set out in the CICA Handbook Section 5141 (Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement) for audits that were conducted in January 2006 and later. Knowledge of the entity’s business is crucial to the ability to conduct an audit. Note that the purpose of such knowledge is to facilitate the auditor’s evaluation of the entity’s transactions, accounting policies and the overall financial statement presentation. The implication is that an effective audit is not possible without such knowledge.

“The auditor should obtain an understanding of the nature of the entity. The nature of an entity refers to the entity’s operations, its ownership and governance, the types of investments that it is making and plans to make, the way that an entity is structured and how it is financed. An understanding of the nature of an entity enables the auditor to understand the classes of transactions, account balances and disclosures to be expected in the financial statements.”

[CICA Handbook Section 5141.025, effective January 2006.]

The application of knowledge is not a singular or isolated event. GAAS requires that the auditor apply his/her knowledge of the client’s business in a continuous and cumulative manner.³⁶ Procedures should be contemporaneously modified if material information is discovered in the course of the audit. For example, if it becomes apparent that management’s integrity is suspect, all audit evidence that originated from management must be reconsidered. Alternate, external sources of data would have to be obtained to replace information provided by management. If external evidence is not available, an external GAAS audit may not be possible to achieve.

E&Y and BDO were obligated under GAAS to make themselves aware of Sino-Forest’s peculiar business model, including the ESA’s, the set-off arrangements, and the trading procedures for standing timber.

³⁶ Obtaining an understanding of an entity’s business, environment and internal controls is also described as a “continuous” process at Section 5141.06.

D. Audit Evidence

Auditors are obligated to collect sufficient and appropriate evidence to support an opinion on financial statements.

“Sufficiency is the measure of the quantity of audit evidence. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for, or detecting, misstatements in, the classes of transactions, account balances and the disclosures and related assertions. The quantity of audit evidence needed is affected by the risk of misstatement (the greater the risk, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required)...merely obtaining more audit evidence may not compensate for its poor quality.”

[CICA Handbook Section 5300.07, as of December 2005]

Auditors are not entitled to rely only or primarily upon the management of an audited entity to provide evidence to test financial statement balances. GAAS addresses the reliability of audit evidence in the CICA Handbook at Section 5300.09. In particular, evidence from external sources is considered to be reliable, as is evidence that is obtained directly by the auditor and evidence that is produced in original documents.

The auditor’s objective in collecting evidence is to test the assertions that are implicit in the financial statement balances, such as the occurrence of transactions, the existence of assets, and the valuation of assets.³⁷ Thus, E&Y and BDO ought to have sought evidence on the existence and valuation of Sino-Forest’s timber assets, as well as for the occurrence of the purchase and sale transactions.

Obtaining external sources of evidence or direct observation of evidence on Sino-Forest’s timber holdings and purchase/sale transactions would have been extremely difficult. The challenges encountered by the IC would have also applied to the external auditors. It is more than likely that independent evidence could not have been obtained by the auditors on much of Sino-Forest’s timber assets and related

³⁷ See CICA Handbook section 5300.20 - .21.

transactions. Hence, “clean” audit reports could not be issued in accordance with GAAS when crucial evidence was not able to be obtained.

E. Internal Controls

An auditor is required to obtain a “sufficient understanding of internal control”.³⁸ The purpose of studying the entity’s internal controls is explained as follows:

“The auditor should obtain an understanding of internal control relevant to the audit. The auditor uses the understanding of internal control to identify types of potential misstatements, consider factors that affect the risks of material misstatement, and to design the nature, timing and extent of further audit procedures. Internal control relevant to the audit is discussed in paragraphs 5141.047-.053. In addition, the depth of the understanding is discussed in paragraphs 5141.054-.056.”

[CICA Handbook Section 5141.041, effective January 2006.]

This obligation to probe the accounting for transactions, from origination to financial reporting, is particularly relevant to E&Y and BDO’s relationships with Sino-Forest. The external auditors were obligated to examine Sino-Forest’s purchases and sales of standing timber in order to assess the appropriateness of Sino-Forest’s accounting. Peculiarities such as the ESA framework, the set-off arrangements, and the lack of title registration ought to have been identified as particular risk areas. Audit procedures should have been modified accordingly.

Weak internal controls imply greater risks of material misstatement in financial statements. Consequently, auditors are obligated to supplement their procedures to perform additional, or alternative, tests to collect sufficient and appropriate audit evidence.

The IC’s investigations revealed numerous deficiencies in the Company’s internal controls, including:³⁹

³⁸ See CICA Handbook Section 5100.02 (Generally Accepted Auditing Standards), as of July 1992 and effective throughout the relevant period.

1. inappropriate concentration of authority, or lack of segregation of duties.
2. incomplete or inadequate record creation and retention practices;
3. scattered or decentralized record-keeping;
4. lack of integrated accounting systems;
5. lack of an internal audit function; and,
6. the use of personal electronic devices and personal email accounts to conduct business.

The internal control deficiencies at Sino-Forest described by the IC are fundamental flaws that had to have been known to an external auditor in planning and performing a GAAS audit. In light of such deficiencies, expanded audit procedures would have had to have been performed by E&Y and BDO. It is highly unlikely that internal controls for financial reporting could have been relied upon. Extensive tests of details, examination of original source documents and use of external, independent evidence would have been crucial. Any evaluation of E&Y and BDO's professional work should take these circumstances into account. Given the significance of the deficiencies identified by the IC, it is highly unlikely that a GAAS audit on Sino-Forest's financial statements could have been performed by E&Y and BDO.

F. Audit of Particular Financial Statement Items

1. Inventory

Specific concerns in auditing inventory are the existence, ownership and valuation of goods that were claimed as being assets of an entity.

According to CICA Handbook Section 6030.01, "...while auditors do not take, determine or supervise the inventory, they must be reasonably satisfied as to the

³⁹ See the Final Report of the IC, dated January 31, 2012, pages 10-12.

physical existence and condition of the goods, the ownership, the pricing and the arithmetical accuracy of the calculations.”⁴⁰

The minimum auditing procedures for inventory are described as follows:

“The auditing procedures in respect of inventories should be sufficient in scope to satisfy the auditors:

...

(b) as to the physical existence, ownership and condition of inventories;

(c) that the stated basis of valuation is being followed and is consistent with that of the previous period.”⁴¹

Common audit procedures include physical inspection of the assets, inventory counts and price testing. Based upon the difficulties that were encountered by the IC, it is highly improbable that E&Y and BDO were able to perform the necessary procedures to verify the above-noted assertions.

- (a) Physical inspections and counts likely were not feasible in the context of normal audit scopes. Extensive travel would have been required. Even if the external auditors had been able to arrange for physical attendance, apparent limitations in the mapping and surveying of lots would have hindered physical counts.
- (b) Verification of ownership through third-party legal documents would not have been possible. We understand that purchased plantation lots generally were not registered to Sino-Forest’s ownership (i.e., plantation rights certificates were not obtained), nor was the issuance of confirmations by local forestry bureaus a common practice in any case.
- (c) If E&Y and BDO had attempted to independently collect evidence through physical observation, confirmation of ownership and similar

⁴⁰ CICA Handbook Section 6030.01, as of June 2005.

⁴¹ CICA Handbook Section 6030.08, as of June 2005.

verification methods, they would have encountered the same troubling obstacles as the IC.

If attendance at stocktaking is not feasible, an auditor is required to perform alternative procedures to satisfy GAAS requirements applying to the inventory asset.⁴²

E&Y and BDO likely relied upon transaction documents, such as contracts, to verify the existence, ownership (and value) of the Company's standing timber. Such reliance upon internal or related party documentation, and correspondence with only purported third-parties (for which serious concerns exist; discussed below), was not inappropriate. Non-third party original documents would not have provided sufficient and appropriate evidence to support an audit opinion.

Timber holdings comprised well over one-half of Sino-Forest's assets in each year from 2006 to 2010. Independent verifications were necessary, but could not have been performed given the circumstances now understood to have existed. Consequently, E&Y and BDO should not have issued their "clean" audit opinions.⁴³

If an auditor is not able to obtain sufficient and appropriate evidence on the physical existence, ownership and valuation of inventory, an expression of reservation in the audit report typically would may be necessary. If the inventory is a material balance, and misstatement would have extensive impacts on the financial statements (such as on revenue, cost of sales, gross and net profit and so forth), a denial of an audit opinion would usually be required.

2. Sales and Purchase Cycle Testing (Revenue/Receivables and Purchases/Payables)

Audit of the sales cycle includes testing for the occurrence of sales transactions and the existence and value of any outstanding receivables. Similarly, testing

⁴² CICA Handbook Section 6030.10, as of June 2005.

⁴³ See CICA Handbook Section 6030.11, as of June 2005.

of the purchase cycle would require examination of the occurrence of purchase transactions and the existence and completeness of outstanding payables.

Common procedures include the examination of transaction documentation (e.g., purchase orders, invoices, and shipping documents, if applicable).

Based upon the circumstances identified by the IC, E&Y and BDO would have encountered obvious anomalies that ought to have highlighted Sino-Forest's GAAP violations, had they attempted to conduct a GAAS audit:

- (a) The absence of cash collections from purported sales of standing timber to AIs (as part of testing accounts receivable). The absence of cash payments from Sino-Forest to Suppliers for purported purchases of standing timber.
- (b) General absence of cash inflows and outflows that would be expected of an entity engaged in commercial transactions.
- (c) The lack of title registrations or plantation rights certificates with respect to purchased plantation timber.
- (d) The small pool (only five AIs) of companies with which Sino-Forest conducted sales, and the similarly small pool of Suppliers used for purchases.
- (e) Difficulties in obtaining maps, surveys or other documents evidencing Sino-Forest's supposed "owned" lands.

We would also expect that any attempts to confirm receivables and payables directly with AIs and Suppliers would not have been successful (if the process was properly controlled by the auditor as required by GAAS). Difficulties encountered by the IC in visiting AIs and Suppliers suggest that physical office addresses were at least sometimes faked.

In our opinion, it is highly unlikely that E&Y and BDO conducted GAAS procedures to audit Sino-Forest's sales and purchases. If adequate examinations

had been conducted, the deficiencies identified by the IC would have been encountered by the auditors and “clean” audit reports should not have been issued.

However, if GAAS procedures were not performed, the auditors would have failed to comply with their professional duties.

3. Related Parties

The existence of related parties gives rise to myriad financial reporting risks. Such risks are explicitly recognized in GAAS, which is articulated in the CICA Handbook:

“When planning and performing an audit, the auditor needs to consider matters such as the following:

- (a) Any aspect of an entity’s activities may involve related party transactions. Therefore, throughout the audit, it is important that the auditor be alert for circumstances indicating the existence of undisclosed related parties and related party transactions.
- (b) When audit evidence originates from a related party, the nature and extent of the entity’s relationship with the related party may affect the reliability of that evidence.
- (c) Qualitative as well as quantitative aspects of materiality are important when the auditor is assessing the measurement and disclosure of identified related party transactions, particularly those not in the normal course of operations.”⁴⁴

The IC uncovered extensive networks of relationships between Sino-Forest, its Suppliers and AIs. In particular, many of the Suppliers and AIs with whom the Company traded have former Sino-Forest employees or contractors as directors, officers and/or shareholders.

Accordingly, the auditors should have known that they had not obtained sufficient appropriate corroborative evidence. Under such circumstances, unqualified audit reports cannot be issued.

⁴⁴ CICA Handbook Section 6010.06, as of June 2005.

IX. RELATED MATTERS

A number of matters arise from our foregoing conclusions, which at this point are solely based on publicly-available information. As stated, we may have to amend our commentary as more information becomes available.

Nevertheless, at this stage of our analysis we believe that Sino-Forest's annual audited financial statements for the years ended December 31, 2006 through to December 31, 2010:

1. were not prepared in accordance with GAAP; and
2. were not audited in accordance with GAAS; and
3. were materially misstated;

for the reasons previously specified.

However, we feel obligated to deal briefly with a few other matters that merit consideration, but were not directly instrumental in arriving at our conclusions.

A. Canadian Public Accountability Board ("CPAB")

CPAB issued a "Special Report" titled "Auditing in Foreign Jurisdictions" in 2012. The report did not name companies and auditors that were the focus of its audit review attention in 2011.

Yet, CPAB stated:

"This is a Special Report on CPAB's review of audit files for Canadian public companies with their primary operations in China."

The report then proceeded to be quite critical of what CPAB saw, and stated:

"CPAB is disappointed by the results of its review. In too many instances, auditors did not properly apply procedures that would be considered fundamental in Canada, such as maintaining control

over the confirmation process. CPAB's findings indicate that auditors often did not appropriately identify and assess the risks of material misstatement in the financial statements, through a sufficient understanding of the entity and its environment. CPAB also found a lack of professional skepticism when auditors were confronted with evidence that should have raised red flags regarding potential fraud risk."⁴⁵ [Emphasis added.]

In our opinion, issues that the IC noted for Sino-Forest, which should constitute "red flags", such as the related party involvement, would appear to be very similar to what CPAB encountered in its review of auditor working papers for Chinese-based companies.

B. Materiality

Accounting and auditing "materiality" are explained in various places in the CICA Handbook. All of the definitions revolve around impacts on the decision of users of financial statements. An example is the definition in Section 1000 of the CICA Handbook, "Financial statement concepts", paragraph 17:

Users are interested in information that may affect their decision making. Materiality is the term used to describe the significance of financial statement information to decision makers. An item of information, or an aggregate of items, is material if it is probable that its omission or misstatement would influence or change a decision...." [Emphasis added.]

For Sino-Forest, "material" dollar impacts on the financial statements could involve assets, liabilities, revenue, expenses and cash flows, especially "cash flow from operating activities". Shareholders of Sino-Forest may have bought, sold or held their shares based on what was reported. Often, for Sino-Forest, huge dollars of revenue and cash flows were at stake, and were dependent upon whether timber sales revenue was reported appropriately, or not.

But, with Sino-Forest much more was obviously at stake, and this involved whether the company reported in accordance with ethical standards as well as GAAP,

⁴⁵ See CPAB "Auditing in Foreign Jurisdictions – CPAB Special Report", page 1.

GAAS and “fairness”. Thus, small dollars could be “material” if these small dollars were indicative of the beginnings of deceit, or fraud, or a similar problem.

As well, disclosure or not of the extensive number of related parties could very well have been “material”.

C. Income Taxes

Sino-Forest does not appear to have accrued large dollars of income tax expense and payables until the fiscal year 2010. Various reasons could exist, but three in particular are noteworthy possibilities:

1. The transactions were largely deemed to be not taxable (until perhaps 2010) because of the existence of “off-shore” corporations. The publicly-available information is not informative concerning “loopholes” (until 2010) in the Chinese tax legislation. Hence, we cannot evaluate this possibility at the present time.
2. The transactions were largely not taxable (until perhaps 2010) because they consisted of related party transactions and were not third-party, taxable, profit-making activities. This possibility is a major concern to us, and will have to be pursued when further information becomes available.
3. The transactions were largely taxable, but Sino-Forest did not record appropriate expenses and liabilities. Such a possibility would mean that the annual audited financial statements failed to comply with GAAP and GAAS and were probably “materially misstated,” in audit report terms.


Further information is needed to resolve whether one, or up to all three, of the above apply to different years and situations within Sino-Forest. The entire income tax issue requires more investigation when additional information is made available.

X. RESTRICTIONS

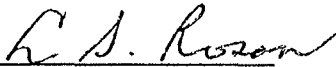
This report is not intended for general circulation or publication, nor is it to be reproduced for any purpose other than as outlined above without our written permission in each specific instance. We will not be responsible for losses occasioned to any party as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph. We reserve the right to revise our opinion in light of any facts, trends, or changing circumstances that become know to us subsequent to the date of this report.

Respectfully submitted,

ROSEN & ASSOCIATES LIMITED



A.T. Mak



L.S. Rosen

Appendix A**Documents That We Considered In Our Analysis**

1. Statement of Claim in the matter of The Trustees of the Labourers' Pension Fund of Central and Eastern Canada and the Trustees of the International Union of Operating Engineers Local 793 Pension Plan for Operating Engineers in Ontario v. Sino-Forest Corporation, Ernst & Young LLP, Allen T.Y. Chan et al, dated August 30, 2011.
2. The First Interim Report of the Independent Committee to the Board of Directors of Sino-Forest Corporation, dated August 10, 2011.
3. The Second Interim Report of the Independent Committee to the Board of Directors of Sino-Forest Corporation, dated November 13, 2011.
4. The Final Report of the Independent Committee to the Board of Directors of Sino-Forest Corporation, dated January 31, 2012.
5. The Interim Consolidated Financial Statements of Sino-Forest Corporation for the periods ended:
 - (a) June 30, 2011
 - (b) March 31, 2011
 - (c) September 30, 2010
 - (d) June 30, 2010
 - (e) March 31, 2010
 - (f) September 30, 2009
 - (g) June 30, 2009
 - (h) March 31, 2009

- (i) September 30, 2008 (Restated)
 - (j) June 30, 2008 (Restated)
 - (k) March 31, 2008
 - (l) September 30, 2007
 - (m) June 30, 2007
 - (n) March 31, 2007
 - (o) September 30, 2006
 - (p) June 30, 2006
 - (q) March 31, 2006
6. The Annual Consolidated Financial Statements of Sino-Forest Corporation for the years ended:
- (a) December 31, 2010
 - (b) December 31, 2009
 - (c) December 31, 2008
 - (d) December 31, 2007
 - (e) December 31, 2006
 - (f) December 31, 2005
- (and for prior years)
7. Muddy Waters LLC report on Sino-Forest, issued June 2, 2011.
8. Sino-Forest Press Release, June 3, 2011.

9. Analyst reports:

- (a) Dundee Capital Markets - March 16, 2010
 - (b) Credit Suisse – March 16, 2010
 - (c) Morgan Stanley Research – March 16, 2010
 - (d) Scotia Capital – March 16, 2010
 - (e) RBC Capital Markets – March 16, 2010
- (and for prior years)

Appendix B**ALANT. MAK**

Personal Data

EDUCATION

Bachelor of Business Administration (*With Distinction*) (1996)
York University, Ontario

Chartered Accountant (1999)

CICA In-Depth Income Tax, Levels I, II & III (2000)

Chartered Business Valuator (2003)

DESIGNATIONS

CA•CBV, Ontario

CPA / CFF, Illinois

FCPA, Hong Kong

CFE

PROFESSIONAL ASSOCIATIONS

Institute of Chartered Accountants of Ontario

Canadian Institute of Chartered Business Valuators

American Institute of Certified Public Accountants
(Forensic and Valuation Services Section)

Illinois CPA Society

Hong Kong Institute of Certified Public Accountants

Association of Certified Fraud Examiners

EMPLOYMENT

Principal (formerly "Associate"), **Rosen & Associates Limited**, (April 2000 – Present)

- Forensic Accounting
- Business Valuation
- Quantification of Damages
- Accountants' Negligence
- Qualified as Expert Witness before the Ontario Superior Court of Justice, the Ontario Energy Board, the Copyright Board of Canada and in proceedings pursuant to the American Arbitration Association.

Senior Accountant, **Arthur Andersen LLP**, (Sept. 1997 - March 2000)

- International Corporate Tax
- Transfer Pricing
- Corporate Re-organizations
- Income Tax Audit Consulting

Staff Accountant, **Arthur Andersen LLP**, (Sept 1996 – Sept 1997)

- Audit and review of Canadian businesses
- Consumer products, financial services, and media/advertising industries

Sessional Lecturer, **University of Toronto**, (September 2004 to Current)

- Lecture in undergraduate financial accounting theory and policy and managerial accounting.

Adjunct Professor, **York University**, (Jan 2000 – April 2004)

- Lecture undergraduate and graduate level financial accounting, management accounting and auditing courses

Teaching Assistant, **York University**, (Sept 1994 – Dec 1999)

- Conduct tutorials for undergraduate students

OTHER

Contributor, **Intermediate Accounting**, Beechy & Conrod (McGraw-Hill Ryerson, Toronto, 1999)

- Prepared the glossary in Volume II of text

Contributor, **Financial Accounting and Reporting (2nd Edition)**, Austin, Haskins, Ferris, Sack and Allen (McGraw-Hill Ryerson, Toronto, 1999)

- Technical review of problems and solutions in text

Contributor, **ICAO Tax Tips** (1999 – 2001)

- Contributed to tax planning solutions published by the ICAO public information service

LAWRENCE S. ROSEN

Personal Data

(January 2009)

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EDUCATION

M.B.A. (1964, University of Washington; focus: financial accounting); Ph.D. (1966, University of Washington; multi-fields; thesis focus: cash flows and financial reporting)

B. Com. (1957, University of British Columbia)

Chartered Accountant (1960, British Columbia), Alberta and Ontario

Certified Management Accountant (Registered Industrial Accountant, 1970)

DESIGNATIONS

FCA, Ontario

FCA, Alberta

FCMA, Canada

CGA, (Ontario and Canada)

CFE, (Certified Fraud Examiner and Life Member) Canada and U.S.A.

CIP, (Chartered Insurance Professional)

CPA (Certified Public Accountant, Illinois)

CA•IFA (Specialist, Investigative and Forensic Accounting)

CPA/CFF (Certified in Financial Forensics)

FCPA (Fellow of the Hong Kong Society of Certified Public Accountants)

EMPLOYMENT

Professor, York University, Toronto, Canada (Professor 1972 – 2001, Professor Emeritus 2001 to present; teaching focused on accounting, auditing and the integration of a professional accounting programme; Director, MBA Program 1992-1994)

Principal, Rosen & Associates Limited, (2000 -)

Principal, Rosen & Vettese Limited, (1990 - 2000)

Partner or Associate, Mintz & Partners, (1986 – 1990)

Technical advisor to three Auditors' General of Canada, (1978 – 1993)

Consultant to Clarkson Gordon, (Accounting principles, litigation, education), (1972 – 1986) (Now called Ernst & Young)

Manager, Accounting Standards and Research group, Clarkson Gordon, Toronto, (1970 – 1972)

Lecturer, (part-time), Faculty of Administrative Studies, York University, Toronto, (1970 – 1972)

Professor and Associate Professor, University of Alberta, (1966 – 1970)

Predoctoral Instructor, University of Washington, (1964 – 1966)

Instructor, University of British Columbia, 1961 - 1963 (part-time, 1960 - 1961)

Chartered Accountant and Student, Peat, Marwick Mitchell & Co., (1957 – 1961) (Now called KPMG)

LITIGATION AND RELATED CASES

Since 2004:

Bellan v. Curtis, Pricewaterhouse Coopers LLP, Nesbitt Burns Inc., Wellington West Capital Inc., Crocus Capital Inc., The Manitoba Securities Commission and The Crocus Investment Fund, et. al (Class action suit in which Dr. Rosen was retained to represent the class against all defendants. The issues involved financial statement presentation, share valuation and statement of asset values. Status: Settled out of Court.)

General Refrigeration of Canada Ltd. v. Finnpower Canada Ltd. (Dr. Rosen was retained by the defendants. The issues involved financial statement presentation and damages. Status: Settled.)

Refrigerated Construction & Services Inc. v. Coldmatic Refrigeration of Canada Ltd. (Dr. Rosen was retained by the defendants. The issues involved the purchase and sale of a business, financial statement presentation, fair presentation. Status: Settled.)

Saskferco Products Inc. v. Her Majesty the Queen (Dr. Rosen was retained by the Crown in a tax case and the application of hedge accounting principles. Status: Judgment for the Crown, upheld on appeal.)

Silver and Cohen v. IMAX Corporation et al. (Dr. Rosen was retained by the Class in a class action case. The issues involve GAAP and whether the financial information was false and misleading. Status: Ongoing.)

Kingsway Insurance v. PriceWaterhouseCoopers (Dr. Rosen was retained by the plaintiff in a case involving US GAAS and GAAP, including issue of whether the liabilities were misstated and whether there was fraud. Status: Ongoing.)

Kingsway Insurance v. 118997 Canada Inc., Mr. Raymond David, and Mr. Michel Gauthier (Dr. Rosen was retained by the plaintiff in an arbitration case involving issues related to fraud, financial statement presentation. Status: Arbitrator's decision for the plaintiff.)

Kingsway Insurance v. Ernst & Young (Dr. Rosen was retained by the plaintiff and has written reports for the Court. Status: Ongoing.)

Other Cases:

Waxman v. Waxman (Dr. Rosen was retained by the plaintiff and gave evidence relevant to materiality and the obligation to disclose related party transactions. Status: Judgment rendered for the plaintiff, and upheld on appeal.)

Sherman v. Orenstein & Partners (Dr. Rosen was retained by the CA firm (defendants). The issue involved the standard of care required in the performance of a review engagement. Status: Judgment for defendant, upheld on appeal.)

A-1 Floor & Wall v. Partridge Pelissero Iggulden (Dr. Rosen was retained by the CA firm (defendants) in a case involving GAAP and fair presentation. Status: Judgment for defendants.)

Pineridge Capital Corp. v. BDO Dunwoody (Dr. Rosen was retained by the CA firm (defendants) and gave evidence on GAAS, GAAP, fair presentation and, more particularly, sufficient appropriate audit evidence, bank confirmations, professional judgment and contingent liabilities. Status: Judgment in part for the defendant.)

Kripps v. Touche Ross & Co. [Dr. Rosen was retained by the plaintiffs and gave evidence on GAAS and GAAP, fair presentation. Prepared an affidavit submitted by the Plaintiffs / Respondents to the Supreme Court of Canada. (Leave to Appeal was denied.) Status: Judgment for plaintiffs.]

Hercules Managements Ltd. v. Ernst & Young (Dr. Rosen was retained by Hercules Management on issues related to auditor's negligence and damages. Status: Judgment.)

Bloor Italian Gifts Ltd. v. Dixon (Dr. Rosen acted for the CA (defendants) in a case involving review engagement standards. Status: Judgment in part for defendant.)

QEW 427 Dodge Chrysler (1991) Inc. v. Ontario (Minister of Revenue) (Dr. Rosen was retained by the Crown on the meaning of "accounts payable" in a tax case. Status: Judgment.)

Tucci Construction v. Lockwood (Dr. Rosen was retained by the CA firm (defendants) in a case involving financial statement presentation. Status: Judgment.)

Surrey Credit Union v. Willson et al. (Dr. Rosen was retained by the plaintiff against the two accounting firms in the "Northland Bank" case. The issues include GAAS & GAAP. Status: Settled.)

National Business Systems (Dr. Rosen was retained by the CA firm (defendants) in a case involving the alleged negligence of auditors. Status: Settled.)

Hyundai Motor Co. (Dr. Rosen was retained by the company in a case involving financial analysis before the Canadian Import Tribunal. Status: Judgment for the company.)

Teachers' Investment & Housing Co-operative (Dr. Rosen was retained by the Attorney-General for British Columbia in a case involving alleged negligence of lawyers and public accountants. Status: Settled.)

Ontario Ministry of Labour v. Massey Ferguson (Dr. Rosen was retained by the union workers in connection with an investigation involving asset and liability distributions among segments of Varsity Corporation. Status: Settled.)

Calgroup Graphics and PriceWaterhouse (Dr. Rosen was retained by the Ontario Securities Commission in a case involving alleged Securities Act violations. Status: Disciplinary action against the auditor; cease-trading order issued.)

Miscellaneous Cases:

Many cases are currently in progress.

Several other cases re professional negligence and preparation of expert reports could be listed; most were settled prior to a Court Judgment.

Testimony before courts in Ontario, British Columbia and Quebec re contract disputes, competition legislation, matrimonial, alleged frauds, automobile accidents and other litigation.

Forensic accounting; patent infringements; insurance claims before Tribunals or Commissions.

Preparation of pre-trial reports, and expert witness appearances with respect to:

- accounting and auditing principles and policies
- loss of profits, and valuation
- patent infringements
- predatory pricing
- contract disputes

PROFESSIONAL AND ACADEMIC ASSOCIATIONS

Memberships:

Institute of Chartered Accountants of Alberta, Ontario, and British Columbia
(FCA, Ontario; FCA, Alberta)

Society of Management Accountants of Ontario (FCMA, Canada)

Certified General Accountants of Ontario, and of Canada

Canadian Comprehensive Auditing Foundation

American Institute of Certified Public Accountants

American Accounting Association

Hong Kong Society of Certified Public Accountants

Canadian Academic Accounting Association

Association of Certified Fraud Examiners

Chartered Insurance Professional

Positions Held:

Elected to the Board of Directors of the Canadian Justice Review Board (2006 – present)

Co-founder of Accountability Research Corporation (from 2001 to present) (Research for mutual funds, pension funds and money managers)

Elected to the Council of the Institute of Chartered Accountants of Ontario (3 years, early 1990s, governance issues affecting the profession)

Director of the MBA Program, York University

Member, Senate, York University

Area Coordinator, Accounting Area, York University

Chairman, Senate Appeal Committee, York University

Advisory Board, Comprehensive Auditing, Society of Management Accountants of Canada

Editor, "Education Research", *The Accounting Review*, 1979 - 1984

Board of Directors, Society of Management Accountants of Canada, 1980 - 1983

Governor, Canadian Comprehensive Auditing Foundation, 1980 - 1983

Director and President, The Canadian Academic Accounting Association, 1976 - 1978

Editorial Board, *The Accounting Review*, 1975 - 1978

Executive, Canadian Region, American Accounting Association (3 years) Chairman (1 year) and member (3 years), Manuscript Awards Committee, American Accounting Association

Editor "Education", *CA Magazine*, 1972 - 1977

Member of numerous committees of professional associations or academic bodies

PUBLICATIONSArticles:

Monthly columnist for *Canadian Business* magazine (2000 – present) and the *National Post* newspaper (2004 – present)

Boardroom, various articles published in 2000s

"CICA Exposure Draft: A Comment", *The Philanthropist* (Summer 1992)

"Restoring the Importance of Accounting Education", *CA Magazine* (September 1982)

"An Empirical Study of Materiality Judgments by Auditors, Bankers and Analysts", In S. Basu and J. Alex Milburn, Proceedings of the 1981 Clarkson Gordon Foundation Research Symposium (Toronto, 1982)

"Dialogue on Accounting Education", (with R. Denham), CA Magazine (September 1981)

"Accounting Education: A Grim Report Card", CA Magazine (June 1978)

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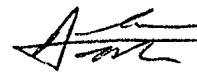
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ACKNOWLEDGEMENT OF EXPERT'S DUTY

1. My name is Alan T. Mak. I live in the City of Toronto in the Province of Ontario.
2. I have been engaged by or on behalf of the Plaintiff to provide evidence in relation to this proceeding.
3. I acknowledge that it is my duty to provide evidence in relation to this proceeding as follows:
 - a) to provide opinion evidence that is fair, objective and non-partisan;
 - b) to provide opinion evidence that is related only to matters that are within my area of expertise; and,
 - c) to provide such additional assistance as the court may reasonably require, to determine a matter in issue.
4. I acknowledge that the duty referred to above prevails over any obligation which I may owe to any party by whom or on whose behalf I am engaged.

March 2, 2012

Date



Alan T. Mak

ACKNOWLEDGEMENT OF EXPERT'S DUTY

1. My name is Lawrence S. Rosen. I live in the City of Toronto in the Province of Ontario.
2. I have been engaged by or on behalf of the Plaintiffs to provide evidence in relation to this proceeding.
3. I acknowledge that it is my duty to provide evidence in relation to this proceeding as follows:
 - a) to provide opinion evidence that is fair, objective and non-partisan;
 - b) to provide opinion evidence that is related only to matters that are within my area of expertise; and,
 - c) to provide such additional assistance as the court may reasonably require, to determine a matter in issue.
4. I acknowledge that the duty referred to above prevails over any obligation which I may owe to any party by whom or on whose behalf I am engaged.

March 2, 2012

Date

L.S. Rosen

L.S. Rosen

Relevant Accounting Standards

A. Canadian GAAP: To December 31, 2010

1. Section 3400.07 – “Revenue Recognition”

In a transaction involving the sale of goods, performance should be regarded as having been achieved when the following conditions have been fulfilled:

- (a) the seller of the goods has transferred to the buyer the significant risks and rewards of ownership, in that all significant acts have been completed and the seller retains no continuing managerial involvement in, or effective control of, the goods transferred to a degree usually associated with ownership; and
- (b) reasonable assurance exists regarding the measurement of the consideration that will be derived from the sale of goods, and the extent to which goods may be returned. [OCT. 1986]

2. Section 1000 – “Asset”

Assets are economic resources controlled by an entity as a result of past transactions or events and from which future economic benefits may be obtained.

.25 Assets have three essential characteristics:

- (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, in the case of profit-oriented enterprises, to contribute directly or indirectly to future net cash flows;
- (b) the entity can control access to the benefit; and

(c) the transaction or event giving rise to the entity's right to, or control of, the benefit has already occurred.

.26 It is not essential for control of access to the benefit to be legally enforceable for a resource to be an asset, provided the entity can control its use by other means.

.27 There is a close association between incurring expenditures and generating assets but the two do not necessarily coincide. Hence, when an entity incurs an expenditure, this may provide evidence that future economic benefits were sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained.

Similarly, the absence of a related expenditure does not preclude an item from satisfying the definition of an asset and thus becoming a candidate for recognition in the balance sheet. For example, items that have been donated to the entity may satisfy the definition of an asset.

3. Section 1000 – “Revenue”

Revenues are increases in economic resources, either by way of inflows or enhancements of assets or reductions of liabilities, resulting from the ordinary activities of an entity. Revenues of entities normally arise from the sale of goods, the rendering of services or the use by others of entity resources yielding rent, interest, royalties or dividends.

4. Section 3031 – “Inventories”

(a) Inventories shall be measured at the lower of cost and net realizable value.

(b) Cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing inventories to their present location and condition.

B. Canadian GAAS: To December 31, 2010

1. Section 5090 – “Audit of Financial Statements”

.01 The objective of an audit of financial statements is to express an opinion on whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in accordance with generally accepted accounting principles, except in the circumstances referred to in reporting standard (iv) in GENERALLY ACCEPTED AUDITING STANDARDS, paragraph 5100.02. Such an opinion is not an assurance as to the future viability of an entity nor an opinion as to the efficiency or effectiveness with which its operations, including internal control, have been conducted.

.04 In the performance of an audit of financial statements, the auditor complies with generally accepted auditing standards, which (as set out in GENERALLY ACCEPTED AUDITING STANDARDS, paragraph 5100.02) relate to the auditor's qualifications, the performance of the audit and the preparation of his or her report.

.05 The auditor should plan and perform an audit with an attitude of professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated. [DEC. 2004 *]

.06 An attitude of professional skepticism recognizes that circumstances may exist that cause the financial statements to be materially misstated. It means the auditor makes a critical assessment, with a questioning mind, of the sufficiency and appropriateness of audit evidence obtained, and is alert for evidence that contradicts or brings into question the reliability of documents or representations of management or those charged with governance. It does not mean the auditor is obsessively skeptical or suspicious. The attitude of professional skepticism is necessary throughout the audit process to reduce the

risks of overlooking suspicious circumstances, of over-generalizing when drawing conclusions from audit observations, and of using faulty assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof. Representations from management or those charged with governance generally, in and of themselves, do not represent sufficient audit evidence.

.07 Honesty and integrity on the part of management and of those charged with governance are critical for the effective operation of the financial reporting process. In planning and performing an audit, the auditor neither assumes that management is dishonest nor assumes unquestioned honesty. This means that it is not the auditor's objective to prove management's honesty and integrity, but to approach the audit with an attitude of professional skepticism that includes being alert for indications of dishonesty. It also means that, notwithstanding prior experience indicating that management is honest, the auditor nevertheless generally obtains corroborating evidence for management representations, including responses to enquiries resulting from the performance of analytical procedures. If the auditor has specific reason to doubt management's honesty and integrity, the auditor needs to consider the audit evidence that may be compromised and, if so, to what extent. The auditor considers whether the risk of compromised audit evidence can be mitigated by different or more extensive audit procedures, or whether it brings into question the auditor's ability to complete the audit, in which case the auditor refers to THE AUDITOR'S RESPONSIBILITY TO CONSIDER FRAUD, Auditor unable to continue the engagement, Section 5135.

.08 The honesty and integrity of those charged with governance is critical in setting the overall ethical tone of the entity. Those charged with governance have statutory responsibilities to act in the interests of the entity, but do not normally have control over its day-to-day operations and are therefore not usually a primary source of audit evidence.

.09 The auditor seeks a high, though not absolute, level of assurance, hereinafter referred to as reasonable assurance, whether the financial statements are free of material misstatement, whether caused by fraud or error. Absolute assurance in auditing is not attainable as a result of such factors as those described in REASONABLE ASSURANCE AND AUDIT RISK, paragraphs 5095.03-.04.

2. Section 5100 – “Generally Accepted Auditing Standards”

.02 Generally Accepted Auditing Standards are as follows:

General standard

The examination should be performed and the report prepared by a person or persons having adequate technical training and proficiency in auditing, with due care and with an objective state of mind. [SEPT. 1975]

Examination standards

- (i) The auditor should plan and perform the audit to reduce audit risk to an acceptably low level that is consistent with the objective of an audit. The auditor should plan the nature, timing and extent of direction and supervision of engagement team members and review of their work. [JAN. 2006 *]
- (ii) The auditor should obtain an understanding of the entity and its environment, including internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures. [JAN. 2006]
- (iii) The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit

opinion. [JAN. 2006]

Reporting standards

- (i) The report should identify the financial statements and distinguish between the responsibilities of management and the responsibilities of the auditor. [MARCH 1991 **]
- (ii) The report should describe the scope of the auditor's examination. [MARCH 1991 **]
- (iii) The report should contain either an expression of opinion on the financial statements or an assertion that an opinion cannot be expressed. In the latter case, the reasons therefore should be stated. [SEPT. 1975 *]
- (iv) Where an opinion is expressed, it should indicate whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles, except when the financial statements:

— are prepared as described in AUDITOR'S REPORT ON FINANCIAL STATEMENTS PREPARED USING A BASIS OF ACCOUNTING OTHER THAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph 5600.09; or

— are financial statements of a local government required by legislation or regulation to prepare its financial statements in accordance with a disclosed basis of accounting, when the auditor would refer to AUDIT OF LOCAL GOVERNMENT FINANCIAL

STATEMENTS, Section PS 5200, for guidance.

The report should provide adequate explanation with respect to any reservation contained in such opinion. For entities whose financial statements are prepared in accordance with the CICA Public Sector Accounting Handbook, the auditor's opinion should also indicate whether the financial statements present fairly the changes in the entity's net debt. [JULY 2006 **]

3. Section 5141 – “Understanding the entity and its environment and assessing the risks of material misstatement”

INTRODUCTION

.002 The auditor should obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures. AUDIT EVIDENCE, Section 5300, requires the auditor to use assertions in sufficient detail to form a basis for the assessment of risks of material misstatement and the design and performance of further audit procedures. This Section requires the auditor to make risk assessments at the financial statement and assertion levels based on an appropriate understanding of the entity and its environment, including its internal control. THE AUDITOR'S PROCEDURES IN RESPONSE TO ASSESSED RISKS, Section 5143, discusses the auditor's responsibility to determine overall responses and to design and perform further audit procedures whose nature, timing and extent are responsive to the risk assessments. The requirements and guidance of this Section are to be applied in conjunction with the requirements and guidance provided in other Sections. In particular, further guidance in relation to the auditor's responsibility to assess

the risks of material misstatement due to fraud is discussed in THE AUDITOR'S RESPONSIBILITY TO CONSIDER FRAUD, Section 5135. [JAN. 2006]

.004 Obtaining an understanding of the entity and its environment is an essential aspect of performing an audit in accordance with generally accepted auditing standards. In particular, that understanding establishes a frame of reference within which the auditor plans the audit and exercises professional judgment about assessing risks of material misstatement of the financial statements and responding to those risks throughout the audit, for example when:

- (a) establishing materiality and evaluating whether the judgment about materiality remains appropriate as the audit progresses;
- (b) considering the appropriateness of the selection and application of accounting policies, and the adequacy of financial statement disclosures;
- (c) identifying areas where special audit consideration may be necessary (e.g., related party transactions, conditions and events that cast doubt on the entity's ability to continue as a going concern or considering the business purpose of transactions);
- (d) developing expectations for use when performing analytical procedures;
- (e) designing and performing further audit procedures to reduce audit risk to an acceptably low level; and
- (f) evaluating the sufficiency and appropriateness of audit evidence obtained, such as the appropriateness of assumptions and of management's oral and written representations.

.005 The auditor uses professional judgment to determine the extent of the understanding required of the entity and its environment, including its internal control. The auditor's primary consideration is whether the understanding that

has been obtained is sufficient to assess the risks of material misstatement of the financial statements and to design and perform further audit procedures. The depth of the overall understanding that is required by the auditor in performing the audit is less than that possessed by management in managing the entity.

4. Section 6030 – “Inventories”

AUDITORS' OBJECTIVES

.01 While the inventory of stock-in-trade as set out in the financial statements is primarily the responsibility of the management, auditors cannot ignore their responsibility to satisfy themselves as to the validity of the client's representations as to inventories and of the inventory records. In brief, while auditors do not take, determine or supervise the inventory, they must be reasonably satisfied as to the physical existence and condition of the goods, the ownership, the pricing and the arithmetical accuracy of the calculations.

ATTENDANCE AT PHYSICAL STOCKTAKING

.02 With the increasing recognition of the auditors' responsibility for the validity of the inventory figure, advances have been made in procedures to substantiate the physical existence and condition of the inventory. Inspection of stock-in-trade has become generally recognized as the most useful and conclusive procedure by which auditors can satisfy themselves in this respect.

.03 It is recognized that the auditors could not be expected to possess the specialized technical knowledge required, in many cases, to establish absolute assurance of the existence of goods of a specified quality, grade and condition. Therefore, useful inspection of the goods by the auditors will require the exercise of reasonable care and skill and good judgment rather than the expert technical knowledge of the goods which would be expected of an appraiser or valuer.

.04 In practice, inspection of stock-in-trade by auditors varies in extent and in procedure. Normally, the inspection applies only to the more significant items in the inventory but, occasionally, it is extended to cover all of the goods. Generally, it is carried out at the time of the client's physical stocktaking but, in some instances, it is done at another time. Usually, the checking of quantities is accomplished most conveniently by observing and noting the counts made by the client's staff, but actual test counts are often undertaken by the auditors, before, during or after the client's physical stocktaking.

.05 Observation of the client's physical stocktaking, whether this is at the end of the financial period or some other date, is considered a most useful auditing procedure in assessing the degree of care which management exercises in establishing the existence and condition of inventories.

.06 Attendance at stocktaking should consist of such observation of the application of policies and procedures including counts, and inspection of general condition of the goods as will enable the auditors to form an opinion on the representations of management as to quantity and condition. It is desirable that a review of the methods to be used by the client in the stocktaking be made in advance. Such review and observation permit an evaluation of the effectiveness of internal control as applied, not only to the book records, but also to the taking of physical inventories.

.07 The judgment of the auditors, in the light of the circumstances, will determine the audit procedures to be applied in each case. For example, if goods of significant value are stored at locations which it is not convenient for the auditors to visit, they may appoint representatives to attend the client's physical stocktaking on their behalf. In some cases, if there is good internal control over inventories, test counts of goods at some time other than at the time of stocktaking, combined with other procedures to confirm the existence of the goods, may provide satisfactory alternatives. In other cases, such as those of goods in transit or goods in independent

warehouses, the auditors may satisfy themselves as to the existence of the stock-in-trade by means of independent documentary evidence.

.08 The auditing procedures in respect of inventories should be sufficient in scope to satisfy the auditors:

- (a) as to the physical existence, ownership and condition of inventories;
- (b) that the stated basis of valuation is being followed and is consistent with that of the previous period.

.09 Generally accepted auditing procedures in respect of inventories should include:

- (c) a review of the methods followed in the determination of quantities and values;
- (d) attendance by the auditors at the stocktaking, whether this is at the end of the financial period or at other times;
- (e) tests of the inventory quantities with confirmatory evidence such as rough count sheets, perpetual stock records, etc.;
- (f) tests of the pricing of the inventory items;
- (g) tests of the clerical accuracy of the inventory.

.10 If attendance at the stocktaking is not practicable in the circumstances, the auditors should substitute other satisfactory procedures such as those outlined in paragraph 6030.07.

.11 If the auditors have not satisfied themselves as to the physical existence, ownership and the basis of valuation of the inventory, the Recommendations set out in RESERVATIONS IN THE AUDITOR'S REPORT, Section 5510, should be followed. [OCT. 1970]

Appendix D**Sino-Forest Accounting Policies**

From Note 1 to the December 31, 2010 Financial Statements

Revenue Recognition

Revenue from standing timber is recognized when the contract is entered into which establishes a fixed and determinable price with the customer, collection is reasonably assured and the significant risks and rewards of ownership have been transferred to the customer.

Revenue from wood product contracts is recorded based on the percentage of completion method, determined based on the total costs incurred to expected total cost of the project and work performed. Revenues and costs begin to be recognized when progress reaches a stage of completion sufficient to reasonably determine the probable results. Any losses on such projects are charged to operations when determined.

Revenue from the sale of logs and other products is recognized when the significant risks and rewards of ownership of the logs and other products have been transferred to the customer, usually on the delivery of the goods when a fixed and determinable price is established.

Inventories

Raw materials, timber logs, finished goods and nursery are valued at the lower of cost, determined on a weighed average cost basis, and net realizable value. Work in progress and finished goods are valued at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of raw materials, direct labour and applicable production overheads, excluding borrowing costs, based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale

Timber Holdings

Timber holdings comprise planted and purchased plantations which include acquisition costs of young trees and standing timber, planting and maintenance capitalized over the growth cycle of the type of tree. Timber holdings from plantation sales are depleted when the significant risks and rewards of ownership have been transferred to the buyer, based on the area of timber sold or harvested.

Sino-Forest

Year End - December 31

IFRS

Canadian GAAP

Balance Sheet

Assets

Current

	2011 (6 mos)	2010	2009	2008	2007	2006
Cash and cash equivalents	\$ 861,648	\$ 1,223,352	\$ 1,102,366	\$ 441,171	\$ 328,690	\$ 152,887
Short-term deposits	37,217	32,101	70,387	45,784	22,163	18,550
Accounts receivable	428,020	636,626	282,306	225,753	105,329	124,784
Inventories	65,775	61,978	45,978	43,200	46,661	15,178
Prepaid expenses and other	97,631	125,238	54,747	21,768	24,185	19,524
Convertible bonds	-	-	29,446	2,659	-	-
Assets of discontinued operations	-	-	1,531	31,122	-	2,686
Timber holdings, measured at cost	3,483,676	-	-	-	-	-
	<u>4,973,967</u>	<u>2,079,295</u>	<u>1,586,761</u>	<u>811,457</u>	<u>527,028</u>	<u>333,609</u>
Timber holdings (IFRS: measured at fair value)	262,036	3,122,517	2,183,489	1,653,306	1,174,153	752,783
Capital assets, net	90,124	113,150	77,377	63,704	78,608	87,939
Investment properties	23,430	-	-	-	-	-
Other non-current financial assets	9,072	-	-	-	-	-
Intangible assets	272,718	139,910	636	-	-	-
Deferred tax asset	3,948	-	-	-	-	-
Other assets	266,928	274,161	115,636	75,457	57,708	32,924
	<u>\$ 5,902,223</u>	<u>\$ 5,729,033</u>	<u>\$ 3,963,899</u>	<u>\$ 2,603,924</u>	<u>\$ 1,837,497</u>	<u>\$ 1,207,255</u>

Sino-Forest

Year End - December 31

IFRS

Canadian GAAP

	2011 (6 mos)	2010	2009	2008	2007	2006
Liabilities and Shareholders' Equity						
Current						
Bank indebtedness	\$ 204,501	\$ 153,959	\$ 103,991	\$ 67,188	\$ 55,383	\$ 70,958
Accounts payable and accrued liabilities	297,021	87,670	250,287	179,903	107,989	68,669
Income taxes payable	10,109	499,854	7,346	6,383	1,615	1,121
Liabilities of discontinued operations		10,602	12,156	32,004	32,016	38,300
Provisions	225,519					
Derivative financial instrument		3,699		5,214		
	<u>737,150</u>	<u>755,784</u>	<u>373,780</u>	<u>290,692</u>	<u>197,003</u>	<u>179,048</u>
Long-term debt	1,566,811	1,659,682	925,466	714,468	441,985	450,000
Deferred tax liability	49,593					
Derivative financial instrument	31,858	63,906	-	-	11,211	-
	<u>2,385,412</u>	<u>2,479,372</u>	<u>1,299,246</u>	<u>1,005,160</u>	<u>650,199</u>	<u>629,048</u>
Non-controlling interest	72,162	51,540				
Shareholders' equity						
Equity portion of convertible senior notes		158,883	158,883	70,462		
Share capital	1,268,022	1,261,300	1,213,495	539,315	537,141	143,511
Contributed surplus		11,673	12,200	7,599	3,906	4,726
Accumulated other comprehensive income		314,912	224,148	211,831	105,287	32,590
Statutory reserve		1,988	1,670			
Other reserves	211,773					
Retained earnings	1,964,854	1,449,365	1,054,257	769,557	540,964	397,380
	<u>3,444,649</u>	<u>3,198,121</u>	<u>2,664,653</u>	<u>1,598,764</u>	<u>1,187,298</u>	<u>578,207</u>
	<u>\$ 5,902,223</u>	<u>\$ 5,729,033</u>	<u>\$ 3,963,899</u>	<u>\$ 2,603,924</u>	<u>\$ 1,837,497</u>	<u>\$ 1,207,255</u>

Sino-Forest

Year End - December 31

IFRS

Canadian GAAP

	2011 (6 mos)	2010	2009	2008	2007	2006
<u>Income Statement</u>						
Revenue	\$ 656,308	\$ 1,923,536	\$ 1,238,185	\$ 896,045	\$ 713,866	\$ 555,480
Costs and Expenses						
Cost of Sales	470,387	1,252,023	797,800	530,083	470,825	380,508
Selling, General and Admin.	77,169	89,712	63,980	53,372	40,209	35,852
Depreciation and Amortization		5,145	4,693	3,206	5,364	3,975
	<u>547,556</u>	<u>1,346,880</u>	<u>866,473</u>	<u>586,661</u>	<u>516,398</u>	<u>420,335</u>
Income before Undernoted	108,752	576,656	371,712	309,384	197,468	135,145
Interest Expense	-90,027	-128,124	-70,977	-51,933	-43,960	-37,340
Interest Income	6,111	10,609	9,691	12,604	15,184	6,486
Exchange Losses		-3,086	-4,958	-4,735	12,409	3,676
Amortization of deferred financing costs						-1,819
Impairment of Capital Assets					-20,846	-877
Losses on Changes of Fair Value	431,749	-4,419	-417	-1,839	-2,996	-1,179
Other Income	519	2,932	1,600	1,946	3,206	1,312
	<u>457,104</u>	<u>454,568</u>	<u>306,651</u>	<u>265,427</u>	<u>160,465</u>	<u>105,404</u>
Provision for Income Taxes	32,263	70,644	27,864	24,105	18,034	13,192
Net Income from Continuing Operations	424,841	383,924	278,787	241,322	142,431	92,212
Net Income from Discontinue Operations	173	8,179	7,583	-12,729	9,842	21,268
Net Income Before Non-Controlling Interests	<u>425,014</u>	<u>392,103</u>	<u>286,370</u>	<u>228,593</u>	<u>152,273</u>	<u>113,480</u>
Non-Controlling Interests		3,323	0	0	0	0
Net Income for the Year	<u>\$ 425,014</u>	<u>\$ 395,426</u>	<u>\$ 286,370</u>	<u>\$ 228,593</u>	<u>\$ 152,273</u>	<u>\$ 113,480</u>

Sino-Forest

Year End - December 31

IFRS

Canadian GAAP

	2011 (6 mos)	2010	2009	2008	2007	2006
Statement of Cash Flows						
Cash Flows from Operating Activities						
Net Income for the Year	\$ 457,702	\$ 395,426	\$ 286,370	\$ 228,593	\$ 152,273	\$ 113,480
Net Income from Discontinued Operations		-8,179	-7,583	12,729	-9,842	-21,268
Add (deduct) Non-Cash Items						
Depletion of Timber Holdings Included in COS		746,474	522,397	284,532	284,808	177,730
Depreciation and Amortization		7,919	4,693	3,206	5,364	3,975
Accretion of Convertible Senior Notes		26,555	13,689	4,769	0	0
Stock-Based Compensation		3,573	4,601	4,276	2,898	3,105
Amortization of deferred financing costs						1,819
Impairment of Capital Assets				219	20,846	877
Loss on Changes in Fair Value		4,419	417	1,839	2,996	1,179
Interest Income from Mandra				-1,200	-2,100	-300
Unrealized Exchange (Gains)/Losses		-2,089	1,880	5,604	-1,816	
Other		-511	-751	2,656	74	62
	126,529	1,173,587	825,713	547,223	455,501	280,659
Net Change in Non-Cash Working Capital	325,596	-333,502	-41,196	-60,040	27,000	-16,456
Cash Flows from Operating Activities (Continuing Operations)	-211,859	840,085	784,517	487,183	482,501	264,203
Cash Flows from Operating Activities (Discontinued Operations)		-562	-826	-3,826	3,856	26,169
Cash Flows from Investing Activities						
Additions to Timber Holdings		-1,358,878	-1,032,009	-656,727	-640,257	-415,087
Increase in Other Assets		-43,331	-38,041	-9,554	-31,225	-10,000
Additions to Capital Assets		-25,240	-11,649	-29,187	-12,571	-10,028
Decrease (increase) in Non-Pledged Short-Term Assets		21,872	-10,942	-5,604	-8,698	11,912
Business Acquisition, net of cash acquired		2,139	0	-1,928	-795	
Proceeds of Disposal of Capital Assets		296	216	8	1,224	167
Acquisition of Convertible Bonds		0	-200			
Other		75	0			
Cash Flows from Investing Activities	-30,424	-1,403,067	-1,092,625	-702,992	-692,322	-423,036
Investing Cash Flows Used in Discontinued Operations		1,478	24,120	-1,236		

Sino-Forest*Year End - December 31***IFRS****Canadian GAAP**

	<u>2011 (6 mos)</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash Flows from Financing Activities						
Increase in LT Debt		624,750	460,000	345,000	0	150,000
Increase in Bank Indebtedness		47,962	36,534	16,031	-17,015	29,175
Decrease (increase) in Pledged Short-Term Deposits		17,255	-13,633	-16,314	6,180	385
Issuance of Shares, net of Issue Costs		8,555	652,474	1,591	389,912	513
Increase in deferred financing costs						-3,001
Proceeds from Exercise of Share Options of Subsidiary		3,079	0			
Payment of Financing Costs		-20,328	-27,591	-9,135		
Repayment of LT Debt		-530	-150,000			
Payment on Derivative Financial Instruments		0	-5,781	-4,919	-2,165	-872
Cash Flows from Financing Activities	-121,349	680,743	952,003	332,254	376,912	176,200
Financing Cash Flows Used in Discontinued Operations	0	0	-5,972	-460		
Foreign Exchange Effects		2,309	-22	1,558	4,856	933
Change in Cash	<u><u>-\$ 363,632</u></u>	<u><u>\$ 120,986</u></u>	<u><u>\$ 661,195</u></u>	<u><u>\$ 112,481</u></u>	<u><u>\$ 175,803</u></u>	<u><u>\$ 44,469</u></u>

Sino-Forest - AI and Supplier Relationships

Relationships between Suppliers, AIs, and Sino-Forest stakeholders

AIs	Volume of Sales to AI (2006 - 2011)	Relationship with AIs, Supporters, Suppliers, Officers and Shareholders
AI #1 (OSC#2)	¥ 4,468,766,238	Officer #11 Shareholder #35 Shareholder #36
AI #2 (OSC#3)	¥ 4,093,476,998	Officer #3 Supplier #3 Supplier #9 Shareholder #3 (40% Ownership) Shareholder #10
AI #3 (OSC#4)	¥ 3,452,572,846	AI #13 Officer #8 Officer #12 Supplier #8 Shareholder #2
AI #4 (OSC#5)	¥ 3,325,784,208	Officer #12 Supplier #3 Shareholder #3 (40% Ownership)
AI #5 (OSC#6)	¥ 2,550,516,474	Supplier #4 Supplier #5 Shareholder #18 (50%+ Ownership)
AI #6 (OSC#7)	¥ 2,152,761,783	Officer #2 Supplier #5 Shareholder #18 (100% Ownership)
AI #7 (OSC#8)	¥ 1,902,592,018	Officer #9
AI #8 (OSC#9)	¥ 1,338,432,141	
AI #9 (OSC#10)	¥ 1,254,736,543	
AI #10 (OSC#11)	¥ 889,845,684	
AI #11 (OSC#12)	¥ 790,476,397	
AI #12 (OSC#13)	¥ 760,882,770	
AI #13 (OSC#14)	¥ 398,881,734	AI #3 Shareholder #32 Shareholder #34 Shareholder #37 Supplier #8
AI #14 (OSC#15)	¥ 85,833,654	
Supplier / AI # 14 (OSC#1)	¥ 26,169,920	Officer #8 Officer #10 Shareholder #2 Shareholder #32 Shareholder #37
Total	¥ 27,491,729,408	
Related Balances	¥ 22,371,522,219 81%	
Current AIs	¥ 17,493,362,073	
% of total	64%	
% related	100%	

Sino-Forest - AI and Supplier Relationships

Relationships between Suppliers, AIs, and Sino-Forest stakeholders

Suppliers		Volume of Purchases from Supplier (2006 - 2011)	Relationship with AIs, Supporters, Suppliers, Officers and Shareholders
Supplier #1 (OSC#1)	¥	4,561,599,313	Shareholder #1 Shareholder #20
Supplier #2 (OSC#2)	¥	3,585,236,345	Shareholder #11 (80% Ownership) Shareholder #12 (20% Ownership)
Supplier #3 (OSC#3)	¥	3,359,656,141	AI #2 AI #4 Shareholder #3
Supplier #4 (OSC#4)	¥	3,283,555,890	AI #5 Officer #2 Shareholder #16 (100% Ownership)
Supplier #5 (OSC#5)	¥	2,638,027,668	AI #5 AI #6 Officer #2 Shareholder #16
Supplier #6 (OSC#6)	¥	2,141,578,760	
Supplier #7 (OSC#7)	¥	1,807,078,984	Shareholder #14 (60% Ownership)
Supplier #8 (OSC#8)	¥	1,358,520,787	AI #3 AI #13 Officer #9 Officer #10 Shareholder #34 Shareholder #37
Supplier #9 (OSC#9)	¥	1,101,316,748	Shareholder #1 (80% Ownership) Shareholder #14
Supplier #10 (OSC#10)	¥	1,036,568,215	Officer #7
Supplier #11 (OSC#11)	¥	985,535,044	Officer #7
Supplier #12 (OSC#12)	¥	837,555,369	Shareholder #14
Supplier #13 (OSC#13)	¥	793,415,921	Supporter #2 (40% Ownership) Shareholder #15 (20% Ownership)
Supplier #14 (OSC#14)	¥	407,506,544	Officer #8 Officer #10 Shareholder #2 Shareholder #32 Shareholder #37
Supplier #15 (OSC#15)	¥	376,411,353	
Supplier #16 (OSC#16)	¥	174,469,785	
Supplier #17 (OSC#17)	¥	156,202,550	
Supplier #18 (OSC#18)	¥	49,928,352	Officer #1 Shareholder #14
Total	¥	28,654,163,768	
Related Balances	¥	25,805,501,321	
% of total		90%	

Note:

The volume of transactions were obtained from the "Asset Verification (BVI Supplier General Observations)" document included in the Independent Committee schedules.

TAB E

Mar. 26. 2012 4:46PM

No. 4276 P. 2/21

254

CITATION: Labourers' Pension Fund of Central and Eastern Canada v.
Sino-Forest Corporation, 2012 ONSC 1924
COURT FILE NO. 11-CV-431153CP
DATE: 20120326

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, Sjuunde 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 Banc of America Securities LLC

Defendants

Proceeding under the *Class Proceedings Act, 1992*

COUNSEL:

- Kirk M. Baert and Michael Robb for the Plaintiffs
- Michael Eizenga for Sino-Forest Corporation, Simon Murray, Edmund Mak, W. Judson Martin, Kai Kit Poon and Peter Wang
- Emily Cole and Megan Mackey for Allan T.Y. Chan
- Peter Wardle and Simon Bieber for David J. Horsley
- Laura Fric and Geoffrey Grove for William E. Ardell, James P. Bowland, James M.E. Hyde and Garry J. West
- John Fabello and Andrew Gray for 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 Banc of America Securities LLC
- Peter H. Griffin and Shara Roy for Ernst & Young LLP
- Kenneth Dekker and Michelle Booth for BDO Limited

- John Pirie and David Gadsden for Pöyry (Beijing) Consulting Company Limited

HEARING DATES: March 22, 2012

PERELL, J.

REASONS FOR DECISION

A. INTRODUCTION

[1] A motion for an order requiring a defendant to deliver a statement of defence or for an order setting a timetable for a motion should not be a momentous matter. But scheduling is a very big deal in this very big case under the *Class Proceedings Act, 1992*, S.O. 1992, c. 6.

[2] The Defendants strenuously resist delivering a statement of defence before the certification motion, and they submit that it would both contrary to law and a denial of due process to require them to plead in the normal course of an action.

[3] The Defendants submit that having to plead their statement of defence is contrary to law because the Plaintiffs' statement of claim can be commenced only with leave pursuant to s. 138.8 of the *Securities Act*, R.S.O. 1990, c. S.5 and in *Sharma v. Timminco*, 2012 ONCA 107, the Court of Appeal ruled that the statement of claim does not exist until leave is granted. The Defendants submit that having to plead their statement of defence is a denial of due process because the Plaintiffs' statement of claim includes causes of action that might not survive a challenge under Rule 21 of the *Rules of Civil Procedure*. One of the Defendants, BDO Limited, also argues that claims against it are statute-barred, and, therefore, it should not be required to deliver a statement of defence but should be permitted to bring a Rule 21 motion before the certification hearing.

[4] The position of the Defendants is set out in paragraph 2 of the Defendant Sino-Forest Corporation's factum as follows:

2. The Responding Parties oppose the relief relating to the delivery of a statement of defence because, as a result of the Ontario Court of Appeal's decision in *Sharma v. Timminco*, the secondary market action has yet to be commenced and will not have been commenced unless and until leave has been granted by this Honourable Court. Accordingly, the Defendants cannot be required to deliver a statement of defence to a proceeding that has yet to be commenced. Moreover, the secondary market claims are intertwined with the balance of the allegations in the statement of claim, such that it would not be realistic to provide a partial or bifurcated defence. In addition, the Responding Parties expect to be bringing a motion to strike the Statement of claim, at least in respect of the portion of the claim that purports to be brought on behalf of Noteholders, who are prohibited from commencing such a claim by virtue of the no suits by holder clause.

[5] In response, the Plaintiffs submit that just as defendants are entitled to know the case they must meet, plaintiffs are entitled to know the defence they confront. The Plaintiffs submit that the law and the dictates of due process do not preclude ordering

the delivery of a statement of defence in accordance with the *Rules of Civil Procedure*, and the Plaintiffs' rely on the court's power under s. 12 of the *Class Proceedings Act, 1992* and on what I said in *Pennyfeather v. Timminco*, 2011 ONSC 4257 about the desirability of the pleadings being closed before the certification motion.

[6] In the immediate case, the Defendants also strenuously resist the Plaintiffs' request that the leave motion under s. 138.8 the *Securities Act* and the certification motion under the *Class Proceedings Act, 1992* be heard together. Instead of a combined leave and certification motion, the Defendants submit that a series of motions be scheduled, beginning with the leave motion, followed by Rule 21 motions, followed by the certification motion. Some Defendants would begin with the Rule 21 motions before the leave motion, but all wish a sequence of separate motions.

[7] The Defendants submit that a combined leave and certification motion would be both inappropriate and also unfair, and particularly so, if they are also required to plead their defences. The Defendants submit that fairness dictates that leave be determined in advance of certification, and that their right to attack all or part of whatever pleading emerges from the leave motion be preserved. They submit that it would be inefficient to deliver a statement of defence when the statement of claim is likely to be amended in a substantial manner depending on the outcome of the Plaintiffs' leave motion and the Rule 21 motions.

[8] The Plaintiffs regard the Defendants' proposal of a sequence of motions as something akin to having their action being sentenced to a life of imprisonment on Devil's Island.

[9] For the reasons that follow, I adjourn the motion as it concerns BDO Limited, and I order that there shall be a combined leave and certification motion on November 21-30, 2012 (10 days).

[10] I order that the "Proposed Fresh as Amended Statement of Claim" be the statement of claim for the purposes of the leave and certification motion and that this pleading shall not be amended without leave of the court. Further, I order that with the exception of the Plaintiffs' funding motion, there shall be no other motions before the leave and certification motion without leave of the court first being obtained.

[11] I do not agree that it would be contrary to law or a denial of due process to order the pre-certification delivery of a statement of defence; nevertheless, I shall not order all the Defendants to deliver their statements of defence before the combined leave and certification.

[12] Rather, I shall order that a statement of defence be delivered by any Defendant that delivers an affidavit pursuant to s. 138.8 (2) of the *Securities Act*. I order that any other Defendant may, if so advised, deliver a statement of defence. Further, I order that if a Defendant delivers a statement of defence, then the delivery of the statement of defence is not a fresh step and the Defendant is not precluded from bringing a Rule 21 motion at the leave and certification motion or from contesting that the Plaintiffs have shown a cause of action under s. 5 (1)(a) of the *Class Proceedings Act, 1992*.

[13] In my reasons, I will explain why it may be advantageous to a defendant to deliver a statement of defence although it may not be obliged to do so.

[14] Finally, in my reasons, I will establish a timetable for the funding motion and for the leave and certification motion, which timetable may be adjusted, if necessary, by directions made at a case conference.

B. FACTUAL AND PROCEDURAL BACKGROUND

[15] Sino-Forest is a Canadian public company whose shares formerly traded on the Toronto Stock Exchange. At the moment, trading is suspended because on June 2, 2011, Muddy Waters Research released a research report alleging fraud by Sino-Forest. The release of the report had a catastrophic effect on Sino-Forest's share price.

[16] On June 20, 2011, The Trustees of the Labourers' Pension Fund of Central and Eastern Canada ("Labourers") retained Koskie Minsky LLP to sue Sino-Forest. Koskie Minsky issued a notice of action in a proposed class action with Labourers as the proposed representative plaintiff.

[17] The June action, however, was not pursued, and in July 2011, Labourers and another pension fund, the Trustees of the International Union of Operating Engineers Local 793 Pension Plan for Operating Engineers in Ontario ("Engineers") retained Koskie Minsky and Siskinds LLP to commence a new action, which followed on July 20, 2011, by notice of action. The statement of claim in *Labourers v. Sino-Forest*, which is the action now before the court, was served in August, 2011.

[18] On November 4, 2011, Labourers served the Defendants in *Labourers v. Sino-Forest* with the notice of motion for an order granting leave to assert the causes of action under Part XXIII.1 of the *Ontario Securities Act*.

[19] At this time, there were rival class actions. Douglas Smith had retained Rochon Genova, LLP. Rochon Genova issued a notice of action on June 8, 2011. The statement of claim in *Smith v. Sino-Forest* followed on July 8, 2011. Northwest & Ethical Investments L.P. and Comité Syndical National de Retraite Bâtirente Inc. retained Kim Orr Barristers P.C., and on September 26, 2011, Kim Orr commenced *Northwest v. Sino-Forest*.

[20] On December 20 and 21, 2011, there was a carriage motion, and on January 6, 2012, I released my judgment awarding carriage to Class Counsel in *Labourers v. Sino-Forest*. I granted leave to the Plaintiffs to deliver a Fresh as Amended Statement of Claim, which may include the joinder of the plaintiffs and the causes of action set out in *Grant v. Sino-Forest*, *Smith v. Sino-Forest*, and *Northwest v. Sino-Forest*, as the Plaintiffs may be advised.

[21] On January 26, 2012, the plaintiffs delivered an Amended Statement of Claim.

[22] On March 2, 2012, the Plaintiffs initiated a motion seeking leave to assert causes of action pursuant to ss. 138.3 and 138.8 under Part XXIII.1 of the *Securities Act*

[23] Plaintiffs' motion materials included a draft Fresh as Amended Statement of Claim for the eventuality that leave is granted ("Proposed Fresh as Amended Statement

of Claim"). The Proposed Fresh as Amended Statement of Claim substantially amends and extends the allegations contained in the pleading delivered in January 2012.

[24] In their various pleadings, the Plaintiffs allege that Sino-Forest and the other Defendants made misrepresentations in the primary and secondary markets. The Plaintiffs claims include: \$0.8 billion for primary market claims; \$1.8 billion (U.S.) for noteholders; and \$6.5 billion for secondary market claims. There are also claims against some of the Defendants for a corporate oppression remedy, negligence, negligent misrepresentation, conspiracy, and unjust enrichment. The following chart describes the claims against each Defendant:

	S.A.s 130 (prospectus)	S.A.s 130.1 (offering memorandum)	S.A.s 138.3 (secondary market)	S.A.s 138.3 (secondary market)	Negligent misrepresentation (secondary market)	Negligent misrepresentation (prospectus / o-memo)	Negligence (prospectus, offering memorandum)	Unjust Enrichment	CBCA Oppression	Conspiracy
Sino Forest	X	X	X	X	X	X	X	X	X	X
Chan	X		X	X	X	X	X	X	X	X
Horsley	X		X	X	X	X	X	X	X	X
Poon	X		X	X	X	X	X	X	X	X
Wang	X		X	X	X	X	X		X	
Martin	X		X	X	X	X	X		X	
Mak	X		X	X	X	X	X		X	
Murray	X		X	X	X	X	X		X	
Hyde	X		X	X	X	X	X		X	
Ardell			X	X					X	
Bowland			X	X					X	
West			X	X					X	
Ernst & Young	X		X	X	X	X	X			
BDO Ltd.	X		X	X	X	X	X			
Bövy (Beijing)	X		X				X			
Credit Suisse	X					X	X	X		
TD Securities	X					X	X	X		
Dundee Securities	X					X	X	X		
RBC Dominion	X					X	X	X		
Scotia Capital	X					X	X	X		
CIBC World	X					X	X	X		
Merrill Lynch	X					X	X	X		
Canaccord	X					X	X	X		
Molson	X					X	X	X		
Credit Suisse (USA)							X	X		
Banc of America							X	X		

[25] On March 6, 2012, there was a case conference, and I scheduled 10 days of hearings from November 21 to November 30, 2012. Apart from deciding that the leave motion must be heard, I did not decide what would be the subject matter of those hearing dates.

[26] None of the Defendants has served a statement of defence. None has advised which, if any, statutory or common law defences they will advance in response to the Plaintiffs' claims. In this regard, it may be noted that the Plaintiffs advance claims under s. 130 of the *Securities Act* with respect to misrepresentations in the primary market.

These claims raises at least eight possible statutory defences, which are set out in subsections 130(3), (4) and (5) of the *Securities Act*. If leave is granted, the Plaintiffs also advance claims under Part XXIII.1 of the *Securities Act*. As noted in Sino-Forest's factum for this motion, there are at least 11 defences to secondary market claims.

C. DISCUSSION

1. Introduction

[27] In this introductory section, I will address the one relatively easy issue; i.e., the problem of the "moving target" statement of claim.

[28] In the sections that follow, I will address the more difficult issues of: (a) whether the Defendants can and should be ordered to deliver statements of defence; (b) whether the leave motion should be combined with the certification motion or instead there should be a sequence of motions; (c) what other motions, if any, should be permitted before the certification motion; and (d) what should the timetable be for the motions.

[29] Beginning with the relatively easy problem, at the argument of this motion, the Defendants vociferously complained that the Plaintiffs keep changing their statement of claim. The Defendants pointed to substantial differences among the statement of claim delivered before the carriage motion, the statement of claim delivered after the carriage motion, and the Proposed Fresh as Amended Statement of Claim offered up for the purposes of the leave motion.

[30] This complaint about a "moving target" statement of claim was advanced as part of the Defendants' arguments that they cannot legally be ordered to deliver a statement of defence. I, however, do not see how this complaint supports that particular argument.

[31] I rather regard the "moving target" complaint as a proper objection that if the Defendants are to be ordered to deliver a statement of defence, the content of the statement of claim needs first to be finalized.

[32] I agree that for the purposes of a leave or a certification motion, the content of the statement of claim needs to be finalized, and thus the approach should be to order a pleading to be finalized and to order that this pleading not be amended without leave of the court. I so order.

[33] The problem then becomes one of selecting which pleading to finalize for the purposes of the leave and certification motion. It makes common sense to select the pleading for which leave is being sought under the *Securities Act*; i.e. the Proposed Fresh as Amended Statement of Claim, and that indeed is my selection.

2. The Delivery of the Statement of Defence in Class Actions

[34] I turn now to the difficult issues of whether the Defendants can be ordered to deliver statements of defence, and if they can be ordered to plead, whether they should be ordered to plead.

[35] As will be seen shortly, the Defendants submit that they cannot be ordered to plead to a secondary market claim that does not exist unless and until leave is granted under s. 138.8 of the *Securities Act*. For present purposes, I will accept the correctness of this submission, but it does not follow that the Defendants cannot plead to that portion of the Proposed Fresh as Amended Statement of Claim that is not exclusively referable to the secondary market claims. Assuming that the Defendants are correct that there is a portion of the Proposed Fresh as Amended Statement of Claim to which they cannot be obliged to plead does not negate that there are portions of the Proposed Fresh as Amended Statement of Claim that can and should be answered by a statement of defence.

[36] The Defendants' submission rather means that rule 25.07 of the *Rules of Civil Procedure*, which provides the rules of pleading applicable to defences, needs to be amended for the purpose of the leave and certification motion so that defendants do not have to plead to a pregnant action under Part XXIII.1 of the *Securities Act* that may never be born.

[37] Rule 25.07 states:

Admissions

25.07 (1) In a defence, a party shall admit every allegation of fact in the opposite party's pleading that the party does not dispute.

Denials

(2) Subject to subrule (6), all allegations of fact that are not denied in a party's defence shall be deemed to be admitted unless the party pleads having no knowledge in respect of the fact.

Different Version of Facts

(3) Where a party intends to prove a version of the facts different from that pleaded by the opposite party, a denial of the version so pleaded is not sufficient, but the party shall plead the party's own version of the facts in the defence.

Affirmative Defences

(4) In a defence, a party shall plead any matter on which the party intends to rely to defeat the claim of the opposite party and which, if not specifically pleaded, might take the opposite party by surprise or raise an issue that has not been raised in the opposite party's pleading.

Effect of Denial of Agreement

(5) Where an agreement is alleged in a pleading, a denial of the agreement by the opposite party shall be construed only as a denial of the making of the agreement or of the facts from which the agreement may be implied by law, and not as a denial of the legality or sufficiency in law of the agreement.

Damages

(6) In an action for damages, the amount of damages shall be deemed to be in issue unless specifically admitted.

[38] To repeat, for the purposes of the leave motion where a party cannot be obliged to plead and for the combined certification motion, rule 25.07 needs to be revised to accommodate s. 138.8 of the *Securities Act*.

[39] Pursuant to the authority provided by s. 12 of the *Class Proceedings Act, 1992*, which authorizes the court to make any order it considers appropriate respecting the conduct of a class proceeding to ensure its fair and expeditious determination, I have the jurisdiction to revise the procedure for a class proceeding to accommodate s. 138.8 of the *Securities Act*, and I do so by notionally adding a new subrule 25.07 (7) as follows:

(7) In an action under the *Class Proceedings Act, 1992* for which leave is also being sought to commence an action under section 138.3 of the *Securities Act* (liability for secondary market disclosure), in a defence, a party who does not file an affidavit pursuant to rule 138.8 (2) and who delivers a statement of defence shall decline to either admit or deny the allegations of fact referable solely to his or her liability for secondary market disclosure and not referable to any other pleaded cause of action.

[40] Practically speaking, notional subrule 25.07 (7) divides the Defendants into three classes.

[41] First, there are those Defendants who deliver a s. 138.8 (2) affidavit under the *Securities Act*. These Defendants must deliver a statement of defence for the reasons expressed below.

[42] Second, there are those Defendants against whom there are no allegations of fact referable to liability for secondary market disclosure, who thus have no right or need to deliver a s. 138.8 (2) affidavit under the *Securities Act* and who choose to deliver a statement of defence. These plaintiffs may, if so advised, simply plead in the normal course.

[43] Third, there are those Defendants against whom there are allegations of fact referable to liability for secondary market disclosure and who do not deliver a s. 138.8 (2) affidavit but who deliver a statement of defence.

[44] Under notional rule 25.07 (7), these Defendants shall decline to either admit or deny the allegations of fact referable solely to his or her liability for secondary market liability and not referable to any other pleaded cause of action. These defendants must state that they neither admit nor deny the allegations contained in those paragraphs (*identify paragraph numbers*) of the statement of claim referable solely to liability for secondary market liability and not referable to any other pleaded cause of action. As will become clearer after the discussion below, by being required to neither admit nor deny allegations referable solely to secondary market liability, these Defendants cannot circumvent the requirements of s.138.8 (2) of the *Securities Act* that they must file an affidavit in order to set forth the material facts upon which they intend to rely for the leave motion.

[45] This brings the discussion and the analysis to whether there might be other reasons not to order the Defendants to deliver a statement of defence. The convention in class actions, which existed from 1996 to 2011, was that a defendant not be required to deliver a statement of defence pre-certification because of the likelihood that the statement of claim would be reformulated as a result of the certification decision and

based on the view that the statement of defence had little utility before certification. See *Mangan v. Inco Ltd.* (1996), 30 O.R. (3d) 90 at pp. 94-95 (Gen. Div.); *Glover v. Toronto (City)* [2008] O.J. No. 604 at para. 8 (S.C.J.).

[46] In *Pennyfeather*, I suggested that the convention should be revisited and that it was desirable that the pleadings be closed before the certification motion. See also *Kang v. Sun Life Assurance Company of Canada*, 2011 ONSC 6335.

[47] In *Pennyfeather* at paras. 37-38, 84-92, I stated:

37. Class actions are subject to the *Rules of Civil Procedure*, and there is nothing in the *Class Proceedings Act, 1992* that precludes defendants from pleading before the certification motion. It is informative that the convention of not closing the pleadings is not a statutory rule, and if the Plaintiff insists on the delivery of a pleading, a defendant may need to seek the permission of the court to delay the delivery of the pleading.

38. Moreover, the provisions of the *Class Proceedings Act, 1992* indicate that it was the Legislature's intention that the general rule is that the statement of defence should be delivered before the certification motion. Section 2 (3) of the Act indicates that the timing of the certification motion is measured by the delivery of the statement of defence.

84. ... it would be advantageous for the immediate case and for other cases, if the current convention ended and defendants were required in the normal course to deliver a statement of defence before the certification motion. As I will illustrate, there would be several advantages to this approach, and as I mentioned above, the Legislature intended that the general rule should be that the pleadings should be completed before the certification motion.

85. Before I provide some examples of the advantages of closing the pleadings before certification, it is helpful to recall that under s. 5 (1) of the *Class Proceedings Act, 1992*, a plaintiff must satisfy five interdependent criteria for his or her action or application to be certified as a class proceeding. The Plaintiff must: (1) show a cause of action; (2) identify a class; (3) define common issues; (4) show that a class proceeding would be the preferable procedure; and (5) qualify as a representative plaintiff with a litigation plan and adequate Class Counsel.

86. A major advantage of closing the pleadings is that controversies about the first of the five criteria for certification might be resolved or at least narrowed or confined before the certification motion.

87. The delivery of a statement of defence could be a fresh step that could foreclose any subsequent attack by the defendant for any pleadings irregularities and, more to the point, typically defendants do not deliver a statement of defence if there is a substantive challenge to the statement of claim. Rather, they bundle all their challenges to the statement of claim and bring a motion to have the statement of claim or portions of it struck out on both technical and substantive grounds. ...

88. In other words, the requirement of delivering a statement of defence will call out the defendant to make its challenges to the statement of claim and, thus, the s. 5 (1)(a) criterion might be removed as an issue as would any challenge to the pleading for wanting in particulars or for breaching the technical rules for pleading. The s. 5 (1)(a) criterion for certification might be decided before the certification motion.

89. If the defendant brings a comprehensive pleadings challenge before the certification motion, then, the s. 5 (1)(a) criterion would be resolved before the certification hearing one

way or the other. It would be particularly useful to resolve a s. 5 (1)(a) challenge before the certification motion when the challenge is based on the court not having subject-matter jurisdiction over the plaintiff's claim. If that challenge is upheld, then the class action would be dismissed or stayed and the enormous costs of a comprehensive certification motion is avoided.

90. Further, hearing an interlocutory motion about the sufficiency of the pleading might be preferable to having the challenge heard at the certification motion as an aspect of the s. 5 (1)(a) analysis because a common outcome of this analysis is to grant the plaintiff leave to amend his or her statement of claim, which outcome, at a minimum, exacerbates the complexities of determining the certification motion because of the interdependency of the certification criteria.

91. In many cases, the technical or substantive adequacy of a plaintiff's statement of claim is not an issue and, therefore, requiring the completion of the pleadings will involve no interlocutory steps and the analysis of the other four certification criteria would be facilitated by a completed set of pleadings.

92. For instance, having the Statement of defence before the certification motion would provide useful information for analyzing the preferable procedure criterion and the plaintiff's litigation plan. Moreover, it may emerge that there are issues worthy of certification in the defendant's statement of defence.

[48] For present purposes, I do not retreat from what I said in *Pennyfeather*, and I shall emphasize several points and add a few more. In this regard, I emphasize that it was the clear intention of the Legislature that the pleadings be closed before certification. I add that this makes sense because the certification criteria of class definition, common issues, preferable procedure, and litigation plan are best adjudicated in the context of the parameters of the action and it may emerge that the defendant has pleaded issues that may usefully be added to the list of common issues.

[49] Further, I add that the Legislature also indicated by s. 35 of the *Class Proceedings Act, 1992*, that the *Rules of Civil Procedure* apply to class proceedings, reserving the courts' authority to make adjustments to that procedure under s. 12 of the *Act*. Generally speaking, it is desirable to normalize class actions with the procedure under the *Rules of Civil Procedure*. The *Rules* are the norm for a fair procedure, and the norm of civil procedure is that both sides must disclose the case that their opponent must meet. Defendants are not like an accused in a criminal proceeding with a right to remain silent. It is not regarded as unfair or abnormal to compel a defendant to plead a statement of defence in response to a statement of claim.

[50] Further still, I add that having a complete set of pleadings recognizes the maturity of the class action jurisprudence. There already have been many Rule 21 and s.5 (1)(a) challenges, and the viability of many causes of action or types of claim as being suitable for class actions has been informed by twenty years of cases. Recognition of the maturity of the case law in and of itself calls for a rethinking of the convention of not delivering a statement of defence, because assisted by precedents of what has been certified in the past, plaintiffs are better able to exit the certification hearing with their pleadings intact.

[51] In other words, in contemporary times the Defendants' concern that they will have wasted time and effort pleading to a statement of claim that may be different after certification will not be borne out. In any event, the complaint of a wasted effort is overblown. Unless pleadings are to be regarded as a work of fictional literature, claims and defences are based on the material facts that existed, and competent counsel will take instructions about all the possible claims and defences that emerge from those set of facts before the certification motion.

[52] I find it hard to believe that the accomplished lawyers in the case at bar are waiting for the outcome of the leave motion and the certification motion before investigating the material facts and researching the applicable law and advising the Defendants about what defences are available to them. The truth of the matter is that the Defendants and their lawyers are not concerned about wasted time and effort but rather they do not wish to plead because they believe it is tactically better to avoid the disclosure of their case that the *Rules of Civil Procedure* would normally mandate.

[53] I see no unfairness of denying defendants a tactical maneuver that may be inconsistent with general principle of rule 1.04 that the rules "shall be liberally construed to secure, the just, most expeditious and least expensive determination of every civil proceeding on its merits."

[54] I also see no unfairness in denying defendants the tactical maneuver of not delivering a statement of defence before certification when the exchange of pleadings may be tactically and substantively beneficial to defendants. The defendants arguments that class membership is over-inclusive or under-inclusive, that the proposed common issues want for commonality, that the action is not manageable as a class action, that a class proceeding is not the preferable procedure, and that the litigation plan is deficient are best made when the defendants shows the colour of his or her eyes by pleading a defence and these arguments will be stronger than the "is! - is not! - is too!" sandbox arguments of many a certification motion. For whatever it is worth, my own observation from recent certification motions where defendants have pleaded before certification is that both sides and the administration of justice are better for it.

[55] Finally, from a public relations point of view - and class actions are by their nature of considerable interest to the public - I would have thought that many defendants would like to seize the opportunity by pleading the material facts of their defence to take the sting out of the plaintiff's argument that the defendants need behaviour management and to level the playing field about the certification criteria.

[56] Thus, generally speaking, I persist in my view that the pleadings issues should be completed before the certification motion. The Defendants' argue, however, that whatever may be the situation for class actions generally, the Court of Appeal's decision in *Sharma v. Timminco, supra*, has overtaken *Pennyfeather*, and *Sharma* means that in a proposed secondary market class action, a statement of defence cannot be demanded or delivered before leave is granted under s. 138.3 of the *Securities Act*. A defendant cannot be asked to plead to a pregnant statement of claim.

[57] The Defendants take the *Sharma* decision to be authority that a class proceeding is not an action commenced under s. 138.3 until leave is granted and leave is required to

add the s. 138.3 cause of action to the class proceeding. The Defendants submit that without leave, a s. 138.3 action cannot be enforced. As Sino-Forest put it in its factum: "Until leave has been granted, the plaintiff has nothing: no limitation periods are tolled, and no steps in the proceeding – including the filing of a defence – can be taken."

[58] This hyperbolic submission by Sino-Forest and by the rest of the Defendants is not true. Whatever the effect of *Sharma*, it did not take away s. 138.8 of the *Securities Act*, under which subsection (2) requires for the leave motion that the plaintiff and each defendant swear under oath the "material facts upon which each intends to rely."

[59] Section 138.8 of the *Securities Act*, which provides the test for leave and which governs the procedure for the leave motion, states:

Leave to proceed

138.8 (1) No action may be commenced under section 138.3 without leave of the court granted upon motion with notice to each defendant. The court shall grant leave only where it is satisfied that,

- (a) the action is being brought in good faith; and
- (b) there is a reasonable possibility that the action will be resolved at trial in favour of the plaintiff.

Same

(2) Upon an application under this section, the plaintiff and each defendant shall serve and file one or more affidavits setting forth the material facts upon which each intends to rely.

Same

(3) The maker of such an affidavit may be examined on it in accordance with the rules of court.

[60] Subsection 138.8 (2) may be usefully compared and contrasted with rule 25.06 (1) of the *Rules of Civil Procedure*, which is the predominant rule about pleading in an action. Rule 25.06 (1) states:

25.06 (1) Every pleading shall contain a concise statement of the material facts on which the party relies for the claim or defence, but not the evidence by which those facts are to be proved.

Both the subsection and the rule require the party to disclose to their opponent the "material facts" on which the party "relies." The pleadings rule, however, does not require that the disclosure of material facts be under oath. Assuming that a defendant does file an affidavit under s. 138.8 (2), then the affidavit is, in effect, an under oath version of 25.06 (1)'s requirement that a defendant disclose the material facts upon which he or she relies.

[61] I concede that filing an affidavit under s. 138 (8) is not mandatory and that it cannot be assumed that a defendant will deliver an affidavit for a leave motion under the *Securities Act*, and that he or she cannot be compelled to do so. In *Ainslie v. CV*

Technologies Inc. 93 O.R. (3d) 200 at paras. 14-20, 24-25 (S.C.J.), Justice Lax interpreted s. 138.8 (2), and she stated:

14. Section 138.8(1) sets out a two-part test for obtaining leave to bring an action under Part XXIII.1 of the OSA and places the onus on the plaintiffs to demonstrate that (1) their proposed action is brought in good faith and (2) has a reasonable prospect for success at trial. As s. 138.8(1) requires an examination of the merits, the plaintiffs submit that the section is supplemented with s. 138.8(2) and (3). They rely on the mandatory language in s. 138.8(2) ("and each defendant shall") and submit that without the benefit of this requirement and the ability to cross-examine, a plaintiff would be deprived of the tools necessary to meet the standard the legislature created in s. 138.8(1).

15. This submission ignores the legislative purpose of s. 138.8. The section was not enacted to benefit plaintiffs or to level the playing field for them in prosecuting an action under Part XXIII.1 of the Act. Rather, it was enacted to protect defendants from coercive litigation and to reduce their exposure to costly proceedings. No onus is placed upon proposed defendants by s. 138.8. Nor are they required to assist plaintiffs in securing evidence upon which to base an action under Part XXIII.1. The essence of the leave motion is that putative plaintiffs are required to demonstrate the propriety of their proposed secondary market liability claim before a defendant is required to respond. Section 138.8(2) must be interpreted to reflect this underlying policy rationale and the legislature's intention in imposing a "gatekeeper mechanism".

16. The plaintiffs appear to be interpreting s. 138.8(2) as if it read: "Upon an application under this section, the plaintiff and each defendant shall serve and file one or more affidavits." But, the subsection continues: "setting forth the material facts upon which each intends to rely". If there are no material facts upon which a defendant intends to rely in responding to a leave motion, how can it be that a defendant is required to file an affidavit? Similarly, if a defendant files one or more affidavits, how can a plaintiff require that defendant to file other affidavits? By discounting this language, the plaintiffs are proposing an interpretation which relieves them of their obligation to demonstrate that their proposed action meets the pre-conditions for granting leave under the Act.

17. The plaintiffs' interpretation also fails to address the language used in subsections (3) and (4). Section 138.8(3) reads: "The maker of such an affidavit may be examined on it in accordance with the rules of court." Section 138.8(4) reads: "A copy of the application for leave to proceed and any affidavits filed with the court shall be sent to the Commission when filed" (emphasis added). Had it been the intention of the legislature to require the parties to file affidavits, irrespective of the onus placed upon the moving party, the legislature would have substituted the word "the" for "any" in s. 138.8(4) and the words "the plaintiff and each defendant" for "maker" in s. 138.8(3). I also note that the legislature attached no consequences to the failure of "each defendant" to file an affidavit.

18. In terms of onus, a useful analogy can be found in the summary judgment rule, Rule 20, of the Rules of Civil Procedure. Rule 20.04 provides:

20.04(1) In response to affidavit material or other evidence supporting a motion for summary judgment, a responding party may not rest on the mere allegations or denials of the party's pleadings but must set out, in affidavit material or other evidence, specific facts showing that there is a genuine issue for trial.

19. Similar to s. 138.8(2), rule 20.04 utilizes language suggesting that a responding party "must" or "shall" file affidavit material. Notwithstanding the use of such language, under Rule 20, a responding party retains the option to counter the motion by simply cross-examining the moving party, rather than by leading any direct evidence on the motion. In

this regard, rule 20.04 has been interpreted as requiring the respondent to a summary judgment motion to "lead trump or risk losing". Notably, however, the onus to establish that there is no genuine issue for trial remains with the moving party. The onus does not shift to the respondent to show that a genuine issue for trial does in fact exist.⁸

20. Similarly, in a motion under s. 138.8 of the Act, the onus to demonstrate that the proposed claim meets the required threshold remains with the plaintiffs. The onus does not shift to the defendants. A defendant that does not "lead trump" by filing affidavit evidence in response to a motion under s. 138.8 may well take the risk that leave will be granted to the plaintiffs. It does not follow, however, that a defendant is obligated to file evidence or produce an affidavit from each named defendant. It is a well-established principle that, as a general proposition, it is counsel who decides on the witnesses whose evidence will be put forward.

24. In my view, the "gatekeeper provision" was intended to set a bar. That bar would be considerably lowered if the plaintiffs' view is correct. As I have already indicated, a defendant who does not file affidavit material accepts the risk that it may be impairing its ability to successfully defeat the motion for leave and is probably foregoing the right to assert the statutory defences under Part XXIII.1 of the Act. However, parties are entitled to present their case as they see fit and this includes the right to oppose the leave motion on the basis of the record put forward by the plaintiffs as GT intends, or on the basis of the affidavits of experts as CV intends. [page209]

25. To accept the plaintiffs' submissions would require each defendant to produce evidence that may not be necessary for the leave motion and would serve no purpose other than to expose those defendants to a time-consuming and costly discovery process. It would sanction "fishing expeditions" prior to the plaintiffs obtaining leave to proceed with their proposed action. This is an unreasonable interpretation of s. 138.8(2). It is inconsistent with the scheme and object of the Act. Properly interpreted, the ordinary meaning of s. 138.8(2) is that a proposed defendant must file an affidavit only where it intends to lead evidence of material facts in response to the motion for leave.

[62] In *Ainslie*, leave to appeal was granted [2009] O.J. No. 730 (Div. Ct.), but it appears that the appeal was never argued. In *Sharma v. Timminco Ltd.*, 2010 ONSC 790 at para. 32, I agreed with Justice Lax's interpretation of s. 138.8 (2).

[63] In the case at bar, I do not know whether any of the Defendants will deliver affidavits under s. 138.8 (2), but I do know that if a Defendant does deliver an affidavit, then its protest that it would be unfair to require a statement of defence loses its potency as does the urgency of the Plaintiffs' request that the Defendants be ordered to deliver their statements of defence. Delivering an affidavit under s. 138.8 is essentially the same as delivering a statement of claim or defence. As Justice Lax notes, a defendant who does not file affidavit material accepts the risk that it may be impairing its ability to successfully defeat the motion for leave. Justice Lax also notes that the defendant is probably foregoing the right to assert the statutory defences under Part XXIII.1 of the Act, but I would not necessarily go that far.

[64] Where this analysis takes me is that it while it would be inappropriate to order all the Defendants to deliver a statement of defence to a secondary market claim under the *Securities Act*, it would be proper to order that any Defendant who delivers an affidavit pursuant to s. 138.8 (2) of the *Act* shall also deliver a statement of defence. I so order.

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[65] Although I am ordering only Defendants who deliver s. 138.8 (2) affidavits to deliver a statement of defence, I order that any other Defendant may, if so advised, deliver a statement of defence. I leave them to make the tactical decision whether or not to deliver a pleading. As I discussed above, there are advantages for a defendant to plead in a class action.

[66] For reasons that I will come to next, if a Defendant does deliver a statement of defence, the delivery is without prejudice to the Defendant's right to bring a Rule 21 motion or to challenge whether the Plaintiffs have shown a cause of action as required by s. 5 (1)(a) of the *Class Proceedings Act, 1992*.

[67] Here it should be noted that the "plain and obvious" test for disclosing a cause of action from *Hunt v. Carey Canada*, [1990] 2 S.C.R. 959, which is used for a Rule 21 motion, is used to determine whether the proposed class proceedings disclose a cause of action; thus, a claim will be satisfactory under s. 5 (1)(a) unless it has a radical defect or it is plain and obvious that it could not succeed: *Anderson v. Wilson* (1999), 44 O.R. (3d) 673 (C.A.) at p. 679, leave to appeal to S.C.C. ref'd, [1999] S.C.C.A. No. 476; *1176560 Ontario Ltd. v. Great Atlantic & Pacific Co. of Canada Ltd.* (2002), 62 O.R. (3d) 535 (S.C.J.) at para. 19, leave to appeal granted, 64 O.R. (3d) 42 (S.C.J.), aff'd (2004), 70 O.R. (3d) 182 (Div. Ct.); *Healey v. Lakeridge Health Corp.*, [2006] O.J. No. 4277 (S.C.J.) at para. 25.

[68] In this last regard, the Defendants submitted that a defendant has a right to challenge whether the plaintiff has pleaded a reasonable cause of action by bringing a Rule 21 motion and a defendant would lose this procedural right if he or she delivered a statement of defence. Pleading over is a fresh step that deprives a defendant of the right to subsequently challenge the substantive adequacy of a pleading: *Bell v. Booth Centennial Healthcare Linen Services*, [2006] O.J. No. 4646 at paras. 5-7 (S.C.J.); *Cetinalp v. Casino*, [2009] O.J. No. 5015 (S.C.J.). From this true premise, the Defendants submit that since some or all of them wish to bring a Rule 21 motion or some or all will be challenging the reasonableness of the plaintiffs' statement of claim as an aspect of the s. 5 (1)(a) criterion of the of test for certification, they should not be required to deliver a statement of defence before the certification motion.

[69] The court's typical but not inevitable response to a Defendant's request to bring a Rule 21 motion before certification is to direct the motion to be heard at the certification hearing because the test for granting a Rule 21 motion is the same test that is applied for the s. 5 (1)(a) criterion for certification. Typically, when this direction is made the defendant is not required to deliver a statement of defence.

[70] As already noted, in the case at bar, several defendants have indicated that they wish to bring Rule 21 motions on the basis that several of the Plaintiffs' claims do not disclose a reasonable cause of action or on the basis that the bonds contain a "no suits" clause, and BDO Limited wishes to bring a Rule 21 motion based on the argument that it is plain and obvious that claims against it are statute-barred.

[71] I agree that the right of Defendants to challenge the reasonableness of the Plaintiffs' statement of claim should be preserved and protected and I also believe that

this objective can be accomplished while still permitting defendants to deliver a statement of defence.

[72] Once again, using the authority of s. 12 of the *Class Proceedings Act, 1992*, I order that if a Defendant delivers a statement of defence, then the delivery of the statement of defence is not a fresh step and the Defendant is not precluded from bringing a Rule 21 motion at the leave and certification motion or the Defendant is not precluded from disputing that the Plaintiffs have shown a cause of action under s. 5 (1)(a) of the *Class Proceedings Act, 1992*.

3. Leave and Certification

[73] The above discussion addresses the matter of the Plaintiffs' request that the Defendants be ordered to deliver statements of defence and the discussion also lays the foundation for the discussion of the Plaintiffs' request that the leave motion under s.138.8 the *Securities Act* and the certification motion under the *Class Proceedings Act, 1992* be heard together and the Defendants' counter-submission that the motions should be sequenced leave motion, Rule 21 motions, and certification motion.

[74] In the case at bar, there is a general consensus that the leave motion should go first, and, in any event, because of the Court of Appeal's ruling in *Sharma* that s. 28 of the *Class Proceedings Act, 1992* is useless in protecting claims under Part XXIII.1 of the *Securities Act* from limitation periods, the leave motion must go first, and I have scheduled ten days of hearing commencing November 21, 2012.

[75] The question then is whether the certification motion should be combined with the leave motion.

[76] The Plaintiffs submit that hearing the two matters together is consistent with the direction from the Ontario Court of Appeal and that Supreme Court of Canada that litigation by installments should be avoided wherever possible because it does little service to the parties or to the efficient administration of justice." *Garland v. Consumers' Gas Company Limited* (2001), 57 O.R. (3d) 127 at para. 76 (C.A.), aff'd [2004] 1 S.C.R. 629 at para. 90. The Plaintiffs note that leave and certification were dealt with together in *Silver v. Imax Corp.*, [2009] O.J. No. 5585 (S.C.J.), leave to appeal refused [2011] O.J. No. 656 (Div. Ct.) and in *Dobbie v. Arctic Glacier Income Fund*, 2011 ONSC 25.

[77] An admonition is different from a prohibition, and while the Court of Appeal and the Supreme Court may frown on litigation in installments, they did not prohibit it. Whether to permit motions before the certification motion is a matter of discretion. In exercising its discretion whether to permit a motion before the certification motion, relevant factors include : (a) whether the motion will dispose of the entire proceeding or will substantially narrow the issues to be determined; (b) the likelihood of delays and costs associated with the motion; (c) whether the outcome of the motion will promote settlement; (d) whether the motion could give rise to interlocutory appeals and delays that would affect certification; (e) the interests of economy and judicial efficiency; and (f) generally, whether scheduling the motion in advance of certification would promote

the fair and efficient determination of the proceeding: *Cannon v. Funds for Canada Foundation*, [2010] O.J. No. 314 (S.C.J.) at paras. 14-15

[78] Thus, in my opinion, the question to be decided in the immediate case is whether it is fair (the most important factor) and efficient to hear the certification motion and the leave motion together.

[79] Provided that any Defendants who deliver s. 138.8 (2) affidavits or any Defendants who deliver statements of defence may bring Rule 21 motions or otherwise challenge all of the certification criteria as they may be advised, I see no unfairness in having the certification motion heard along with the leave motion. Because of the orders that I shall make, already discussed above, a Defendant may challenge all of the certification criteria regardless of whether the Defendant has pleaded or not. Pursuant to notional rule 25.07 (7), Defendants who do not file a s. 138.8 (2) affidavit and who deliver a statement of defence "shall decline to admit or deny the allegations referable solely to liability for secondary market disclosure and not referable to any other pleaded cause of action." I see no unfairness to the Defendants who may resist both the certification motion and the leave motion as they may be advised.

[80] In contrast, the sequential approach being advocated by the Defendants is unfair to the Plaintiffs and to the proposed class and will impede fulfilling the purposes of the class proceedings legislation, which are first and foremost, access to justice, secondarily, judicial economy, and thirdly, behaviour modification, all the while providing due process and fairness to all parties. Unfortunately, the suffocating expense of motions in class actions along with the excruciating delays and the additional costs of the inevitable leave to appeal motions and appeals that follow class action orders is a serious barrier to achieving the purposes of the legislation for both plaintiffs and defendants and a substantial disincentive to class counsel employing the legislation for other than the huge cases that would justify the litigation risks.

[81] As night follows day, if I agreed to schedule sequentially, there would be a ten-day leave motion, followed by the unsuccessful party launching the appeal process which will take several years to resolve. Whatever the outcome of the appeal, the action will return to the Superior Court for the certification motion of the claims not referable solely to liability for secondary market disclosure.

[82] In the case at bar, if Rule 21 motions were permitted before the certification hearing although work that could be done at the certification hearing will be accomplished, this will come at the cost of another round of appeals that will take several years to resolve only for the action to return again to the Superior Court for the determination of whether the balance of the certification criteria have been satisfied. That determination will also be appealed.

[83] In contrast, if I combine the leave motion, the Rule 21 motions, and the certification motion into one hearing, as night follows day, the determination will be appealed but the superior court and the appellate courts including the Supreme Court of Canada will be denied the pleasure of three visits from one or two generations of Class and Defence Counsel.

[84] The Defendants argue that there will be no efficiencies in a sequential ordering of the motions because the criteria for leave differs from the certification criteria, as does the burden of proof for these motions. However, courts are obliged to have the perspicacity to be able to deal with different criteria and different onuses of proof, but, more to the point, the evidentiary footprint for the leave and certification motions are the same, and it makes for little efficiency for the parties and little judicial economy to have the evidence and argument for leave and for certification heard more than once.

[85] Putting aside the somewhat unique circumstances of BDO Limited, I conclude that the certification hearing should be combined with the leave motion and that with the exception of the Plaintiffs' funding motion, which has already been scheduled, there shall be no other motions before the leave and certification motion without leave of the court first being obtained.

4. BDO Limited's Request for a Rule 21 Motion

[86] As noted at the outset of these reasons, I am adjourning the motion as it concerns BDO Limited, whose circumstances may be unique.

[87] BDO was a party to the *Smith v. Sino-Forest* and the *Northwest v. Sino-Forest* rival class actions and it was added to the case at bar after the carriage motion. It submits that all of the statutory claims against it are statute-barred as in one of the main common law misrepresentation claims. It submits that it can diminish its involvement in this expensive litigation by a Rule 21 motion based on the pleadings and without evidence.

[88] The Plaintiffs' response was that if BDO wished to assert a limitation period defence it should be a pleaded defence to which the Plaintiffs would file a reply demonstrating that it was not plain and obvious that the claims were statute-barred or demonstrating that there were defences to the running of the limitation period, presumably based on fraudulent concealment or estoppel or waiver. The Plaintiffs also asserted that there were other common claims against BDO that were not statute-barred and thus there was no utility in permitting a Rule 21 motion that would see BDO only partially out of the action.

[89] BDO's response was that there were no defences that could withstand the ultimate limitation periods of the *Securities Act* and fairness dictated that it should be permitted to substantially reduce being embroiled in this litigation.

[90] My own assessment was that the Plaintiffs were correct in submitting that in the circumstances of this case, BDO should plead its limitation defence and the Plaintiffs should have an opportunity to deliver a reply.

[91] Once BDO has pleaded, I will be in a better position in determining whether to permit a Rule 21 motion or perhaps a Rule 20 partial summary judgment motion.

[92] Accordingly, I am adjourning the motion as it concerns BDO Limited to be brought on again, if at all, after BDO has pleaded its statement of defence and the Plaintiffs their Reply.

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5. The Timetable

[93] In light of the discussion above, it is ordered that subject to adjustments, if necessary, made at a case conference, the timetable for the Plaintiff's Funding Approval Motion and for the Leave and Certification Motion is as follows:

Funding Approval Motion

March 9, 2012: Plaintiffs to deliver motion record (completed)

March 30, 2012: Defendants to deliver responding records, if any

April 6, 2012: Plaintiffs to deliver factum

April 13, 2012: Defendants to delivery factum

April, 17, 2012: Hearing of the motion

Leave and Certification Motion

April 10, 2012: Plaintiffs to deliver motion record

June 11, 2012: Defendants to deliver responding records

July 3, 2012: Plaintiffs to delivery reply records, if any

September 14, 2012: Cross-examinations to be completed

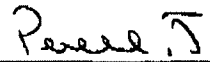
October 19, 2012: Plaintiffs to deliver factum

November 9, 2012: Defendants to deliver factum

November 21-30, 2012: Hearing of the motion

D. CONCLUSION

[94] An order shall issue in accordance with these Reasons with costs in the cause.


Perell, J.

Released: March 26, 2012

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CITATION: Labourers' Pension Fund of Central and Eastern Canada v.
Sino-Forest Corporation, 2012 ONSC 1924
COURT FILE NO. 11-CV-431153CP
DATE: 20120326

**ONTARIO
SUPERIOR COURT OF JUSTICE**

BETWEEN:

The Trustees of the Labourers' Pension Fund of
Central and Eastern Canada, et al.

Plaintiffs

- and -

Sino-Forest Corporation et al.

Defendants

REASONS FOR DECISION

Perell, J.

Released: March 26, 2012.

TAB F

**FINAL REPORT OF
THE INDEPENDENT COMMITTEE OF THE BOARD OF DIRECTORS
OF SINO-FOREST CORPORATION**

Privileged & Confidential

January 31, 2012

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GLOSSARY

SCHEDULES

SCHEDULE I: SECOND INTERIM REPORT – EXECUTIVE SUMMARY

Notes:

1. Capitalized terms used in this Final Report shall have the respective meanings ascribed to them in the Glossary.
2. The IC Advisors have conducted various investigative and review processes, all at the direction of, and subject to such scope limitations as the IC, in its judgment, deemed appropriate. This Final Report, while based on the work of such advisors, is the report of the IC and not the report of the IC Advisors.

INTRODUCTION

The IC was established by the Board on June 2, 2011 immediately following the release by Muddy Waters of the MW Report. The IC has issued two interim reports to the Board since that date, the first dated August 10, 2011 and the second dated November 13, 2011. The initial members of the IC were William Ardell (Chair), James Bowland and James Hyde. At the invitation of the IC, Mr. Garry West, an independent director of SF, has attended virtually all the IC meetings and participated in its process. Mr. Bowland resigned as a director and from the IC on November 3, 2011 following the delivery to the Board of the IC's draft Second Interim Report. The IC has formally met approximately 75 times, in most cases for several hours, and met informally and communicated by email almost daily, either as IC members or in another Board capacity.

As was noted in the Second Interim Report, the IC focused on the years 2006 and following and limited its process to the examination and review of the issues raised in three core areas: (i) timber asset verification; (ii) timber asset value; and (iii) revenue recognition. Overlaying or intertwined with the latter two areas were the issues raised by the MW allegations regarding related party transactions and relationships. These issues have proved to be very difficult to definitively resolve.

The Second Interim Report described the process undertaken by the IC in its examination and review of the allegations made in the MW Report, summarized the outcomes and findings resulting from such process and identified certain further steps which the IC intended to take. Attached as Schedule I to this report is the Executive Summary from the Second Interim Report which includes an overview of the IC's principal findings as to timber ownership, forestry bureau confirmations and Plantation Rights Certificates, book values of timber, revenue reconciliation, relationships, cash and the BVI structure. The Executive Summary also discusses the challenges encountered by the IC in conducting its process.

The Second Interim Report stated that, while the IC believed its work was substantially complete, there remained certain further steps which it intended to undertake as follows:

- review the information and analysis which had very recently been provided by Management and which was intended to respond to certain issues regarding relationships of the Company with AIs and Suppliers and between AIs and Suppliers as identified in Part IV of the Second Interim Report;
- work with management to engage an independent valuator; and
- such other steps as the IC, in its judgment, deemed advisable in the discharge of its mandate.

This Final Report of the IC sets out the activities undertaken by the IC since mid-November, the findings from such activities and the IC's conclusions regarding its examination and review. The IC's activities during this period have been limited as a result of Canadian and Chinese holidays (Christmas, New Year and Chinese New Year) and the extensive involvement of IC members in the Company's Restructuring and Audit Committees, both of which are advised by different advisors than those retained by the IC. The IC believes that, notwithstanding there remain issues which have not been fully answered, the work of the IC is now at the point of diminishing

returns because much of the information which it is seeking lies with non-compellable third parties, may not exist or is apparently not retrievable from the records of the Company.

In December 2011, the Company defaulted under the indentures relating to its outstanding bonds with the result that its resources are now more focused on dealing with its bondholders. This process is being overseen by the Restructuring Committee appointed by the Board. Pursuant to the Waiver Agreement dated January 18, 2012 between the Company and the holders of a majority of the principal amount of its 2014 Notes, the Company agreed, among other things, that the final report of the IC to the Board would be made public by January 31, 2012.

Given the circumstances described above, the IC understands that, with the delivery of this Final Report, its review and examination activities are terminated. The IC does not expect to undertake further work other than assisting with responses to regulators and the RCMP as required and engaging in such further specific activities as the IC may deem advisable or the Board may instruct. The IC has asked the IC Advisors to remain available to assist and advise the IC upon its instructions.

I. PROCESS SINCE NOVEMBER 13, 2011

The IC Advisors' privileged report on outstanding items as at the date of the Second Interim Report and limited processes conducted by the IC Advisors since November 13, 2011 (being the date of the IC's Second Interim Report) has been delivered to the Board. Many of those challenges, which are fully described in section C of the Executive Summary of the Second Interim Report, continued to affect the IC's process since November 13, 2011. See Schedule I.

The scope of review and the processes undertaken by the IC Advisors since November 13, 2011 were determined by the IC and have been subject to certain limitations. The IC, in its judgment, considers such limitations to be appropriate and in the best interest of the Company, having regard to the challenges referred to above, time constraints and cost/benefit considerations. This Final Report to the Board, while partially based on the work of the IC Advisors, is the report of the IC and not the work of the IC Advisors.

II. RELATIONSHIPS

The objectives of the IC's examination of the Company's relationships with its AIs and Suppliers were to determine, in light of the MW allegations, if such relationships are arm's length and to obtain, if possible, independent verification of the cash flows underlying the set-off transactions described in Section II.A of the Second Interim Report. That the Company's relationships with its AIs and Suppliers be arm's length is relevant to SF's ability under GAAP to:

- book its timber assets at cost in its 2011 and prior years' financial statements, both audited and unaudited
- recognize revenue from standing timber sales as currently reflected in its 2011 and prior years' financial statements, both audited and unaudited.

A. Yuda Wood

Yuda Wood was founded in April 2006 and was until 2010 a Supplier of SF. Its business with SF from 2007 to 2010 totalled approximately 152,164 Ha and RMB 4.94 billion. Section VI.A and Schedule VI.A.2(a) of the Second Interim Report described the MW allegations relating to Yuda Wood, the review conducted by the IC and its findings to date. The IC concluded that Huang Ran is not currently an employee, and that Yuda Wood is not a subsidiary, of the Company. However, there is evidence suggesting a close cooperation between SF and Yuda Wood which the IC had asked Management to explain. At the time the Second Interim Report was issued, the IC was continuing to review Management's explanations of a number of Yuda Wood-related emails and certain questions arising there-from.

Subsequent to the issuance of its Second Interim Report in mid-November, the IC, with the assistance of the IC Advisors, has reviewed the Management responses provided to date relating to Yuda Wood and has sought further explanations and documentary support for such explanations. This was supplementary to the activities of the Audit Committee of SF and its advisors who have had during this period primary carriage of examining Management's responses on the interactions of SF and Yuda Wood. While many answers and explanations have been obtained, the IC believes that they are not yet sufficient to allow it to fully understand the nature and scope of the relationship between SF and Yuda Wood. Accordingly, based on the information it has obtained, the IC is still unable to independently verify that the relationship of Yuda Wood is at arm's length to SF. It is to be noted that Management is of the view that Yuda Wood is unrelated to SF for accounting purposes. The IC remains satisfied that Yuda is not a subsidiary of SF. Management continues to undertake work related to Yuda Wood, including seeking documentation from third parties and responding to e-mails where the responses are not yet complete or prepared. Management has provided certain banking records to the Audit Committee that the Audit Committee advises support Management's position that SF did not capitalize Yuda Wood (but that review is not yet completed). The IC anticipates that Management will continue to work with the Audit Committee, Company counsel and E&Y on these issues.

B. Other Relationships

Section VI.B.1 of the Second Interim Report described certain other relationships which had been identified in the course of the IC's preparation for certain interviews with AIs and Suppliers. These relationships include (i) thirteen Suppliers where former SF employees, consultants or secondees are or have been directors, officers and/or shareholders (including Yuda Wood); (ii) an AI with a former SF employee in a senior position; (iii) potential relationships between AIs and Suppliers; (iv) set-off payments for BVI standing timber purchases being made by companies that are not AIs and other set-off arrangements involving non-AI entities; (v) payments by AIs to potentially connected Suppliers; and (vi) sale of standing timber to an AI potentially connected to a Supplier of that timber. Unless expressly addressed herein, the IC has no further update of a material nature on the items raised above.

On the instructions of the IC, the IC Advisors gave the details of these possible relationships to Management for further follow up and explanation. Just prior to the

Second Interim Report, Management provided information regarding AIs and Suppliers relationships among the Company and such parties.

This information was in the form of a report dated November 10, 2011, subsequently updated on November 21, 2011 and January 20, 2012 (the latest version being the "Kaitong Report") prepared by Kaitong Law Firm ("Kaitong"), a Chinese law firm which advises the Company. The Kaitong Report has been separately delivered to the Board. Kaitong has advised that much of the information in the Kaitong Report was provided by Management and has not been independently verified by such law firm or the IC. Kaitong's work on the information received from Management includes:

- Reconciling the annual transaction amount for each Supplier and AI with the purchase/sales detailed data, which were provided by Management;
- Checking registration documents filed with SAIC to verify the basic information (legal representative, shareholding structure and establishment date) of Suppliers and AIs; and
- Performing Internet searches on the backers including their current and past position, investment and news.

The Kaitong Report generally describes certain relationships amongst AIs and Suppliers and certain relationships between their personnel and Sino-Forest, either identified by Management or through SAIC and other searches. The Kaitong Report also specifically addresses certain relationships identified in the Second Interim Report. The four main areas of information in the Kaitong Report are as follows and are discussed in more detail below:

- (i) **Backers to Suppliers and AIs:** The Kaitong Report explains the concept of "backers" to both Suppliers and AIs. The Kaitong Report suggests that backers are individuals with considerable influence in political, social or business circles, or all three. The Kaitong Report also states that such backers or their identified main business entities do not generally appear in SAIC filings by the Suppliers or AIs as shareholders thereof and, in most instances, in any other capacity.
- (ii) **Suppliers and AIs with Former SF Personnel:** The appendices to the Kaitong Report list certain Suppliers that have former SF personnel as current shareholders.
- (iii) **Common Shareholders Between Suppliers and AIs:** The Kaitong Report states that there are 5 Suppliers and 3 AIs with current common shareholders but there is no cross majority ownership positions between Suppliers and AIs.
- (iv) **Transactions Involving Suppliers and AIs that have Shareholders in common:** The Kaitong Report states that, where SF has had transactions with Suppliers and AIs that have certain current shareholders in common as noted above, the subject timber in those transactions is not the same;

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that is, the timber which SF buys from such Suppliers and the timber which SF sells to such AIs are located in different counties or provinces.

The IC Advisors have reviewed the Kaitong Report on behalf of the IC. The IC Advisors liaised with Kaitong and met with Kaitong and current and former Management. A description of the Kaitong Report and the IC's findings and comments are summarized below. By way of summary, the Kaitong Report provides considerable information regarding relationships among Suppliers and AIs, and between them and SF, but much of this information related to the relationship of each backer with the associated Suppliers and AIs is not supported by any documentary or other independent evidence. As such, some of the information provided is unverified and, particularly as it relates to the nature of the relationships with the backers, is viewed by the IC to be likely unverifiable by it.

1. Backers to Suppliers and AIs

As noted above, the Kaitong Report explains the concept of backers of certain Suppliers and AIs. The Kaitong Report in effect supersedes certain of the information previously provided by Management and reported in the Second Interim Report (Part V.C.18(b)) concerning AIs and their supporters (then referred to as AI Holdcos or conglomerate).

The Kaitong Report states that all backers to Suppliers and AIs have strong business networks and good relations with various levels of the identified Chinese governments but does not explain the nature of the connections. The Kaitong Report stresses the importance of "Guanxi" in Chinese business, but is not specific as to particular benefits and why these particular relationships are important. The Kaitong Report contains little information to validate the political or business connections of such backers, or the nature of the relationship between the backers and the Suppliers or AIs. There is no documentary evidence of the nature of their support for their respective Suppliers or AIs nor the consideration (if any) received by the backers for their support of the Suppliers or AIs. The Kaitong Report suggests that such backers may provide resources that are important in China such as introductions, endorsements and connections.

As described in Schedule II, the IC Advisors conducted a review of the emails of twenty-three custodians using keyword searches related to the backers.

The documents identified by the IC Advisors from such review as being of potential interest showed no direct communication between backers and SF personnel. No additional substantive information was obtained from such email review or the interactions between the IC Advisors and Kaitong and management either on the relationships between SF and the backers or the roles and involvement of the backers in the business dealings between SF and the AIs and Suppliers. Management has advised that, while they were aware of certain backers of the AIs and Suppliers, the backers were not directly involved in the interactions with the Company. This appears to be borne out by the key word searches.

The SAIC information reviewed by the IC Advisors indicated one connection between an identified backer and an associated Supplier and the Kaitong Report indicates another between a backer and one of his associated Suppliers.

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As described below, certain of the persons identified as backers of AIs were interviewed prior to the Second Interim Report and, in some cases, acknowledged an association with the AI for which the Kaitong Report identified them as its backer.

Given the general lack of information on the backers or the nature and scope of the relationships between the Suppliers or AIs and their respective backers and the absence of any documentary support or independent evidence of such relationships, the IC has been unable to reach any conclusion as to the existence, nature or importance of such relationships. As a result, the IC is unable to assess the implications, if any, of these backers with respect to SF's relationships with its Suppliers or AIs. Based on its experience to date, including interviews with Suppliers and AIs involving persons who have now been identified as backers in the Kaitong Report, the IC believes that it would be very difficult for the IC Advisors to arrange interviews with either the AIs or Suppliers or their respective backers and, if arranged, that such interviews would yield very little, if any, verifiable information to such advisors. The IC understands Management is continuing to seek meetings with its AIs and Suppliers with the objective of obtaining information, to the extent such is available, that will provide further background to the relationships to the Audit Committee.

(a) New Suppliers

The Kaitong Report also addresses the observation in the Second Interim Report that several new Suppliers have appeared since 2009 and completed very large transactions with SF. The Kaitong Report states that Management advised that the main reason to have new Suppliers is that as the Company expands its business into new geographic regions, it needs Suppliers established in each such region. In addition, the Company would also like to balance the transactions among Suppliers so as to reduce dependency risk on certain Suppliers. Supplier #21 is named as one such Supplier. This Supplier has the same backer (Backer #24¹) and one similar shareholder (Shareholder #12 as to 70%) as the earlier supplier, Supplier #2, where Shareholder #12 is shown in SAIC filings as a 20% shareholder. This particular new Supplier is supplying in Sichuan Province, a relatively new area for SF.

(b) Backers to AIs

The Kaitong Report states that from 2006 to 2011 Sino-Forest sold timber to a total of 13 AIs and of these, 6 are supported by four backers. These backers are Backer #5, Backer #7, and Backer #3², Backer #2 and Backer #8. The Kaitong Report states that it is not known if the remaining 7 AIs have backers.

The IC Advisors have interviewed Backer #5, Backer #3 and Backer #2 prior to production of the Kaitong Report as former Management had identified them as associated with certain corporate entities then referred to as AI Holdcos or

¹ For the purposes of this report, certain persons or entities that were labelled as "Shareholder" in the Second Interim Report are referred to as "Backer" in this Final Report. The numeric portion of the assigned name of such persons or entities remains the same where previously referred to in the Second Interim Report.

² Formerly referred to as AI-Supplier Contact #3

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conglomerates. All confirmed their associations with the relevant AIs, but did not produce any documentation verifying such association.

2. Suppliers and AIs with Former SF Personnel

The Appendices to the Kaitong Report list the Suppliers with former SF personnel as current shareholders. According to the information previously obtained by the IC Advisors, the identification of former SF personnel indicated in the Kaitong Report to be current shareholders of past or current Suppliers is correct.

(a) Suppliers with former SF personnel

The Kaitong Report, which is limited to examining Suppliers where ex-SF employees are current shareholders as shown in SAIC filings, does not provide material new information concerning Suppliers where former SF employees were identified by the IC in the Second Interim Report as having various past or present connections to current or former Suppliers except that the Kaitong Report provides an explanation of two transactions identified in the Second Interim Report. These involved purchases of standing timber by SF from Suppliers controlled by persons who were employees of SF at the time of these transactions. Neither of the Suppliers have been related to an identified backer in the Kaitong Report. The explanations are similar indicating that neither of the SF employees was an officer in charge of plantation purchases or one of SF's senior management at the time of the transactions. The employees in question were Shareholder #14 in relation to a RMB 49 million purchase from Supplier #18 in December 2007 (shown in SAIC filings to be 100% owned by him) and Shareholder #20 in relation to a RMB 3.3 million purchase from Supplier #23 (shown in SAIC filings to be 70% owned by him) in October 2007. The Kaitong Report indicates Shareholder #20 is a current employee of SF who then had responsibilities in SF's wood board production business.

The IC is not aware that the employees' ownership positions were brought to the attention of the Board at the time of the transactions or, subsequently, until the publication of the Second Interim Report and understands the Audit Committee will consider such information.

(b) AIs with former SF personnel

The Kaitong Report indicates that no SF employees are listed in SAIC filing reports as current shareholders of AIs. Except as noted herein, the IC agrees with this statement. The Kaitong Report does not address the apparent role of an ex-employee Officer #3 who was introduced to the IC as the person in charge of AI #2 by Backer #5 of AI Conglomerate #1. Backer #5 is identified in the Kaitong Report as a backer of two AIs, including AI#2. (The Kaitong Report properly does not include AI #14, as an AI for this purpose, whose 100% shareholder is former SF employee Officer #3. However, the IC is satisfied that the activities of this entity primarily relate to certain onshoring transactions that facilitated the transfer of SF BVI timber assets to SF WFOE subsidiaries.)

There was one other instance where a past shareholding relationship has been identified between an AI #10 and persons who were previously or are still shown on the SF human

resources records, Shareholder #26 and Shareholder #27. Management has explained that such entity sold wood board processing and other assets to SF and that the persons associated with that company consulted with SF after such sale in relation to the purchased wood board processing assets. Such entity subsequently also undertook material timber purchases as an AI of SF in 2007-2008 over a time period in which such persons are shown as shareholders of such AI in the SAIC filing reviewed (as to 47.5% for Shareholder #26 and as to 52.5% for Shareholder #27). That time period also intersects the time that Shareholder #26 is shown in such human resources records and partially intersects the time that Shareholder #27 is shown on such records. Management has also explained that Shareholder #26 subsequent to the time of such AI sales became an employee of a SF wood board processing subsidiary. Management has provided certain documentary evidence of its explanations. The IC understands that the Audit Committee will consider this matter.

3. Common Shareholders between Supplier and AIs

The Kaitong Report states that there are 5 Suppliers and 3 AIs that respectively have certain common current shareholders but also states that there is no cross control by those current shareholders of such Suppliers or AIs based on SAIC filings. The Kaitong Report correctly addresses current cross shareholdings in Suppliers and AIs based on SAIC filings but does not address certain other shareholdings. With the exception of one situation of cross control in the past, the IC has not identified a circumstance in the SAIC filings reviewed where the same person controlled a Supplier at the time it controlled a different AI. The one exception is that from April 2002 to February 2006, AI #13 is shown in SAIC filings as the 90% shareholder of Supplier/AI #14. AI #13 did business with SF BVIs from 2005 through 2007 and Supplier/AI #14 supplied SF BVIs from 2004 through 2006. However, the IC to date has only identified one contract involving timber bought from Supplier/AI #14 that was subsequently sold to AI #13. It involved a parcel of 2,379 Ha. timber sold to AI #13 in December 2005 that originated from a larger timber purchase contract with Supplier/AI #14 earlier that year. Management has provided an explanation for this transaction. The IC understands that the Audit Committee will consider this matter.

4. Transactions involving Suppliers and AIs with Current Shareholders in Common

The Kaitong Report states that where SF has had transactions with 5 Suppliers and 3 AIs that have current shareholders in common (but no one controlling shareholder) as shown in SAIC filings, the subject timber in the transactions they each undertook with SF is not the same; that is, the timber which SF buys from the Suppliers and the timber which SF sells to the AIs where the Supplier and AI have a current common shareholder were located in different areas and do not involve the same plots of timber. The Kaitong Report further states that where SF has had transactions with 5 Suppliers and 3 AIs with current shareholders in common as shown in SAIC filings, SF had transactions with those AIs prior to having transactions with those Suppliers, thus SF was not overstating its transactions by buying and selling to the same counterparties.

Other than the immaterial timber parcel transaction referred to in Section II.B.3 above, which is a 2005 transaction, the IC believes that the Kaitong Report is accurate in respect of the specific transactions cited by it, except that it could not independently confirm the

information reported for sales from Suppliers with cross minority interests to AI #3 of timber parcels in Jiangxi Province due to the absence of detailed location information in the sales contracts.

The Kaitong Report does not specifically address historical situations involving common shareholders and potential other interconnections between AIs and Suppliers that may appear as a result of the identification of backers. There is generally no ownership connection shown in SAIC filings between backers and the Suppliers and AIs associated with such backers in the Kaitong Report.

The Second Interim Report indicated some potential connections between shareholders of Supplier #3 and two AIs that Management then associated with an entity called AI Conglomerate #1. No direct ownership was indicated between such AIs and AI Conglomerate #1 based on the SAIC filings reviewed, although the Kaitong Report indicates that the current owner of AI Conglomerate #1 is a backer of such AIs. The IC is also now satisfied that based on various corporate filings, there is no current cross ownership between AI Conglomerate #1 and Supplier #3. Further, the IC believes, based on its review of the timber purchase contracts between Supplier #3 and SF and the timber sales contracts between SF and AIs backed by the owner of AI Conglomerate #1 that there were no purchases and sales of the same timber with those parties during any period for which the IC believe there may have been cross ownership between shareholders of Supplier #3 and shareholders of AI Conglomerate #1 (or the two AIs). Further, Management has also provided the IC information suggesting that no proceeds from any sales to those AIs were redeployed to purchase timber from Supplier #3 or entities known to be controlled by its shareholder, Shareholder #3.

The IC notes that there were significant set-off payments from such AIs to Supplier #3 (approximately RMB 1.04 billion). Given Supplier #3 is a major Supplier and such AIs are major AIs, this is consistent with the BVI business model.

III. TIMBER ASSET PROOF OF CONCEPT

A. Background

The Second Interim Report discussed the absence of maps in documentation for BVI timber purchase transactions. In response to these concerns, Management provided information regarding various issues regarding the due diligence conducted prior to entering into a BVI timber purchase contract, including maps which in the case of timber purchases were provided through forestry bureaus.

Management also provided copies of news articles regarding foreigners being subject to criminal sanctions in China for possessing maps and other geographical information that were deemed to be classified as state secrets. The IC has reviewed these responses from Management and was unable to verify all of Management's assertions regarding forestry maps or that forestry mapping information would be regarded as subject to such sanctions but recognizes that this is an area of the law in China where a conservative approach may be prudent.

In mid December 2011, Management provided a document entitled "Detailed Description of Locating Forestry Resources in China" which explains how the locations of BVI standing timber assets are determined. This document has been provided to the Board.

It indicates that although certain types of stand maps and these land descriptions are available as part of PRCs, maps are not readily available for continuing possession by persons trading in standing timber without a lease as is the case of the transactions by SF's BVI model. Management indicates that such maps usually can be borrowed from forestry bureaus (but not retained) and are used by the survey companies as part of the Company's due diligence. Management believes the ability of a foreign company to retain such maps is unclear and has adopted a cautious approach to this issue. The advice received by the IC from independent forestry experts is that this practice is not inconsistent with the practice of other parties in China who buy and sell standing timber without leasing the underlying land.

B. Independent Review by Forestry Experts

(i) Background

The IC requested that a sample proof of concept exercise be undertaken by an independent forestry expert to determine if the specified areas of forest in a particular BVI purchase contract could be located and quantified by such party.

The IC determined that it was appropriate to use two forestry companies that were also being retained by the Company in connection with its restructuring and the valuation process associated therewith. These two independent forestry experts were Indufor Asia Pacific Limited ("Indufor") and Stewart Murray (Singapore) Pte. Ltd. ("Stewart Murray"). Members of the IC were involved in that retainer process. These entities had been retained through BJ for such valuation process and the report they provided was a report to BJ from Indufor on the work done by Indufor and Stewart Murray (collectively, the "Forestry Experts" and their report dated January 27, 2012, the "Forest Report"). The Forest Report has been delivered to the Board. The Forest Report describes the proof of concept asset verification process undertaken to determine if the net stocked area of two forest compartments purchased under two specific SF BVI timber purchase contracts could be verified.

The importance of such a "proof of concept" engagement is that it confirms the technology, methodology and reporting framework that can be used for the wider area verification of the SF estate, subject to access to maps meeting the standards described below.

(ii) Summary

As part of the proof of concept process and based upon information from SF, including maps that SF indicated were borrowed by SF's contract survey company from the relevant forestry bureaus, the Forestry Experts were then able to locate the two compartments in question and to relate them to the specific contracts. They measured the net stocked area of forest cover in the two compartments compared to the net stocked area for those compartments described in the survey attached to the contracts. Indufor reported that the actual net stocked area of the two selected compartments fell within six percent of the net stocked area recorded for those within the contract documents.

The analysis and findings of the report are limited solely to the two compartments described therein. Indufor states that no extrapolation of findings to the wider SF estate is possible or is implied.

(iii) The Process and Detailed Findings

The IC selected two compartments from ten possible compartment options suggested by the Forestry Experts.

The Forest Report indicates that the ten forest compartment options put forward to the IC met criteria requiring that the compartments:

1. were impartially selected by Indufor and Stewart Murray for the IC and not selected by SF;
2. were part of the SF purchased timber plantations located in Yunnan province of China;
3. were listed as being held by BVI entities and not by WFOE entities, and;
4. should cover multiple county forestry bureaus. It was the IC's intention to select compartments that were in different county forestry bureau jurisdictions.

The IC selected the following two compartments for the area verification process:

1. Purchase Contract STP-SUW-0409 dated January 7, 2011 and Survey Report STP-SUW-0409 dated 27 December 2010. Compartment 11. Located in Jianchuan county, near the township of Ma-teng. Jurisdiction of the Jianchuan County Forestry Bureau, with a stated area of 1145 mu (being 76.3 hectares).
2. Purchase Contract STP-SUW-0411 dated January 14, 2011 and Survey Report STP-SUW-0411 dated 5 January 2011. Compartment 44. Located in Heqing county, near the township of Beiya. Jurisdiction of the Heqing County Forestry Bureau, with a stated area of 957 mu (being 63.8 hectares).

The Forest Report summarizes the results of the proof of concept process as follows:

1. maps of the two compartments were provided by SF to Indufor, which SF indicated were borrowed by the contracted survey company from forestry bureaus;
2. the two maps clearly showed the extent of each compartment's boundary that corresponded to those in Surveys related to the contracts;
3. each compartment's boundary was able to be spatially located (geo-referenced) for use within a Geographic Information System;
4. the Forestry Experts located and physically visited the two forest compartments;
5. the use of recent high resolution satellite images allowed the removal of gaps and areas of unstocked forest from the calculation of each compartment's net stocked area;
6. the net stocked area calculated by the verification process for the two compartments slightly exceeded that stated in the forest survey reports attached to the SF purchase contracts for the compartments; and

7. it is important to reemphasise that no extrapolation of the area verification findings to the wider SF estate is possible.

The Forestry Experts utilized the maps as described above but were not permitted to retain them. Indufor has advised the IC that did not present any material issues to its process or conclusions. They confirm that the compartments were forested, but did not undertake an assessment of standing timber volume.

The Forestry Experts used the combined results of the field observations and satellite imagery to assess the net stocked area for each of the two forest compartments. Net stocked area is forested area and excludes any unstocked forest gaps. The following table compares the SF purchase contract areas and the net stocked area mapped by the Forestry Experts using remote sensing processes.

Table 1: Net Stocked Area Comparison of Purchase Contract vs. Assessed Area

Identification Reference	Purchase Contract Area (Ha.)	Assessed Area (Ha.)	Difference (Ha.)	Difference (%)
Compartment 11	76.3	80.5	4.2	+5.5%
Compartment 44	63.8	66.5	2.7	+4.2%

The exercise did prove the concept that was presented for testing – subject to the provision of adequate maps, it was possible to use a combination of remote sensing and ground inspection to assess the net stocked area. The Forestry Experts reported that it should indeed be possible for the Company to use the same technology, process and methodology as demonstrated in the Forest Report to verify the area and land cover status of its entire forest estate. The Forestry Experts observed and emphasised that the viability of such a large scale area verification exercise is critically dependent on having access to maps that meet certain standards, these being:

1. that the maps are provided in a format that is readily usable and reliable, be that in a high quality digital or paper format;
2. the maps are already geo-referenced, or can be readily and reliably geo-referenced; and
3. the maps clearly show the boundaries of each forest compartment or collection of forest compartments.

The Forestry Experts observed that the availability of maps meeting such specifications described above should enable an efficient area verification process of the wider SF estate to be undertaken. Forest compartment maps that did not meet such specifications would prevent their area from being verified.

The Forestry Experts therefore concluded that a large scale area verification exercise has to follow the sequence outlined below:

1. digital geo-referenced maps are combined with satellite images.
2. the locations of the necessary field sample sites are identified.
3. field sample sites are visited and the forest ground cover data are recorded.

4. the forest cover data are combined with the satellite images and the resulting net stocked area of each forest compartment can be measured.

The concept of testing a sample of BVI purchase contracts and survey information by forestry experts was discussed among the IC and counsel to the IC, although the design and testing of the proof of concept that was undertaken was a matter determined by the Forestry Experts within the parameters for selection of the two test areas determined by the IC.

The IC Advisors were not involved in the preparation of the Forest Report although such report was made available to them in order to assist counsel in advising the IC in the preparation of the Final Report.

IV. ASSET VERIFICATION

The Company's counsel has engaged Stewart Murray to assist the Company in compiling a full forest description and implementing a forest asset valuation framework as at December 31, 2011. This will enable Management to give its opinion and guidance as to the fair market value of the Company's forest assets to the Board. Stewart Murray will identify and report to the Board on the sources of data (and any assumptions therein) that are incorporated within the Company's forest description, including assigning and reporting the levels of confidence that surround key assumptions. This engagement is expected to expand to include a verification and validation process of the key components that underpin forest value involving both Stewart Murray and Indufur. The exercise will involve a highly structured process that will, over time, systematically assess the area of forest cover and merchantable volume across the SF estate. Members of the IC were involved in determining the scope and parameters of the engagement of Stewart Murray. The IC Advisors were not directly involved in the retainer process of such experts.

V. ONTARIO SECURITIES COMMISSION

The OSC sought extensive information from the IC in letters dated December 7, 2011 (7 pages) and December 22, 2011 (29 pages), much of which was information properly sought from the Company.

The IC advised the OSC on January 4, 2012 that it would respond to their extensive inquiries.

The IC has responded to the December 7th letter and a response to the December 22nd letter, which also requires input from the Company, is expected to be completed within a reasonable period of time after the completion of this report.

VI. OUTSTANDING MATTERS

As noted in Section I above, the IC understands that with the delivery of this report, its examination and review activities are terminated. The IC would expect its next steps may include only:

- (a) assisting in responses to regulators and RCMP as required; and
- (b) such other specific activities as it may deem advisable or the Board may instruct.

GLOSSARY

“\$” means, unless otherwise specified, U.S. dollars;

“2010 AIF” or “b” means the Company’s annual information form for the year ending December 31, 2010;

“2010 Financial Statements” means the Company’s audited consolidated financial statements and the notes thereto as at and for the year ended December 31, 2010;

“2010 MD&A” means the Company’s management discussion and analysis for the year ending December 31, 2010;

“AI” means an authorized intermediary, an entity through which a BVI conducts its sales;

“AI HoldCo” means *AI Conglomerate #1*;

“Audit Committee” means the Audit Committee of the Board;

“BJ” means Bennett Jones LLP, Canadian counsel to the Company;

“Board” means the Board of Directors of SF;

“BVI” means a subsidiary of the Company incorporated in the British Virgin Islands;

“China” means The People’s Republic of China;

“Chop” means the seal typically used in place of signatures in China;

“Company” or “SF” or “Sino-Forest” means Sino-Forest Corporation and, where the context requires, its consolidated subsidiaries;

“CTO” means the cease trade order of the OSC dated August 26, 2010;

“E&Y” means Ernst & Young LLP, the auditor of the Company;

“Executive Summary” means the executive summary of the Second Interim Report, attached hereto as Schedule II;

“Final Report” means the final report of the IC to the Board dated January 31, 2012;

“Forest Report” the report of the Forestry Experts dated January 27, 2012 referred to in Section IIIB(i);

“forestry bureau confirmations” or “confirmations” means documents issued to the WFOEs and BVIs on letterheads with forestry bureau names and featuring Chops (the seal typically used in place of signatures) that indicate that they had been issued by the corresponding forestry bureau, but does not include new confirmations;

“Forestry Experts” means, collectively, Indufor and Stewart Murray;

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“FTI” means FTI Consulting, a consulting firm advising the Company;

“GAAP” means the generally accepted accounting principles as set out in the Canadian Institute of Chartered Accountants Handbook – Accounting as applicable to public companies in Canada;

“Ha.” means hectares, which is equivalent to 15 mu (statements of Ha. herein are approximate, given the rounding associated with the conversion of mu to Ha.);

“IC” means the Independent Committee to the Board;

“IC Advisors” means one or more of PwC, Osler, Mallesons and JH;

“IMET” means an Integrated Market Enforcement Team of the RCMP;

“Indufor” means Indufor Asia Pacific Limited;

“JH” or “Chinese counsel” means Jun He Law Offices, independent Chinese IC counsel;

“Kaitong” means a Chinese law firm retained by the Company;

“Kaitong Report” means the report of Kaitong dated January 20, 2012 regarding certain relationship issues;

“Mallesons” means Mallesons Stephen Jaques, independent Hong Kong counsel to the IC;

“Management” means, at any time, the management of SF at that time;

“Mandra” means Mandra Forestry Holdings Limited, a wholly-owned subsidiary of SF;

“MD&A” means management discussion and analysis;

“mu” means a Chinese unit of measure for area, which is equivalent to 0.067 Ha.;

“Muddy Waters” or “MW” means Muddy Waters, L.L.C.;

“MW Report” means the initial “research report” issued by Muddy Waters dated June 2, 2011;

“OSC” means Ontario Securities Commission;

“Osler” means Osler, Hoskin & Harcourt LLP, independent Canadian counsel to the IC;

“Plantation Rights Certificate” or “PRC” means a governmental registered certification of ownership issued by a forestry bureau in China to evidence certain forestry-related rights;

“PwC” means PricewaterhouseCoopers LLP, forensic accounting advisors to the IC;

“RCMP” means Royal Canadian Mounted Police;

“RMB” means Renminbi, the official currency of China;

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“SAIC” means China’s State Administration for Industry and Commerce, the national authority responsible for administering industry and commerce;

“Second Interim Report” means the second interim report of the IC to the Board dated November 13, 2011;

“Stewart Murray” means Stewart Murray (Singapore) Pte Ltd.;

“Supplier” means a supplier to the Company of plantation assets, either rights to standing timber or plantation/land use rights or both;

“Survey Report” means a Forest Resource Survey Report that accompanies BVI timber purchase contracts;

“SW” means Sino-Wood Partners, Limited, a Hong Kong incorporated subsidiary of SF;

“WFOE” means a subsidiary of the Company incorporated in China as a “Wholly Foreign Owned Enterprise”; and

“Yuda Wood” or “Yuda” means Huaihua City Yuda Wood Co. Ltd, a Supplier.

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**SCHEDULE I
SECOND INTERIM REPORT - EXECUTIVE SUMMARY**

A. Introduction

The IC was established by the Board on June 2, 2011, immediately following the release by Muddy Waters of the MW Report regarding SF. The members of the IC are William Ardell (Chair), James Bowland, and James Hyde. At the invitation of the IC, Mr. Garry West, an independent director of SF, attends virtually all IC meetings and participates in its process. Following the delivery to the Board of the IC's draft of this Second Interim Report on November 3, 2011, Mr. James Bowland resigned as a director and therefore from the IC. The mandate of the IC, in general terms, is to independently examine and review the serious and wide-ranging allegations made in the MW Report and report back to and, if appropriate, make recommendations to the Board. To date, the IC has met approximately 48 times.

The IC Advisors' role is to support the IC in its mandate to review the allegations made in the MW Report and related matters. The IC Advisors have conducted various investigative and review processes, all at the direction of, and subject to such scope limitations as the IC, in its judgment, deemed appropriate. (See Part IV.) This Second Interim Report to the Board, while based on the work of such advisors, is the report of the IC and (other than Schedule IV) not the report of the IC Advisors.

The IC's First Interim Report to the Board dated August 10, 2011 outlined the nature and scope of the IC's activities (principally data collection) to that date and the planned next steps. The purpose of this Second Interim Report is to report to the Board on the activities undertaken by the IC since mid-August, the outcomes and findings from such activities and further next steps. The First Interim Report is attached as Schedule I.A.

While the MW Report took a scatter gun approach in its allegations, the IC determined to address the issues raised in three core areas: (i) timber asset verification; (ii) timber asset value; and (iii) revenue recognition. Overlaying the latter two areas are the issues raised by the MW allegations relating to related party transactions. The IC also determined to focus on the years 2006 to 2010. Using this framework for its review, the IC's focus since its last report has been principally on:

- the ownership structure of timber assets on SF's balance sheet;
- verifying the Company's holdings of standing timber ("purchased plantations" as referred to in the 2010 AIF) and plantation land use/lease rights ("planted plantations" as referred to in the 2010 AIF, though some plantation land use/lease rights, such as the Mandra holdings, are classified as "purchased plantations" in the 2010 AIF), held through BVIs and WFOEs and the nature of its interests in such assets (see Part V below);
- interviewing Suppliers and AIs with a view to verifying the existence and nature of SF's relationship with such third parties and seeking to obtain financial particulars about purchase and sale transactions between such third parties and SF (see Part VI below); and

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- examining and assessing the relationship with Yuda Wood, historically one of the largest Suppliers of standing timber to SF supplying approximately 21.5% of BVI timber purchases from 2008 through 2011 (see Section VI.A below).

The IC's work has also included:

- examining a number of specific situations which are the subject of MW allegations or critical newspaper articles (see e.g. Sections IV.B.6, VI.B and VI.C and Part VII below);
- engaging with and assisting E&Y in its examination of various issues relevant to its reports on the Company's financial statements (see Schedule IV attached);
- responding to questions and requests for documents and information from the OSC, including enquiries made through the Hong Kong securities authorities, in connection with its publicly announced investigation (see Part IX);
- meeting with and responding to requests for information from BJ and FTI;
- conducting interviews of certain members of Management;
- inspecting original versions of documents issued to the WFOEs and BVIs on letterheads with forestry bureau names and featuring Chops (the seal typically used in place of signatures) that indicate that they had been issued by the corresponding forestry bureau (the "forestry bureau confirmations"), and attending meetings with forestry bureaus in an attempt to verify the Company's holdings of standing timber;
- attending interviews of AIs and Suppliers, examining SF employee and other relationships with AIs and Suppliers (see Schedule IV attached); and
- meeting with and responding to requests for information from the RCMP (see Part XI).

In addition to the IC review, the MW Report has spawned various actions by public and private parties. These actions, which have affected the IC's activities and processes, include:

- an OSC investigation of matters related to SF;
- a review by E&Y of various matters relating to its 2010 and prior years' audits;
- three class action lawsuits in Ontario (one of which has a companion action in Quebec) by securities holders against the Company, its officers, E&Y and others;
- a threatened derivative claim against E&Y and certain officers and employees of the Company;

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- extensive newspaper and analyst reporting of the Company, including several in-depth investigative reports; and
- an enquiry by the RCMP through IMET.

While the IC believes its work is substantially complete, there remain certain further steps which it intends to undertake as follows:

- review the information and analysis very recently provided by Management intended to respond to certain issues regarding relationships of the Company with AIs and Suppliers and between AIs and Suppliers identified in this Second Interim Report (see Part VI);
- engage an independent valuator (see Part VIII);
- such other steps as the IC, in its judgement, deems advisable in the discharge of its mandate; and
- submit its final report and recommendations to the Board.

The IC expects to be able to deliver its final report to the Board prior to the end of 2011.

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B. Overview of Principal Findings

The following sets out a very high level overview of the IC's principal findings and should be read in conjunction with the balance of this report.

Timber Ownership

Based on its review and subject to its comments herein, the IC has confirmed to its satisfaction that the Company has:

- registered title to approximately 151,000 Ha. of SW and SP planted plantations and Mandra plantations. This constitutes approximately 17.9% of its timber holdings by area as at December 31, 2010;¹ and
- contractual or other rights to approximately 683,000 Ha. of plantations, being 81.3% of its timber holdings by area as at December 31, 2010 (of these, the Company holds original Plantation Rights Certificates, issued in the name of the Supplier, representing approximately 15,000 Ha., which the IC believes gives the Company a demonstrable chain of title). See Section III.B.

In connection with such confirmation, the IC has reviewed originals or copies of purchase contracts (and the corresponding set-off documentation confirming payment, in the case of the BVI purchased plantations) for the acquisition by the Company of:

- approximately 467,000 Ha. of BVIs purchased plantations;²
- approximately 237,000 Ha. of WFOE purchased plantations;³ and
- approximately 129,000 Ha. of planted plantations⁴

representing approximately 106%⁵ of SF's disclosed timber holdings of 788,700 Ha. as at December 31, 2010. With respect to these holdings, the IC has verified to its satisfaction that the Company has registered title:

¹ Timber holdings by area as at December 31, 2010 have been calculated by adding approximately 51,000 Ha. of planted plantation land for which the Company has contracts but has yet to classify as plantations under management for the purposes of its annual disclosure, to the Company's disclosed plantation of holdings of 788,700 Ha.

² BVI purchased plantations are comprised of standing timber without underlying leases of land use rights.

³ The Company classifies this as being comprised of all WFOE (SP) standing timber and all Mandra leased plantations. Mandra leased plantations are considered to be "purchased" plantations in the Company's public disclosure because they were acquired through the 2010 acquisition of Mandra.

⁴ The Company classifies this as being comprised of all WFOE (SW and SP) leased plantations.

⁵ The Company's explanation for this figure being approximately 106% of its disclosed timber holdings as at December 31, 2010 is that the IC reviewed leases for approximately 51,000 Ha. of plantation land which were not included in the disclosed total of planted plantations of 77,700 Ha. as of December 31, 2010, due to a number of reasons, primarily because these lands had not yet been planted.

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- via original Plantation Rights Certificates in the Company's name, to approximately 86,000 Ha. of WFOE purchased plantations,⁶ and approximately 43,000 Ha. of WFOE planted plantations;⁷ and
- via copies of Plantation Rights Certificates in the Company's name, to approximately 9,000 Ha. of WFOE purchased plantations, and approximately 12,000 Ha. of WFOE planted plantations.

In addition, as at December 31, 2010, the IC has determined that the Company has original or copies of forestry bureau confirmations relating to the acquisition of:

- approximately 467,000 Ha. of BVIs purchased plantations;
- approximately 89,000 Ha. of WFOE (SP) purchased plantations; and
- approximately 50,000 Ha. of WFOE (SP only) planted plantations.

The Company does not obtain registered title to BVI purchased plantations. In the case of the BVIs' plantations, the IC has visited forestry bureaus, Suppliers and AIs to seek independent evidence to establish a chain of title or payment transactions to verify such acquisitions. The purchase contracts, set-off arrangement documentation and forestry bureau confirmations constitute the documentary evidence as to the Company's contractual or other rights. The IC has been advised that the Company's rights to such plantations could be open to challenge. However, Management has advised that, to date, it is unaware of any such challenges that have not been resolved with the Suppliers in a manner satisfactory to the Company.

Forestry Bureau Confirmations and Plantation Rights Certificates

Registered title, through Plantation Rights Certificates is not available in the jurisdictions (i.e. cities and counties) examined by the IC Advisors for standing timber that is held without land use/lease rights. Therefore the Company was not able to obtain Plantation Rights Certificates for its BVIs standing timber assets in those areas. In these circumstances, the Company sought confirmations from the relevant local forestry bureau acknowledging its rights to the standing timber.

The IC Advisors reviewed forestry bureau confirmations for virtually all BVIs assets and non-Mandra WFOE purchased plantations held as at December 31, 2010. The IC Advisors, in meetings organized by Management, met with a sample of forestry bureaus with a view to obtaining verification of the Company's rights to standing timber in those jurisdictions. The result of such meetings to date have concluded with the forestry bureaus or related entities having issued new confirmations as to the Company's contractual rights to the Company in respect of 111,177 Ha. as of December 31, 2010⁸ and 133,040 Ha. as of March 31, 2011,⁹ and

⁶ These 86,000 Ha. of WFOE purchased plantations are composed of approximately 84,000 Ha. of leases under Mandra and approximately 2,000 Ha. of standing timber under SP.

⁷ These 43,000 Ha. of WFOE planted plantations are composed approximately of 31,000 Ha. of leases under SW and approximately 12,000 Ha. of leases under SP.

⁸ Composed of 106,446 Ha. of BVI plantations and 4,731 Ha. of WFOE planted plantations, of which 60,707 Ha. were confirmed in the Hunan Forestry Entity Confirmation. This amount is, however, different from the total 60,696 Ha. shown on the confirmation, which appears to arise from an addition error.

have acknowledged the issuance of existing confirmations issued to the Company as to certain rights, among other things, in respect of 113,058 Ha. as of December 31, 2010.¹⁰

Forestry bureau confirmations are not officially recognized documents and are not issued pursuant to a legislative mandate or, to the knowledge of the IC, a published policy. It appears they were issued at the request of the Company or its Suppliers. The confirmations are not title documents, in the Western sense of that term, although the IC believes they should be viewed as comfort indicating the relevant forestry bureau does not dispute SF's claims to the standing timber to which they relate and might provide comfort in case of disputes. The purchase contracts are the primary evidence of the Company's interest in timber assets.

In the meetings with forestry bureaus, the IC Advisors did not obtain significant insight into the internal authorization or diligence processes undertaken by the forestry bureaus in issuing confirmations and, as reflected elsewhere in this report, the IC did not have visibility into or complete comfort regarding the methods by which those confirmations were obtained. It should be noted that several Suppliers observed that SF was more demanding than other buyers in requiring forestry bureau confirmations.

Book Value of Timber

Based on its review to date, the IC is satisfied that the book value of the BVIs timber assets of \$2.476 billion reflected on its 2010 Financial Statements and of SP WFOE standing timber assets of \$298.6 million reflected in its 2010 Financial Statements reflects the purchase prices for such assets as set out in the BVIs and WFOE standing timber purchase contracts reviewed by the IC Advisors. Further, the purchase prices for such BVIs timber assets have been reconciled to the Company's financial statements based on set-off documentation relating to such contracts that were reviewed by the IC. However, these comments are also subject to the conclusions set out above under "Timber Ownership" on title and other rights to plantation assets.

The IC Advisors reviewed documentation acknowledging the execution of the set-off arrangements between Suppliers, the Company and AIs for the 2006-2010 period. However, the IC Advisors were unable to review any documentation of AIs or Suppliers which independently verified movements of cash in connection with such set-off arrangements between Suppliers, the Company and the AIs used to settle purchase prices paid to Suppliers by AIs on behalf of SF. We note also that the independent valuation referred to in Part VIII below has not yet been completed.

Revenue Reconciliation

As reported in its First Interim Report, the IC has reconciled reported 2010 total revenue to the sales prices in BVIs timber sales contracts, together with macro customer level data from other businesses. However, the IC was unable to review any documentation of AIs or Suppliers which independently verified movements of cash in connection with set-off

⁹ Composed of 128,309 Ha. of BVI plantations and 4,731 Ha. of WFOE planted plantations, of which 60,707 Ha. were confirmed in the Hunan Forestry Entity Confirmation. This amount is however different from the total hectare of 60,696 shown on the confirmation, which appears to arise from an addition error.

¹⁰ Composed of 90,905 Ha. of BVI plantations and 22,153 Ha. of WFOE planted plantations.

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arrangements used to settle purchase prices paid, or sale proceeds received by, or on behalf of SF.

Relationships

- Yuda Wood: The IC is satisfied that Mr. Huang Ran is not currently an employee of the Company and that Yuda Wood is not a subsidiary of the Company. However, there is evidence suggesting close cooperation (including administrative assistance, possible payment of capital at the time of establishment, joint control of certain of Yuda Wood's RMB bank accounts and the numerous emails indicating coordination of funding and other business activities). Management has explained these arrangements were mechanisms that allowed the Company to monitor its interest in the timber transactions. Further, Huang Ran (a Yuda Wood employee) has an ownership and/or directorship in a number of Suppliers (See Section VI.B). The IC Advisors have been introduced to persons identified as influential backers of Yuda Wood but were unable to determine the relationships, if any, of such persons with Yuda Wood, the Company or other Suppliers or AIs. Management explanations of a number of Yuda Wood-related emails and answers to E&Y's questions are being reviewed by the IC and may not be capable of independent verification.
- Other: The IC's review has identified other situations which require further review. These situations suggest that the Company may have close relationships with certain Suppliers, and certain Suppliers and AIs may have cross-ownership and other relationships with each other. The IC notes that in the interviews conducted by the IC with selected AIs and Suppliers, all such parties represented that they were independent of SF. Management has very recently provided information and analysis intended to explain these situations. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board. Some of such information and explanations may not be capable of independent verification.
- Accounting Considerations: To the extent that any of SF's purchase and sale transactions are with related parties for accounting purposes, the value of these transactions as recorded on the books and records of the Company may be impacted.

Cash

As reported in the IC's First Interim Report, as a precautionary measure, the IC requested that PwC confirm SF's cash balances. PwC did this as of June 13, 2011 for both China accounts and "offshore" accounts. A total of 293 accounts controlled by SF in Hong Kong were confirmed, representing 100% of the expected cash position. There are a very significant number of accounts held by SF in China (in excess of 260) and the logistics and requirements of in-person/in-branch verification in that country led the IC to confirm only a portion of the China accounts (28 accounts, representing approximately 81% of the expected China cash position). The IC was satisfied that SF's expected cash position existed as at the date of the confirmation. The Board should be aware that at the time of the cash confirmation process, SF only updated the details of its cash position quarterly, so the confirmation results must be considered in that context. The IC has instituted certain additional controls over cash

movements in excess of \$1 million held in SF Hong Kong bank accounts in order to provide the IC with some precautionary comfort during the examination process. Further, Management has advised that cash balances are now updated on a more frequent basis. See Part XII.

BVI Structure

The BVI structure used by SF to purchase and sell standing timber assets could be challenged by the relevant Chinese authorities as the undertaking of "business activities" within China by foreign companies, which may only be undertaken by entities established within China with the requisite approvals. However, there is no clear definition of what constitutes "business activities" under Chinese law and there are different views among the IC's Chinese counsel and the Company's Chinese counsel as to whether the purchase and sale of timber in China as undertaken by the BVIs could be considered to constitute "business activities" within China. In the event that the relevant Chinese authorities consider the BVIs to be undertaking "business activities" within China, they may be required to cease such activities and could be subject to other regulatory action. As regularization of foreign businesses in China is an ongoing process, the government has in the past tended to allow foreign companies time to restructure their operations in accordance with regulatory requirements (the cost of which is uncertain), rather than enforcing the laws strictly and imposing penalties without notice. See Section II.B.2.

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C. Challenges

Throughout its process, the IC has encountered numerous challenges in its attempts to implement a robust independent process which would yield reliable results. Among those challenges are the following:

(a) Chinese Legal Regime for Forestry:

- national laws and policies appear not yet to be implemented at all local levels;
- in practice, none of the local jurisdictions tested in which BVIs hold standing timber appears to have instituted a government registry and documentation system for the ownership of standing timber as distinct from a government registry system for the ownership of plantation land use rights;
- the registration of plantation land use rights, the issue of Plantation Rights Certificates and the establishment of registries, is incomplete in some jurisdictions based on the information available to the IC;
- as a result, title to standing timber, when not held in conjunction with a land use right, cannot be definitively proven by reference to a government maintained register; and
- Sino-Forest has requested confirmations from forestry bureaus of its acquisition of timber holdings (excluding land leases) as additional evidence of ownership. Certain forestry bureaus and Suppliers have indicated the confirmation was beyond the typical diligence practice in China for acquisition of timber holdings.

(b) Obtaining Information from Third Parties: For a variety of reasons, all of them outside the control of the IC, it is very difficult to obtain information from third parties in China. These reasons include the following:

- many of the third parties from whom the IC wanted information (e.g., AIs, Suppliers and forestry bureaus) are not compellable by the Company or Canadian legal processes;
- third parties appeared to have concerns relating to disclosure of information regarding their operations that could become public or fall into the hands of Chinese government authorities: many third parties explained their reluctance to provide requested documentation and information as being "for tax reasons" but declined to elaborate; and
- awareness of MW allegations, investigations and information gathering by the OSC and other parties, and court proceedings; while not often explicitly articulated, third parties had an awareness of the controversy

surrounding SF and a reluctance to be associated with any of these allegations or drawn into any of these processes.

(c) Small Management Team: The Company has a very small executive management team and it is stretched by:

- demands from the IC, the OSC and E&Y;
- the placement on administrative leave in late August 2011 of certain members of Management by the Company, based upon the advice of BJ. These employees remained available to assist Management upon request on a supervised basis, which further stretched the remaining management;
- the appointment of a new Chief Executive Officer part way through the IC process; and
- the fact that Management is dispersed among Canada, Hong Kong and various parts of China.

(d) Cultural/Language/Geographic Issues:

- vast majority of operational documents are in Chinese;
- most Asia-based Management employees' first language is Chinese;
- business practices in China and the SF business model:
 - rely heavily on personal relationships; and
 - documentation of contractual arrangements is not as comprehensive as would be typical in Western jurisdictions, is often not done until after the transaction is agreed and is frequently incomplete;
- geographic and time distances for the North American-based teams;
- SF's operations in China are widely and remotely geographically dispersed, a number of plantations are close to sensitive border areas and some are accessible only by overland vehicle travel; and
- public records in China are more limited than in Western jurisdictions and are often not complete, accessible, up to date or accurate.

(e) Corporate Governance/Operational Weaknesses: Management has asserted that business in China is based upon relationships. The IC and the IC Advisors have observed this through their efforts to obtain meetings with forestry bureaus, Suppliers and AIs and their other experience in China. The importance of relationships appears to have resulted in dependence on a relatively small group of Management who are integral to maintaining customer relationships, negotiating and finalizing the purchase and sale of

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plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority or lack of segregation of duties has been previously disclosed by the Company as a control weakness. As a result and as disclosed in the 2010 MD&A, senior Management in their ongoing evaluation of disclosure controls and procedures and internal controls over financial reporting, recognizing the disclosed weakness, determined that the design and controls were ineffective. The Chairman and Chief Financial Officer provided annual and quarterly certifications of their regulatory filings. Related to this weakness the following challenges presented themselves in the examination by the IC and the IC Advisors:

- operational and administration systems that are generally not sophisticated having regard to the size and complexity of the Company's business and in relation to North American practices; including:
 - incomplete or inadequate record creation and retention practices;
 - contracts not maintained in a central location;
 - significant volumes of data maintained across multiple locations on decentralized servers;
 - data on some servers in China appearing to have been deleted on an irregular basis, and there is no back-up system;
 - no integrated accounting system: accounting data is not maintained on a single, consolidated application, which can require extensive manual procedures to produce reports; and
 - a treasury function that was centralized for certain major financial accounts, but was not actively involved in the control or management of numerous local operations bank accounts;
- no internal audit function although there is evidence the Company has undertaken and continues to assess its disclosure controls and procedures and internal controls over financial reporting using senior Management and independent control consultants;
- SF employees conduct Company affairs from time to time using personal devices and non-corporate email addresses which have been observed to be shared across groups of staff and changed on a periodic and organized basis; this complicated and delayed the examination of email data by the IC Advisors; and
- lack of full cooperation/openness in the ICs examination from certain members of Management.

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- (f) Complexity, Lack of Visibility into, and Limitations of BVIs Model: The use of AIs and Suppliers as an essential feature of the BVIs standing timber business model contributes to the lack of visibility into title documentation, cash movements and tax liability since cash settlement in respect of the BVIs standing timber transactions takes place outside of the Company's books.
- (g) Cooperation and openness of the Company's executives throughout the process: From the outset, the IC Advisors sought the full cooperation and support of Allen Chan and the executive management team. Initially, the executive management team appeared ill-prepared to address the IC's concerns in an organized fashion and there was perhaps a degree of culture shock as Management adjusted to the IC Advisors' examination. In any event, significant amounts of material information, particularly with respect to the relationship with Yuda Wood, interrelationships between AIs and/or Suppliers, were not provided to the IC Advisors as requested. In late August 2011 on the instructions of the IC, interviews of Management were conducted by the IC Advisors in which documents evidencing these connections were put to the Management for explanation. As a result of these interviews (which were also attended by BJ) the Company placed certain members of Management on administrative leave upon the advice of Company counsel. At the same time the OSC made allegations in the CTO of Management misconduct.

Following the implementation of these administrative leaves and the subsequent appointment of Judson Martin as the new Chief Executive Officer of the company on August 26, 2011, the cooperation received by the IC Advisors from the Company improved significantly. As a result of Mr. Martin's direction, meetings have been arranged and held with Suppliers, AI's and additional forestry bureaus. In addition, as noted above, very recently, Management presented information regarding AIs and Suppliers and relationships among the Company and such parties. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board.

- (h) Independence of the IC Process: The cooperation and collaboration of the IC with Management (operating under the direction of the new Chief Executive Officer) and with Company counsel in completing certain aspects of the IC's mandate has been noted by the OSC and by E&Y. Both have questioned the degree of independence of the IC from Management as a result of this interaction. The IC has explained the practical impediments to its work in the context of the distinct business culture (and associated issues of privacy) in the forestry sector in China in which the Company operates. Cooperation of third parties in Hong Kong and China, including employees, depends heavily on relationships and trust. As noted above, the Company's placing certain members of Management on administrative leave, as well as the OSC's allegations in the CTO, further hampered the IC's ability to conduct its process. As a result, the work of the IC was frequently done with the assistance of, or in reliance on, the new Chief Executive Officer and his Management team and Company counsel. Given that Mr. Martin was, in effect, selected by the IC and BJ was appointed in late June 2011, the IC concluded that, while not ideal, this was a practical and appropriate way to proceed in the circumstances. As evidenced by the increased number of

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scheduled meetings with forestry bureaus, Suppliers and AIs, and, very recently, the delivery to the IC of information regarding AIs and Suppliers and relationships among the Company and such parties, it is acknowledged that Mr. Martin's involvement in the process has been beneficial. It is also acknowledged that in executing his role and assisting the IC he has had to rely on certain of the members of Management who had been placed on administrative leave.

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TAB G

BN Sino-Forest Truth May Never Be Known as Ardell Defends Founder
Feb 13 2012 19:11:00

By Christopher Donville and Steven Frank

Feb. 14 (Bloomberg) -- Sino-Forest Corp. Chairman William Ardell says he found no sign of major fraud while overseeing an eight-month probe of the company. He also says a full account of the Chinese timber producer's activities and business ties may never be known.

"There has been no material evidence provided that would indicate that there has been a major fraud," Ardell said in an interview. "I can't give you a 100 percent guarantee as to everything."

Ardell led an independent committee of company directors charged with investigating allegations made by research company Muddy Waters LLC that Sino-Forest exaggerated its timber assets and operated a Ponzi scheme. The committee, which said in a report last month it may not be able to disprove some of the allegations, hasn't conclusively demonstrated that "there is timber there, and there is value there," Ardell said in the interview.

Once the largest Chinese forestry company by market value, Sino-Forest has lost shareholders about C\$3.3 billion (\$3.3 billion) since Muddy Waters published its report on June 2. Ardell and his colleagues are trying to pull the company out of a death spiral after its shares were suspended amid investigations by Canadian regulators and police, and Chief Executive Officer and founder Allen Chan stepped down.

The plight of Hong Kong- and Mississauga, Ontario-based Sino-Forest and its shareholders also has thrown a spotlight on contrasting Chinese and North American business practices. Ardell, 68, who spoke at his lawyer's office in Toronto on Feb. 4 and in three separate phone interviews, says his challenge now is to convince investors, regulators and auditors that the company's lack of transparency doesn't diminish its underlying value.

'Life Imploded'

"I have a belief in the business," Ardell said. "I have a belief in Allen Chan."

The first inkling Ardell had that his belief might be put to the test came the day Muddy Waters issued its report.

"Have you heard?" Ardell recalls his wife, Sherry, asking him by phone just after he'd finished 18 holes at Lambton Golf & Country Club in Toronto. "'Sino-Forest is a fraud.'"

"Life imploded at that point," Ardell said.

Sino-Forest shares slumped as much as 25 percent before being suspended on the Toronto Stock Exchange. They tumbled 64 percent the following day after trading resumed. Ardell, a Canadian who lives in Oakville, just outside Toronto, says he's spent four months in Hong Kong since then dealing with the fallout.

'Unjustifiable Black Hole'

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Ardell started his career in accountancy and rose to become CEO of Southam Inc., once Canada's largest newspaper publisher, which was acquired in 1996 by Hollinger International Inc., the media company whose chairman and CEO at the time was Conrad Black.

He joined Sino-Forest as a director in 2010 and was appointed chairman in August to replace Chan, who resigned after the Ontario Securities Commission halted the stock pending an investigation.

Sino-Forest's structure makes documenting its assets and revenues difficult, according to Ardell. About 80 percent of its timber assets measured by value are held by subsidiaries based in the British Virgin Islands. Those units use suppliers and what the company calls "authorized intermediaries" in China to buy and sell timber and plantation harvesting rights.

The so-called BVI model and its use of intermediaries is "an unjustifiable black hole" that's been used to fabricate sales, avoid taxes and overstate the company's timber holdings, Muddy Waters said in its report.

Cash Flow

Ardell says the structure was put in place in the late 1990s to deal with rules barring foreign companies from leasing timberland and repatriating forestry profits.

With its profits marooned in China, Sino-Forest reinvested the money in more timberland while using some proceeds from sales of bonds and shares to cover operating costs, according to Ardell.

While it was the only way to organize the company, it meant "you can't see the cash move," he said. Ardell also says that helps explain why Sino-Forest doesn't have positive free cash flow or pay a dividend, both factors cited by Muddy Waters as evidence the company is a Ponzi scheme.

Since 2004, the company has been able to structure its Chinese units as so-called Wholly Foreign Owned Enterprises, which allows them to lease timberland and repatriate money, Ardell says. While Sino-Forest plans eventually to switch to this model entirely instead of the BVI structure, the timing isn't certain, he says.

No Maps

One of the few ways Sino-Forest can prove its ownership of standing timber is through purchase contracts negotiated with Chinese villages, communes and other leaseholders, Ardell says. Because they don't infer title to land, the contracts aren't registered with local government forestry bureaus, he says.

"There just isn't a central registry for sales and purchases of standing timber, and there wouldn't be in North America either," Ardell said.

What's more, Sino-Forest doesn't retain complete maps of some of its timber holdings because "there is a sensitivity in

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the Chinese government about maps being held by foreign-controlled companies," Ardell said.

The independent committee, aided by PricewaterhouseCoopers LLP, spent \$50 million on its investigation and reviewed more than 1.5 million documents, according to Ardell. It was hindered by a lack of cooperation from many of the suppliers and intermediaries involved in the BVI transactions, Ardell says.

Cash Holdings

"All of a sudden a lot doors closed very quickly" following the Muddy Waters report, he said.

A lack of documentation relating to corporate relationships was due partly to a lack of adequate internal controls and also to Chinese business practices, he says.

"The Chinese generally aren't as meticulous at record-keeping as in the West because so much of the business is based on personal relationships," said John Evans, a retired senior partner at Osler Hoskin & Harcourt LLP in Toronto who has known Ardell for more than 20 years. "A lack of documentation is very common in China."

The committee said in its final report published Jan. 31 that it wasn't able to confirm the existence of all the company's timber and cash holdings in China, or the full scope of Sino-Forest's relationships with its suppliers.

Bondholder Accord

"You can't spend that much time, money and witness managements' interference with your investigation and reasonably conclude that the fraud charges had no merit," Carson Block, a short seller and Muddy Waters founder, said Feb. 4 in a telephone interview.

Ardell says management hasn't interfered in the investigation.

After missing an interest payment on its 2016 convertible bonds in December, Sino-Forest reached an accord last month with a group of bondholders, in return ceding them a degree of control over its affairs. A restructuring committee is working to write a new plan for the company and deliver its report to bondholders by March 31.

Ardell says he's sticking with the company and continues to assist the Ontario Securities Commission and Royal Canadian Mounted Police investigations. Sino-Forest has commissioned two consulting companies to independently evaluate its holdings, which according to its website cover about 894,200 hectares (3,452 square miles) in China, an area about three times the size of Rhode Island.

"If I can demonstrate ownership, existence and value, the rest of it all goes away," Ardell said. "That's basically what the business is: Ownership and value."

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