

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***FRESH AS AMENDED STATEMENT OF CLAIM****(NOTICE OF ACTION ISSUED JULY 20, 2011)**

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

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

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

AND TO: William Ardell
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
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AND TO: James Bowland
Sino-Forest Corporation
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AND TO: James Hyde
Sino-Forest Corporation
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AND TO: Edmund Mak
Sino-Forest Corporation
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AND TO: W. Judson Martin
Sino-Forest Corporation
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AND TO: Simon Murray
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
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- AND TO: Kai Kit Poon**
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
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- AND TO: Peter Wang**
Sino-Forest Corporation
1208-90 Burnhamthorpe Rd W
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- AND TO: Garry West**
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- AND TO: Pöyry (Beijing) Consulting Company Limited**
2208-2210 Cloud 9 Plaza
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PR CHINA
- AND TO: Credit Suisse Securities (Canada), Inc.**
1 First Canadian Place
100 King Street West, Suite 2900
Toronto, Ontario M5X 1C9
- AND TO: TD Securities Inc.**
66 Wellington Street West
P.O. Box 1, TD Bank Tower
Toronto, Ontario M5K 1A2
- AND TO: Dundee Securities Corporation**
1 Adelaide Street East
Toronto, ON M5C 2V9

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- AND TO: RBC Dominion Securities Inc.**
155 Wellington Street West, 17th Floor
Toronto, Ontario M5V 3K7
- AND TO: Scotia Capital Inc.**
40 King Street West, Scotia Plaza
P.O. Box 4085, Station A
Toronto, Ontario M5W 2X6
- AND TO: CIBC World Markets Inc.**
161 Bay Street, Brookfield Place
P.O. Box 500
Toronto, Ontario M5J 2S8
- AND TO: Merrill Lynch Canada Inc.**
BCE Place, Wellington Tower
181 Bay Street, 4th and 5th Floors
Toronto, Ontario M5J 2V8
- AND TO: Canaccord Financial Ltd.**
161 Bay Street, Suite 2900
P.O. Box 516
Toronto, Ontario M5J 2S1
- AND TO: Maison Placements Canada Inc.**
130 Adelaide Street West, Suite 906
Toronto, Ontario M5H 3P5
- AND TO: Credit Suisse Securities (USA) LLC**
Eleven Madison Avenue
New York, NY 10010
- AND TO: Banc of America Securities LLC**
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Charlotte, NC 28255

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I. DEFINED TERMS

1. In this Statement of Claim, in addition to the terms that are defined elsewhere herein, the following terms have the following meanings:
 - (a) “AI” means Authorized Intermediary;

- (b) “**AIF**” means Annual Information Form;
- (c) “**Ardell**” means the defendant William E. Ardell;
- (d) “**Banc of America**” means the defendant Banc of America Securities LLC;
- (e) “**BDO**” means the defendant BDO Limited;
- (f) “**Bowland**” means the defendant James P. Bowland;
- (g) “**BVI**” means British Virgin Islands;
- (h) “**Canaccord**” means the defendant Canaccord Financial Ltd.;
- (i) “**CBCA**” means the *Canada Business Corporations Act*, RSC 1985, c. C-44, as amended;
- (j) “**Chan**” means the defendant Allen T.Y. Chan also known as “Tak Yuen Chan”;
- (k) “**CIBC**” means the defendant CIBC World Markets Inc.;
- (l) “**CJA**” means the Ontario *Courts of Justice Act*, RSO 1990, c C-43, as amended;
- (m) “**Class**” and “**Class Members**” all persons and entities, wherever they may reside who acquired **Sino’s Securities** during the **Class Period** by distribution in Canada or on the Toronto Stock Exchange or other secondary market in Canada, which includes securities acquired over-the-counter, and all persons and entities who acquired **Sino’s Securities** during the **Class Period** who are resident of Canada or were resident of Canada at the time of acquisition and who acquired **Sino’s Securities** outside of Canada, except the **Excluded Persons**;
- (n) “**Class Period**” means the period from and including March 19, 2007 to and including June 2, 2011;
- (o) “**Code**” means **Sino’s Code of Business Conduct**;

- (p) “*CPA*” means the Ontario *Class Proceedings Act, 1992*, SO 1992, c 6, as amended;
- (q) “**Credit Suisse**” means the defendant Credit Suisse Securities (Canada), Inc.;
- (r) “**Credit Suisse USA**” means the defendant Credit Suisse Securities (USA) LLC;
- (s) “**Defendants**” means **Sino, the Individual Defendants, Pöyry, BDO, E&Y and the Underwriters**;
- (t) “**December 2009 Offering Memorandum**” means Sino’s Final Offering Memorandum, dated December 10, 2009, relating to the distribution of Sino’s 4.25% Convertible Senior Notes due 2016 which Sino filed on **SEDAR** on December 11, 2009;
- (u) “**December 2009 Prospectus**” means Sino’s Final Short Form Prospectus, dated December 10, 2009, which Sino filed on **SEDAR** on December 11, 2009;
- (v) “**Dundee**” means the defendant Dundee Securities Corporation;
- (w) “**E&Y**” means the defendant, Ernst and Young LLP;
- (x) “**Excluded Persons**” means the **Defendants**, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any individual who is a member of the immediate family of an **Individual Defendant**;
- (y) “**Final Report**” means the report of the IC, as that term is defined in paragraph 10 hereof;
- (z) “**GAAP**” means Canadian generally accepted accounting principles;
- (aa) “**GAAS**” means Canadian generally accepted auditing standards;
- (bb) “**Horsley**” means the defendant David J. Horsley;
- (cc) “**Hyde**” means the defendant James M.E. Hyde;

(dd) **"Impugned Documents"** mean the 2005 Annual Consolidated Financial Statements (filed on **SEDAR** on March 31, 2006), Q1 2006 Financial Statements (filed on **SEDAR** on May 11, 2006), the 2006 Annual Consolidated Financial Statements (filed on **SEDAR** on March 19, 2007), 2006 AIF (filed on **SEDAR** on March 30, 2007), 2006 Annual MD&A (filed on **SEDAR** on March 19, 2007), Management Information Circular dated April 27, 2007 (filed on **SEDAR** on May 4, 2007), Q1 2007 MD&A (filed on **SEDAR** on May 14, 2007), Q1 2007 Financial Statements (filed on **SEDAR** on May 14, 2007), **June 2007 Prospectus**, Q2 2007 MD&A (filed on **SEDAR** on August 13, 2007), Q2 2007 Financial Statements (filed on **SEDAR** on August 13, 2007), Q3 2007 MD&A (filed on **SEDAR** on November 12, 2007), Q3 2007 Financial Statements (filed on **SEDAR** on November 12, 2007), 2007 Annual Consolidated Financial Statements (filed on **SEDAR** on March 18, 2008), 2007 AIF (filed on **SEDAR** on March 28, 2008), 2007 Annual MD&A (filed on **SEDAR** on March 18, 2008), Amended 2007 Annual MD&A (filed on **SEDAR** on March 28, 2008), Management Information Circular dated April 28, 2008 (filed on **SEDAR** on May 6, 2008), Q1 2008 MD&A (filed on **SEDAR** on May 13, 2008), Q1 2008 Financial Statements (filed on **SEDAR** on May 13, 2008), **July 2008 Offering Memorandum**, Q2 2008 MD&A (filed on **SEDAR** on August 12, 2008), Q2 2008 Financial Statements (filed on **SEDAR** on August 12, 2008), Q3 2008 MD&A (filed on **SEDAR** on November 13, 2008), Q3 2008 Financial Statements (filed on **SEDAR** on November 13, 2008), 2008 Annual Consolidated Financial Statements (filed on **SEDAR** on March 16, 2009), 2008 Annual MD&A (filed on **SEDAR** on March 16, 2009), Amended 2008 Annual MD&A (filed on **SEDAR** on March 17, 2009), 2008 AIF (filed on **SEDAR** on March 31, 2009), Management Information Circular dated April 28, 2009 (filed on **SEDAR** on May 4, 2009), Q1 2009 MD&A (filed on **SEDAR** on May 11, 2009), Q1 2009 Financial Statements (filed on **SEDAR** on May 11, 2009), **June 2009 Prospectus**, **June 2009 Offering Memorandum**, Q2 2009 MD&A (filed on **SEDAR** on August 10, 2009), Q2 2009 Financial Statements (filed on **SEDAR** on August 10, 2009), Q3 2009 MD&A (filed on **SEDAR** on November 12, 2009),

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

- (ee) **"Individual Defendants"** means Chan, Martin, Poon, Horsley, Ardell, Bowland, Hyde, Mak, Murray, Wang, and West, collectively;
- (ff) **"July 2008 Offering Memorandum"** means the Final Offering Memorandum dated July 17, 2008, relating to the distribution of Sino's 5% Convertible Senior Notes due 2013 which Sino filed on SEDAR as a schedule to a material change report on July 25, 2008;
- (gg) **"June 2007 Prospectus"** means Sino's Short Form Prospectus, dated June 5, 2007, which Sino filed on SEDAR on June 5, 2007;
- (hh) **"June 2009 Offering Memorandum"** means Sino's Exchange Offer Memorandum dated June 24, 2009, relating to an offer to exchange Sino's Guaranteed Senior Notes due 2011 for new 10.25% Guaranteed Senior Notes due 2014 which Sino filed on SEDAR as a schedule to a material change report on June 25, 2009;

- (ii) “**June 2009 Prospectus**” means Sino’s Final Short Form Prospectus, dated June 1, 2009, which Sino filed on **SEDAR** on June 1, 2009;
- (jj) “**Maison**” means the defendant Maison Placements Canada Inc.;
- (kk) “**Martin**” means the defendant W. Judson Martin;
- (ll) “**Mak**” means the defendant Edmund Mak;
- (mm) “**MD&A**” means Management’s Discussion and Analysis;
- (nn) “**Merrill**” means the defendant Merrill Lynch Canada Inc.;
- (oo) “**Muddy Waters**” means Muddy Waters LLC;
- (pp) “**Murray**” means the defendant Simon Murray;
- (qq) “**October 2010 Offering Memorandum**” means the Final Offering Memorandum dated October 14, 2010, relating to the distribution of Sino’s 6.25% Guaranteed Senior Notes due 2017;
- (rr) “**Offering**” or “**Offerings**” means the primary distributions in Canada of Sino’s **Securities** that occurred during the **Class Period** including the public offerings of Sino’s common shares pursuant to the **June 2007, June 2009 and December 2009 Prospectuses**, as well as the offerings of Sino’s notes pursuant to the **July 2008, June 2009, December 2009, and October 2010 Offering Memoranda**, collectively;
- (ss) “**OSA**” means the *Securities Act*, RSO 1990 c S.5, as amended;
- (tt) “**OSC**” means the Ontario Securities Commission;
- (uu) “**Plaintiffs**” means the plaintiffs, the Trustees of the Labourers’ Pension Fund of Central and Eastern Canada (“**Labourers**”), the Trustees of the International Union of Operating Engineers Local 793 Pension Plan for Operating Engineers in

Ontario (“**Operating Engineers**”), Sjunde AP-Fonden (“**AP7**”), David C. Grant (“**Grant**”), and Robert Wong (“**Wong**”), collectively;

- (vv) “**Poon**” means the defendant Kai Kit Poon;
- (ww) “**Pöyry**” means the defendant, Pöyry (Beijing) Consulting Company Limited;
- (xx) “**PRC**” means the People’s Republic of China;
- (yy) “**Representation**” means the statement that Sino’s financial statements complied with **GAAP**;
- (zz) “**RBC**” means the defendant RBC Dominion Securities Inc.;
- (aaa) “**Scotia**” means the defendant Scotia Capital Inc.;
- (bbb) “**Second Report**” means the Second Interim Report of the IC, as that term is defined in paragraph 10 hereof;
- (ccc) “**Securities**” means Sino’s common shares, notes or other securities, as defined in the *OSA*;
- (ddd) “**Securities Legislation**” means, collectively, the *OSA*, the *Securities Act*, RSA 2000, c S-4, as amended; the *Securities Act*, RSBC 1996, c 418, as amended; the *Securities Act*, CCSM c S50, as amended; the *Securities Act*, SNB 2004, c S-5.5, as amended; the *Securities Act*, RSNL 1990, c S-13, as amended; the *Securities Act*, SNWT 2008, c 10, as amended; the *Securities Act*, RSNS 1989, c 418, as amended; the *Securities Act*, S Nu 2008, c 12, as amended; the *Securities Act*, RSPEI 1988, c S-3.1, as amended; the *Securities Act*, RSQ c V-1.1, as amended; the *Securities Act*, 1988, SS 1988-89, c S-42.2, as amended; and the *Securities Act*, SY 2007, c 16, as amended;
- (eee) “**SEDAR**” means the system for electronic document analysis and retrieval of the Canadian Securities Administrators;

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- (fff) **"Sino"** means, as the context requires, either the defendant Sino-Forest Corporation, or Sino-Forest Corporation and its affiliates and subsidiaries, collectively;
- (ggg) **"TD"** means the defendant TD Securities Inc.;
- (hhh) **"TSX"** means the Toronto Stock Exchange;
- (iii) **"Underwriters"** means **Banc of America, Canaccord, CIBC, Credit Suisse, Credit Suisse USA, Dundee, Maison, Merrill, RBC, Scotia, and TD,** collectively;
- (jjj) **"Wang"** means the defendant Peter Wang;
- (kkk) **"West"** means the defendant Garry J. West; and
- (lll) **"WFOE"** means wholly foreign owned enterprise or an enterprise established in China in accordance with the relevant PRC laws, with capital provided solely by foreign investors.

II. CLAIM

2. The Plaintiffs claim:

- (a) An order certifying this action as a class proceeding and appointing the Plaintiffs as representative plaintiffs for the Class, or such other class as may be certified by the Court;
- (b) A declaration that the Impugned Documents contained, either explicitly or implicitly, the Representation, and that, when made, the Representation was a misrepresentation, both at law and within the meaning of the Securities Legislation;
- (c) A declaration that the Impugned Documents contained one or more of the other misrepresentations alleged herein, and that, when made, those other misrepresentations constituted misrepresentations, both at law and within the meaning of the Securities Legislation;
- (d) A declaration that Sino is vicariously liable for the acts and/or omissions of the Individual Defendants and of its other officers, directors and employees;
- (e) A declaration that the Underwriters, E&Y, BDO and Pöyry are each vicariously liable for the acts and/or omissions of their respective officers, directors, partners and employees;
- (f) On behalf of all of the Class Members who purchased Sino's Securities in the secondary market during the Class Period, and as against all of the Defendants other than the Underwriters, general damages in the sum of \$6.5 billion;
- (g) On behalf of all of the Class Members who purchased Sino common shares in the distribution to which the June 2007 Prospectus related, and as against Sino, Chan, Poon, Horsley, Martin, Mak, Murray, Hyde, Pöyry, BDO, Dundee, CIBC, Merrill and Credit Suisse general damages in the sum of \$175,835,000;
- (h) On behalf of all of the Class Members who purchased Sino common shares in the distribution to which the June 2009 Prospectus related, and as against Sino, Chan,

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

- (i) On behalf of all of the Class Members who purchased Sino common shares in the distribution to which the December 2009 Prospectus related, and as against Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, Pöyry, BDO, E&Y, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD, general damages in the sum of \$319,200,000;
- (j) On behalf of all the Class Members who purchased Sino's 5% Convertible Senior Notes due 2013 pursuant to the July 2008 Offering Memorandum, and as against Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, Pöyry, BDO, E&Y and Credit Suisse USA, general damages in the sum of US\$345 million;
- (k) On behalf of all the Class Members who purchased Sino's 10.25% Guaranteed Senior Notes due 2014 pursuant to the June 2009 Offering Memorandum, and as against Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, Pöyry, BDO, E&Y and Credit Suisse USA, general damages in the sum of US\$400 million;
- (l) On behalf of all the Class Members who purchased Sino's 4.25% Convertible Senior Notes due 2016 pursuant to the December 2009 Offering Memorandum, and as against Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, Pöyry, BDO, E&Y, Credit Suisse USA and TD, general damages in the sum of US\$460 million;
- (m) On behalf of all the Class Members who purchased Sino's 6.25% Guaranteed Senior Notes due 2017 pursuant to the October 2010 Offering Memorandum, and as against Sino, Chan, Poon, Horsley, Wang, Mak, Murray, Hyde, Ardell, Pöyry, E&Y, Credit Suisse USA and Banc of America, general damages in the sum of US\$600 million;

- (n) On behalf of all of the Class Members, and as against Sino, Chan, Poon and Horsley, punitive damages, in respect of the conspiracy pled below, in the sum of \$50 million;
- (o) A declaration that Sino, Chan, Poon, Horsley, Martin, Mak, Murray and the Underwriters were unjustly enriched;
- (p) A constructive trust, accounting or such other equitable remedy as may be available as against Sino, Chan, Poon, Horsley, Martin, Mak, Murray and the Underwriters;
- (q) A declaration that the acts and omissions of Sino have effected a result, the business or affairs of Sino have been carried on or conducted in a manner, or the powers of the directors of Sino have been exercised in a manner, that is oppressive or unfairly prejudicial to or that unfairly disregards the interests of the Plaintiffs and the Class Members, pursuant to s. 241 of the *CBCA*;
- (r) An order directing a reference or giving such other directions as may be necessary to determine the issues, if any, not determined at the trial of the common issues;
- (s) Prejudgment and post judgment interest;
- (t) Costs of this action on a substantial indemnity basis or in an amount that provides full indemnity plus, pursuant to s 26(9) of the *CPA*, the costs of notice and of administering the plan of distribution of the recovery in this action plus applicable taxes; and
- (u) Such further and other relief as to this Honourable Court may seem just.

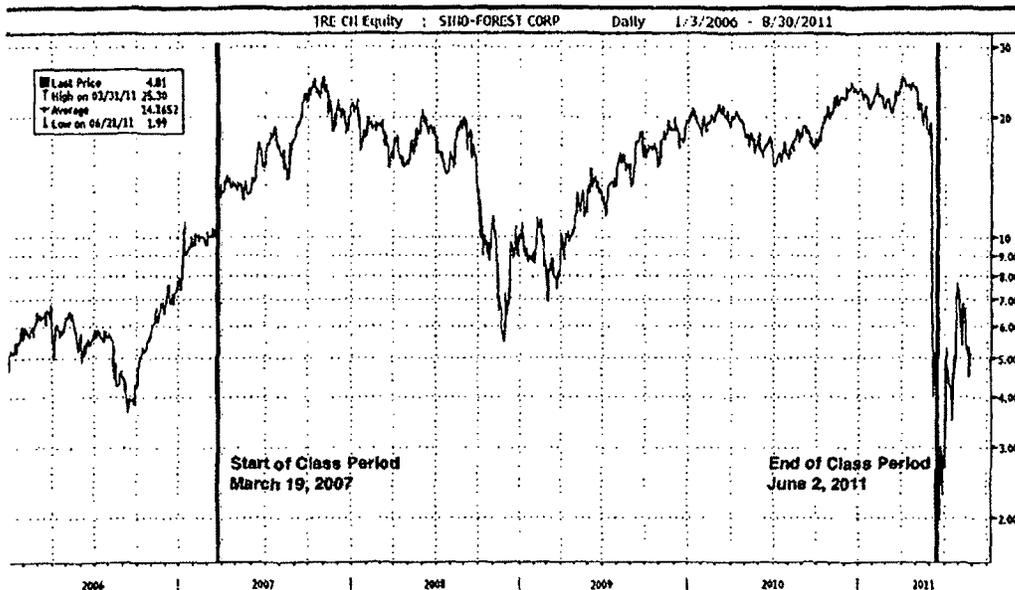
III. OVERVIEW

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

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



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

6. Sino itself raised in excess of \$2.7 billion¹ in the capital markets during this period. Meanwhile, the Underwriters were paid lucrative underwriting commissions, and BDO, E&Y and Pöyry garnered millions of dollars in fees to bless Sino's reported results and assets. To their great detriment, the Class Members relied upon these supposed gatekeepers.

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

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

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

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

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

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

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

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

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

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

This Final Report of the IC sets out the activities undertaken by the IC since mid-November, the findings from such activities and the IC’s conclusions regarding its examination and review. The IC’s activities during this period have been limited as a result of Canadian and Chinese holidays (Christmas, New Year and Chinese New Year) and the extensive involvement of IC members in the Company’s Restructuring and Audit Committees, both of which are advised by different advisors than those retained by the IC. The IC believes that, notwithstanding there remain issues which have not been fully answered, the work of the IC is now at the point of diminishing returns because much of the information which it is seeking lies with non-compellable third parties, may not exist or is apparently not retrievable from the records of the Company.

[...]

Given the circumstances described above, the IC understands that, with the delivery of this Final Report, its review and examination activities are terminated. The IC does not expect to undertake further work other than assisting with responses to regulators and the RCMP as required and engaging in such further specific activities as the IC may deem advisable or the Board may instruct. The IC has asked the IC Advisors to remain available to assist and advise the IC upon its instructions

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

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

IV. THE PARTIES

A. *The Plaintiffs*

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

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

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

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

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

B. *The Defendants*

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

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

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

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

- (a) within 45 days of the end of each quarter, quarterly interim financial statements prepared in accordance with GAAP that must include a comparative statement to the end of each of the corresponding periods in the previous financial year;
- (b) within 90 days of the end of the fiscal year, annual financial statements prepared in accordance with GAAP, including comparative financial statements relating to the period covered by the preceding financial year;
- (c) contemporaneously with each of the above, a MD&A of each of the above financial statements; and
- (d) within 90 days of the end of the fiscal year, an AIF, including material information about the company and its business at a point in time in the context of its historical and possible future development.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V. THE OFFERINGS

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

- (a) On June 5, 2007, Sino issued and filed with SEDAR the June 2007 Prospectus pursuant to which Sino distributed to the public 15,900,000 common shares at a price of \$12.65 per share for gross proceeds of \$201,135,000. The June 2007 Prospectus incorporated by reference Sino's: (1) 2006 AIF; (2) 2006 Audited Annual Financial Statements; (3) 2006 Annual MD&A; (4) Management Information Circular dated April 27, 2007; (5) Q1 2007 Financial Statements; and (6) Q1 2007 MD&A;
- (b) On July 17, 2008, Sino issued the July 2008 Offering Memorandum pursuant to which Sino sold through private placement US\$345 million in aggregate principal amount of convertible senior notes due 2013. The July 2008 Offering Memorandum included: (1) Sino's Consolidated Annual Financial Statements for 2005, 2006 and 2007; (2) Sino's unaudited interim financial statements for the three-month periods ended March 31, 2007 and 2008; (3) the section of the 2007 AIF entitled "Audit Committee" and the charter of the Audit Committee attached as an appendix to the 2007 AIF; and (4) the Pöyry report entitled "Sino-Forest Corporation Valuation of China Forest Assets Report as at 31 December 2007" dated March 14, 2008;
- (c) On June 1, 2009, Sino issued and filed with SEDAR the June 2009 Prospectus pursuant to which Sino distributed to the public 34,500,000 common shares at a price of \$11.00 per share for gross proceeds of \$379,500,000. The June 2009 Prospectus incorporated by reference Sino's: (1) 2008 AIF; (2) 2007 and 2008 Annual Consolidated Financial Statements; (3) Amended 2008 Annual MD&A; (4) Q1 2009 MD&A; (5) Q1 2008 and 2009 Financial Statements; (6) Q1 2009 MD&A; (7) Management Information Circular dated April 28, 2009; and (8) the Pöyry report titled "Valuation of China Forest Corp Assets As at 31 December 2008" dated April 1, 2009;

- (d) On June 24, 2009, Sino issued the June 2009 Offering Memorandum for exchange of certain of its then outstanding senior notes due 2011 with new notes, pursuant to which Sino issued US\$212,330,000 in aggregate principal amount of 10.25% Guaranteed Senior Notes due 2014. The June 2009 Offering Memorandum incorporated by reference: (1) Sino's 2005, 2006 and 2007 Consolidated Annual Financial Statements; (2) the auditors' report of BDO dated March 19, 2007 with respect to Sino's Consolidated Annual Financial Statements for 2005 and 2006; (3) the auditors' report of E&Y dated March 12, 2008 with respect to Sino's Consolidated Annual Financial Statements for 2007 except as to notes 2, 18 and 23; (4) Sino's Consolidated Annual Financial Statements for 2007 and 2008 and the auditors' report of E&Y dated March 13, 2009; (5) the section entitled "Audit Committee" in the 2008 AIF, and the charter of the Audit Committee attached as an appendix to the 2008 AIF; and (6) the unaudited interim financial statements for the three-month periods ended March 31, 2008 and 2009;
- (e) On December 10, 2009, Sino issued the December 2009 Offering Memorandum pursuant to which Sino sold through private placement US\$460,000,000 in aggregate principal amount of 4.25% convertible senior notes due 2016. This Offering Memorandum incorporated by reference: (1) Sino's Consolidated Annual Financial Statements for 2005, 2006, 2007; (2) the auditors' report of BDO dated March 19, 2007 with respect to Sino's Annual Financial Statements for 2005 and 2006; (3) the auditors' report of E&Y dated March 12, 2008 with respect to Sino's Consolidated Annual Financial Statements for 2007, except as to notes 2, 18 and 23; (4) Sino's Consolidated Annual Financial Statements for 2007 and 2008 and the auditors' report of E&Y dated March 13, 2009; (5) the unaudited interim consolidated financial statements for the nine-month periods ended September 30, 2008 and 2009; (6) the section entitled "Audit Committee" in the 2008 AIF, and the charter of the Audit Committee attached to the 2008 AIF; (7) the Pöyry report entitled "Sino-Forest Corporation Valuation of China Forest Assets as at 31 December 2007"; and (8) the Pöyry report entitled "Sino-Forest Corporation Valuation of China Forest Corp Assets as at 31 December 2008" dated April 1, 2009;

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- (f) On December 10, 2009, Sino issued and filed with SEDAR the December 2009 Prospectus (together with the June 2007 Prospectus and the June 2009 Prospectus, the "Prospectuses") pursuant to which Sino distributed to the public 21,850,000 common shares at a price of \$16.80 per share for gross proceeds of \$367,080,000. The December 2009 Prospectus incorporated by reference Sino's: (1) 2008 AIF; (2) 2007 and 2008 Annual Consolidated Financial Statements; (3) Amended 2008 Annual MD&A; (4) Q3 2008 and 2009 Financial Statements; (5) Q3 2009 MD&A; (6) Management Information Circular dated April 28, 2009; and (7) the Pöyry report titled "Valuation of China Forest Corp Assets As at 31 December 2008" dated April 1, 2009;
- (g) On February 8, 2010, Sino closed the acquisition of substantially all of the outstanding common shares of Mandra Forestry Holdings Limited. Concurrent with this acquisition, Sino completed an exchange with holders of 99.7% of the USD\$195 million notes issued by Mandra Forestry Finance Limited and 96.7% of the warrants issued by Mandra Forestry Holdings Limited, for new 10.25% guaranteed senior notes issued by Sino in the aggregate principal amount of USD\$187,177,375 with a maturity date of July 28, 2014. On February 11, 2010, Sino exchanged the new 2014 Senior Notes for an additional issue of USD\$187,187,000 in aggregate principal amount of Sino's existing 2014 Senior Notes, issued pursuant to the June 2009 Offering Memorandum; and
- (h) On October 14, 2010, Sino issued the October 2010 Offering Memorandum pursuant to which Sino sold through private placement US\$600,000,000 in aggregate principal amount of 6.25% guaranteed senior notes due 2017. The October 2010 Offering Memorandum incorporated by reference: (1) Sino's Consolidated Annual Financial Statements for 2007, 2008 and 2009; (2) the auditors' report of E&Y dated March 15, 2010 with respect to Sino's Annual Financial Statements for 2008 and 2009; and (3) Sino's unaudited interim financial statements for the six-month periods ended June 30, 2009 and 2010.

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

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

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

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

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

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

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

VI. THE MISREPRESENTATIONS

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

- A. Sino's history and fraudulent origins;
- B. Sino's forestry assets;
- C. Sino's related party transactions;

- D. Sino's relationships with forestry bureaus and its purported title to forestry assets in the PRC;
- E. Sino's relationships with its "Authorized Intermediaries;"
- F. Sino's cash flows;
- G. Certain risks to which Sino was exposed; and
- H. Sino's compliance with GAAP and the Auditors' compliance with GAAS.

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

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

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

Managing forests, wood processing, the production of wood products and wood chemical products, and establishing a production facility with an annual production capacity of 50,000 m³ of Micro Density Fiber Board (MDF), managing a base of 120,000 mu (8,000 ha) of which the forest annual utilization would be 8,000 m³.

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

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

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

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

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

To: Zhanjiang Municipal Foreign Economic Relations & Trade Commission

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

I. Information of the investment of both sides

- A. The investment of our side: according to the contract and articles of association signed by both sides and approved by your commission, our side has paid in RMB95,481,503.29 (equivalent to USD11,640,000.00) to the Joint Venture on 20th June 1995 through an in-kind contribution. The payment was made in accordance with the prescribed procedures and confirmed by signatures of the legal representatives of both parties. According to the Capital Verification Report from Yuexi (粤西) Accounting Firm, this payment accounts for 99.1% of the agreed capital contribution from our side, which is USD11,750,000, and accounts for 46.56% of the total investment.
- B. The investment of the foreign party: the foreign party has paid in USD1,000,000 on 16th March 1994, which was in the starting period of the Joint Venture. According to the Capital Verification Report from Yuexi (粤西) Accounting Firm, this payment only accounts for 7.55% of the agreed capital contribution from the foreign party totaling USD13,250,000, and accounts for 4% of the total investment. Then, in the prescribed investment period, the foreign party did not further pay capital into the Joint Venture. In view of this, your commission sent a "Notice on Time for Capital Contribution" to the foreign party on 30th January 1996. In accordance with the notice, the foreign party then on 10th April sent a letter to your commission, requesting for postponing the deadline for capital contribution to 20th December the same year. On 14th May 1996, your commission replied to Allen Chan (陈德源), the Chairman of the Joint Venture, stating that "postponement of the deadline for capital contribution is subject to the consent of our side and requires amendment of the term on the capital contribution time in the original contract, and both parties shall sign a bilateral supplementary contract; after the application has been approved, the postponed deadline will become effective.". Based on the spirit of the letter dated 14th May from your commission and for the purpose of achieving mutual communication and dealing with the issues of the Joint Venture actively and appropriately, on 11th June 1996, Chan Shixing (陈识兴) and two other Directors from our side sent a joint letter to Allen Chan (陈德源), the Chairman of the Joint Venture, to propose a meeting of the board to be convened before 30th June 1996 in Zhanjiang, in order to discuss how to deal with the issues of the Joint Venture in accordance with the relevant State provisions. Unfortunately, the foreign party neither had discussion with our side pursuant to your commission's letter, nor replied to the proposal of our side, and furthermore failed to make payment to the Joint Venture. Now, it has been two years beyond the deadline for capital contribution (29th January 1996), and more than one year beyond the date prescribed by the Notice on Time for Capital Contribution issued by your commission (30th April 1996). However, the foreign party has been evading the discussion of the capital contribution issue, and moreover has taken no further action.

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

According to the contract and articles of association, the main purposes of setting up the Joint Venture are, on the one hand, to invest and construct a project producing 50,000 cubic meter Medium Density Fiberboard (MDF) a year; and on the other hand, to create a forest base of 120,000 mu, with which to produce 80,000 cubic meter of timber as raw material for the production of medium density fiberboard. The contract and articles of association also prescribed that the whole funding required for the MDF board project should be paid by the foreign party in cash; our side should pay in-kind the proportion of the fund prescribed by the contract. *After contributing capital of USD1,000,000 in the early stage, the foreign party not only failed to make subsequent capital contributions, but also in their own name successively withdrew a total amount of RMB4,141,045.02, from the funds they contributed, of which USD270,000 was paid to Huadu Baixing Wood Products Factory (花都市百兴木制品厂), which has no business relationship with the Joint Venture. This amount of money equals 47.6% of [the foreign party's] paid in capital. Although our side has almost paid off the agreed capital contribution (only short 0.9% of the total committed), due to the limited contribution from the foreign party and the fact that they withdrew a huge amount of money from those funds originally contributed by them, it is impossible for the Joint Venture to construct or set up production projects and to commence production operation while the funds have been insufficient and the foreign party did not pay in the majority of the subscribed capital. In fact, the Joint Venture therefore is merely a shell, existing in name only.*

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

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

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

2. Direct the Joint Venture to complete the deregistration procedures for "Zhanjiang Eucalyptus Resources Development Co. Ltd." at the local Administration for Industry and Commerce, and for the return of its business license.
3. Coordination with both parties to resolve the relevant remaining issues.

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

The Seal of the Leizhou Forestry Bureau

1998, February 27

[Translation; emphasis added.]

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

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

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

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

(ii) Sino's Fictitious Investment in SJXT

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

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

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

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

83. In October 1998, Sino announced an Agency Agreement with SJXT. At that time, Sino stated that it would provide 130,000 m³ of various wood products to SJXT over an 18 month period, and that, based on then-current market prices, it expected this contract to generate "significant revenue" for Sino-Forest amounting to approximately \$40 million. The revenues that were purportedly anticipated from the SJXT contract were highly material to Sino. Indeed, Sino's total reported revenues in 1998 were \$92.7 million.

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

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

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

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

SJXT represents a very significant development for our lumber and wood products trading business. The market is prospering and continues to look very promising. Phase I, consisting of 100 shops, is completed. Phases II and III are expected to be completed by the year 2000. This expansion would triple the size of the Shanghai Timber Market.

The Shanghai Timber Market is important to Sino-Forest as a generator of significant new revenue. In addition to supplying various forest products to the market from our own operations, our direct participation in SJXT increases our activities in sourcing a wide range of other wood products both from inside China and internationally.

The Shanghai Timber Market is also very beneficial to the development of the forest products industry in China because it is the first forest products national sub-market in the eastern region of the country.

[...]

The market also greatly facilitates Sino-Forest's networking activities, enabling us to build new industry relationships and add to our market intelligence, all of which increasingly leverage our ability to act as principal in our dealings.

[Emphasis added.]

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

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

There are also promising growth opportunities as Sino-Forest's investment in Shanghai Jin Xiang Timber Ltd. (SJXT or the Shanghai Timber Market), develops. The Company also continues to explore opportunities to establish and reinforce ties with other international forestry companies and to bring our e-commerce technology into operation.

Sino-Forest's investment in the Shanghai Timber Market — the first national forest products submarket in eastern China — has provided a strong foundation for the Company's lumber and wood products trading business.

[Emphasis added.]

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

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

[Emphasis added.]

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

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

During the year, Shanghai Jin Xiang Timber Ltd. ["SJXT"] applied to increase *the original total capital contributions of \$368,000* [Chinese renminbi 7.2 million] to \$1,509,000 [Chinese renminbi 12.5 million]. Sino-Wood is required to *make an additional contribution of \$278,000* as a result of the increase in total capital contributions. The additional capital contribution of \$278,000 was made in 1999 *increasing its equity interest in SJXT from 27.8% to 34.4%*. The principal activity of SJXT is to organize trading of timber and logs in the PRC market.

[Emphasis added.]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) Sino Overstates its Yunnan Forestry Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

Greenheart acquires certain rights to additional 128,000 hectare concession in Suriname

312,000 hectares now under Greenheart management

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

Mr. Judson Martin, Chief Executive Officer of Greenheart and Vice-Chairman of Sino-Forest Corporation, the Company's controlling shareholder said, "This acquisition is in line with our growth strategy to expand our footprint in Suriname. In addition to increased harvestable area, this acquisition will bring synergies in sales, marketing, administration, financial reporting and control, logistics and overall management. I am pleased to welcome Mr. Ty Wilkinson to Greenheart as our minority partner. Mr. Wilkinson shares our respect for the people of Suriname and the land and will be appointed Chief Executive Officer of this joint venture and be responsible for operating in a sustainable and responsible manner. This acquisition further advances Greenheart's strategy of becoming a global agri-forestry company. We will continue to actively seek well-priced and sustainable concessions in Suriname and neighboring regions in the coming months."

[Emphasis added.]

115. In its 2010 AIF, filed on SEDAR on March 31, 2011, Sino stated:

We hold a majority interest in Greenheart Group which, together with its subsidiaries, owns certain rights and *manages approximately 312,000 hectares of hardwood forest concessions in the Republic of Suriname, South America* ("Suriname") and 11,000 hectares of a radiata pine plantation on 13,000 hectares of freehold land in New Zealand as at March 31, 2011. *We believe that our ownership in Greenheart Group will strengthen our global sourcing network in supplying wood fibre for China in a sustainable and responsible manner.*

[Emphasis added.]

116. The statements reproduced in the preceding paragraph were false and/or materially misleading when made. Under the Suriname *Forest Management Act*, it is prohibited for one company or a group of companies in which one person or company has a majority interest to control more than 150,000 hectares of land under concession. Therefore, either Greenheart's concessions under management in Suriname did not exceed 150,000 hectares, or Greenheart's concessions under management in Suriname violated the laws of Suriname, which was a material fact not disclosed in any of the Impugned Documents.

117. In each of the October 2010 Offering Memorandum, the 2010 Annual MD&A, the 2010 AIF, Sino represented that Greenheart had well in excess of 150,000 hectares of concession

under management in Suriname without however disclosing that Suriname law imposed a limit of 150,000 hectares on Greenheart and its subsidiaries.

118. Finally, Vista's forestry concessions are located in a region of Suriname populated by the Saramaka, an indigenous people. Pursuant to the American Convention on Human Rights and a decision of the Inter-American Court of Human Rights, the Saramaka people must have effective control over their land, including the management of their reserves, and must be effectively consulted by the State of Suriname. Sino has not disclosed in any of the Impugned Documents where it has discussed Greenheart and/or Suriname assets that Vista's purported concessions in Suriname, if they exist at all, are impaired due to the unfulfilled rights of the indigenous people of Suriname, in violation of GAAP. The Impugned Documents that omitted that disclosure were the 2010 Annual MD&A, the 2010 Audited Annual Financial Statements, and the 2010 AIF.

(iii) Sino overstates its Jiangxi Forestry Assets

119. On June 11, 2009, Sino issued a press release in which it stated:

Sino-Forest Corporation (TSX: TRE), a leading commercial forest plantation operator in China, announced today that its wholly-owned subsidiary, Sino-Panel (China) Investments Limited ("Sino-Panel"), has entered into a Master Agreement for the Purchase of Pine and Chinese Fir Plantation Forests (the "Jiangxi Master Agreement") with Jiangxi Zhonggan Industrial Development Company Limited ("Jiangxi Zhonggan"), which will act as the authorized agent for the original plantation rights holders.

Under the Jiangxi Master Agreement, Sino-Panel will, through PRC subsidiaries of Sino-Forest, acquire between 15 million and 18 million cubic metres (m³) of wood fibre located in plantations in Jiangxi Province over a three-year period with a price not to exceed RMB300 per m³, to the extent permitted under the relevant PRC laws and regulations. *The plantations in which such amount of wood fibre to acquire is between 150,000 and 300,000 hectares* to achieve an estimated average wood fibre yield of approximately 100 m³ per hectare, and include tree species such as pine, Chinese fir and others. Jiangxi Zhonggan will ensure plantation forests sold to Sino-Panel and its PRC subsidiaries are non-state-owned, non-natural, commercial plantation forest trees.

In addition to securing the maximum tree acquisition price, Sino-Panel has pre-emptive rights to lease the underlying plantation land at a price, permitted under the relevant PRC laws and regulations, not to exceed RMB450 per hectare per annum for 30 years from the

time of harvest. The land lease can also be extended to 50 years as permitted under PRC laws and regulations. The specific terms and conditions of purchasing or leasing are to be determined upon the execution of definitive agreements between the PRC subsidiaries of Sino-Panel and Jiangxi Zhonggan upon the authorisation of original plantation rights holders, and subject to the requisite governmental approval and in compliance with the relevant PRC laws and regulations.

Sino-Forest Chairman and CEO Allen Chan said, "We are fortunate to have been able to capture and support investment opportunities in China's developing forestry sector by locking up a large amount of fibre at competitive prices. The Jiangxi Master Agreement is Sino-Forest's fifth, long-term, fibre purchase agreement during the past two years. These five agreements cover a total plantation area of over one million hectares in five of China's most densely forested provinces."

[Emphasis added.]

120. According to Sino's 2010 Annual MD&A, as of December 31, 2010, Sino had acquired 59,700 ha of plantation trees from Jiangxi Zhonggan Industrial Development Company Limited ("Zhonggan") for US\$269.1 million under the terms of the master agreement. (In its interim report for the second quarter of 2011, which was issued after the Class Period, Sino claims that, as at June 30, 2011, this number had increased to 69,100 ha, for a purchase price of US\$309.6 million).

121. However, as was known to Sino, Chan, Poon and Horsley, and as ought to have been known to the remaining Individual Defendants, BDO, E&Y and Pöyry, Sino's plantation acquisitions through Zhonggan are materially smaller than Sino has claimed.

(iv) Poyry makes Misrepresentations in relation to Sino's Forestry Assets

122. As particularized above, Sino overstated its forestry assets in Yunnan and Jiangxi Provinces in the PRC and in Suriname. Accordingly, Sino's total assets are overstated to a material degree in all of the Impugned Documents, in violation of GAAP, and each such statement of Sino's total assets constitutes a misrepresentation.

123. In addition, during the Class Period, Pöyry and entities affiliated with it made statements that are misrepresentations in regard to Sino's Yunnan Province "assets," namely:

- (a) In a report dated March 14, 2008, filed on SEDAR on March 31, 2008 (the "2008 Valuations"), Pöyry: (a) stated that it had determined the valuation of the Sino forest assets to be US\$3.2 billion as at 31 December 2007; (b) provided tables and figures regarding Yunnan; (c) stated that "Stands in Yunnan range from 20 ha to 1000 ha," that "In 2007 Sino-Forest purchased an area of mixed broadleaf forest in Yunnan Province," that "Broadleaf forests already acquired in Yunnan are all mature," and that "Sino-Forest is embarking on a series of forest acquisitions/expansion efforts in Hunan, Yunnan and Guangxi;" and (d) provided a detailed discussion of Sino's Yunnan "holdings" at Appendixes 3 and 5. Pöyry's 2008 Valuations were incorporated in Sino's 2007 Annual MD&A, amended 2007 Annual MD&A, 2007 AIF, each of the Q1, Q2, and Q3 2008 MD&As, Annual 2008 MD&A, amended Annual 2008 MD&A, each of the Q1, Q2 and Q3 2009, annual 2009 MD&A, and July 2008 and December 2009 Offering Memoranda;
- (b) In a report dated April 1, 2009 and filed on SEDAR on April 2, 2009 (the "2009 Valuations"), Pöyry stated that "[t]he area of forest owned in Yunnan has quadrupled from around 10 000 ha to almost 40 000 ha over the past year," provided figures and tables regarding Yunnan, and stated that "Sino-Forest has increased its holding of broadleaf crops in Yunnan during 2008, with this province containing nearly 99% of its broadleaf resource." Pöyry's 2009 Valuations were incorporated in Sino's 2008 AIF, each of the Q1, Q2, Q3 2009 MD&As, Annual 2009 MD&A, June 2009 Offering Memorandum, and June 2009 and December 2009 Prospectuses;
- (c) In a "Final Report" dated April 23, 2010, filed on SEDAR on April 30, 2010 (the "2010 Valuations"), Pöyry stated that "Guangxi, Hunan and Yunnan are the three largest provinces in terms of Sino-Forest's holdings. The largest change in area by province, both in absolute and relative terms [sic] has been Yunnan, where the

area of forest owned has almost tripled, from around 39 000 ha to almost 106 000 ha over the past year," provided figures and tables regarding Yunnan, stated that "Yunnan contains 106 000 ha, including 85 000 ha or 99% of the total broadleaf forest," stated that "the three provinces of Guangxi, Hunan and Yunnan together contain 391 000 ha or about 80% of the total forest area of 491 000 ha" and that "[a]lmost 97% of the broadleaf forest is in Yunnan," and provided a detailed discussion of Sino's Yunnan "holdings" at Appendixes 3 and 4. Pöyry's 2010 Valuations were incorporated in Sino's 2009 AIF, the annual 2009 MD&A, each of the Q1, Q2 and Q3 2010 MD&As, and the October 2010 Offering Memorandum;

- (d) In a "Summary Valuation Report" regarding "Valuation of Purchased Forest Crops as at 31 December 2010" and dated May 27, 2011, Pöyry provided tables and figures regarding Yunnan, stated that "[t]he major changes in area by species from December 2009 to 2010 has been in Yunnan pine, with acquisitions in Yunnan and Sichuan provinces" and that "[a]nalysis of [Sino's] inventory data for broadleaf forest in Yunnan, and comparisons with an inventory that Pöyry undertook there in 2008 supported the upwards revision of prices applied to the Yunnan broadleaf large size log," and stated that "[t]he yield table for Yunnan pine in Yunnan and Sichuan provinces was derived from data collected in this species in these provinces by Pöyry during other work;" and
- (e) In a press release titled "Summary of Sino-Forest's China Forest Asset 2010 Valuation Reports" and which was "jointly prepared by Sino-Forest and Pöyry to highlight key findings and outcomes from the 2010 valuation reports," Pöyry reported on Sino's "holdings" and estimated the market value of Sino's forest assets on the 754,816 ha to be approximately US\$3.1 billion as at December 31, 2010.

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C. *Misrepresentations relating to Sino's Related Party Transactions*

(i) *Related Party Transactions Generally*

124. Under GAAP and GAAS, a "related party" exists "when one party has the ability to exercise directly or indirectly, control, joint control or significant influence over the other." (CICA Handbook 3840.03) Examples include a parent-subsiary relationship or an entity that is economically dependent upon another.

125. Related parties raise the concern that transactions may not be conducted at arm's length, and pricing or other terms may not be determined at fair market values. For example, when a subsidiary "sells" an asset to its parent at a given price, it may not be appropriate that that asset be reported on the balance sheet or charged against the earnings of the parent at that price. Where transactions are conducted between arm's length parties, this concern is generally not present.

126. The existence of related party transactions is important to investors irrespective of the reported dollar values of the transactions because the transactions may be controlled, manipulated and/or concealed by management (for example, for corporate purposes or because fraudulent activity is involved), and because such transactions may be used to benefit management or persons close to management at the expense of the company, and therefore its shareholders.

(ii) *Sino fails to disclose that Zhonggan was a Related Party*

127. Irrespective of the true extent of Zhonggan's transactions in Jiangxi forestry plantations, Sino failed to disclose, in violation of GAAP, that Zhonggan was a related party of Sino. More particularly, according to AIC records, the legal representative of Zhonggan is Lam Hong Chiu, who is an executive vice president of Sino. Lam Hong Chiu is also a director and a 50%

shareholder of China Square Industrial Limited, a BVI corporation which, according to AIC records, owns 80% of the equity of Zhonggan.

128. The Impugned Documents that omitted that disclosure were the Q2 2009 MD&A, the Q2 2009 interim financial statements, the Q3 2009 MD&A, the Q3 2009 interim financial statements, the December 2009 Prospectus, the 2009 Annual MD&A, the 2009 Audited Annual Financial Statements, the 2009 AIF, the Q1 2010 MD&A, the Q1 2010 interim financial statements, the Q2 2010 MD&A, the Q2 2010 interim financial statements, the Q3 2010 MD&A, the Q3 2010 interim financial statements, the 2010 Annual MD&A, the 2010 Audited Annual Financial Statements, and the 2010 AIF.

(iii) Sino fails to disclose that Homix was a Related Party

129. On January 12, 2010, Sino issued a press release in which it announced the acquisition by one of its wholly-owned subsidiaries of Homix Limited ("**Homix**"), which it described as a company engaged in research and development and manufacturing of engineered-wood products in China, for an aggregate amount of US\$7.1 million. That press release stated:

HOMIX has an R&D laboratory and two engineered-wood production operations based in Guangzhou and Jiangsu Provinces, covering eastern and southern China wood product markets. The company has developed a number of new technologies with patent rights, specifically suitable for domestic plantation logs including poplar and eucalyptus species. HOMIX specializes in curing, drying and dyeing methods for engineered wood and has the know-how to produce recomposed wood products and laminated veneer lumber. Recomposed wood technology is considered to be environment-friendly and versatile as it uses fibre from forest plantations, recycled wood and/or wood residue. This reduces the traditional use of large-diameter trees from natural forests. There is growing demand for recomposed wood technology as it reduces cost for raw material while increases the utilization and sustainable use of plantation fibre for the production of furniture and interior/exterior building materials.

[...]

Mr. Allen Chan, Sino-Forest's Chairman & CEO, said, "As we continue to ramp up our replanting programme with improved eucalyptus species, it is important for Sino-Forest to continue investing in the research and development that maximizes all aspects of the

forest product supply chain. Modernization and improved productivity of the wood processing industry in China is also necessary given the country's chronic wood fibre deficit. Increased use of technology improves operation efficiency, and maximizes and broadens the use of domestic plantation wood, which reduces the need for logging domestic natural forests and for importing logs from strained tropical forests. HOMIX has significant technological capabilities in engineered-wood processing."

Mr. Chan added, "By acquiring HOMIX, we intend to use six-year eucalyptus fibre instead of 30-year tree fibre from other species to produce quality lumber using recomposed technology. We believe that this will help preserve natural forests as well as improve the demand for and pricing of our planted eucalyptus trees."

130. Sino's 2009 Audited Annual Financial Statements, Q1/2010 Unaudited Interim Financial Statements, 2010 Audited Annual Financial Statements, the MD&As related to each of the aforementioned financial statements, and Sino's AIFs for 2009 and 2010, each discussed the acquisition of Homix, but nowhere disclosed that Homix was in fact a related party of Sino.

131. More particularly, Hua Chen, a Senior Vice President, Administration & Finance, of Sino in the PRC, and who joined Sino in 2002, is a 30% shareholder of an operating subsidiary of Homix, Jiangsu Dayang Wood Co., Ltd. ("Jiangsu")

132. In order to persuade current and prospective Sino shareholders that there was a commercial justification for the Homix acquisition, Sino misrepresented Homix's patent designs registered with the PRC State Intellectual Property Office. In particular, in its 2009 Annual Report, Sino stated:

HOMIX acquisition

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

variety of downstream customers and enhancing economic rural development. [Emphasis added]

133. However, Homix itself then had no patent designs registered with the PRC State Intellectual Property Office. At that time, Homix had two subsidiaries, Jiangsu and Guangzhou Pany Dacheng Wood Co. The latter then had no patent designs registered with the PRC State Intellectual Property Office, while Jiangsu had two patent designs. However, each such design was for wood dyeing, and not for the conversion of small-diameter plantation logs into building materials and furniture.

(iv) Sino fails to disclose that Yunnan Shunxuan was a Related Party

134. In addition, during the Class Period, Sino purportedly purchased approximately 1,600 hectares of timber in Yunnan province from Yunnan Shunxuan Forestry Co. Ltd. Yunnan Shunxuan was part of Sino, acting under a separate label. Accordingly, it was considered a related party for the purposes of the GAAP disclosure requirements, a fact that Sino failed to disclose.

135. The Impugned Documents that omitted that disclosure were the 2009 Annual MD&A, the 2009 Audited Annual Financial Statements, the 2009 AIF, the Q1 2010 MD&A, the Q1 2010 interim financial statements, the Q2 2010 MD&A, the Q2 2010 interim financial statements, the Q3 2010 MD&A, the Q3 2010 interim financial statements, the 2010 Annual MD&A, the 2010 Audited Annual Financial Statements, and the 2010 AIF.

136. Sino's failure to disclose that Yunnan Shunxuan was a related party was a violation of GAAP, and a misrepresentation.

(v) Sino fails to disclose that Yuda Wood was a Related Party

137. Huaihua City Yuda Wood Co. Ltd., based in Huaihua City, Hunan Province ("Yuda Wood"), was a major supplier of Sino at material times. Yuda Wood was founded in April 2006

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and, from 2007 until 2010, its business with Sino totalled approximately 152,164 Ha and RMB 4.94 billion.

138. During that period, Yuda Wood was a related party of Sino. Indeed, in the Second Report, the IC acknowledged that *“there is evidence suggesting close cooperation [between Sino and Yuda Wood] (including administrative assistance, possible payment of capital at the time of establishment, joint control of certain of Yuda Wood’s RMB bank accounts and the numerous emails indicating coordination of funding and other business activities)”* [emphasis added.]

139. The fact that Yuda Wood was a related party of Sino during the Class Period was a material fact and was required to be disclosed under GAAP, but, during the Class Period, that fact was not disclosed by Sino in any of the Impugned Documents, or otherwise.

(vi) Sino fails to Disclose that Major Suppliers were Related Parties

140. At material times, Sino had at least thirteen suppliers where former Sino employees, consultants or secondees are or were directors, officers and/or shareholders of one or more such suppliers. Due to these and other connections between these suppliers and Sino, some or all of such suppliers were in fact undisclosed related parties of Sino.

141. Including Yuda Wood, the thirteen suppliers referenced above accounted for 43% of Sino’s purported plantation purchases between 2006 and the first quarter of 2011.

142. In none of the Impugned Documents did Sino disclose that any of these suppliers were related parties, nor did it disclose sufficient particulars of its relations with such suppliers as would have enabled the investing public to ascertain that those suppliers were related parties.

D. *Misrepresentations relating to Sino's Relations with Forestry Bureaus and its Purported Title to Forestry Assets in the PRC*

143. In at least two instances during the Class Period, PRC forestry bureau officials were either concurrently or subsequently employees of, or consultants to, Sino. One forestry bureau assigned employees to Sino and other companies to assist in the development of the forestry industry in its jurisdiction.

144. In addition, a vice-chief of the forestry bureau was assigned to work closely with Sino, and while that vice chief still drew a basic salary from the forestry bureau, he also acted as a consultant to Sino in the conduct of Sino's business. This arrangement was in place for several years. That vice-chief appeared on Sino's payroll from January 2007 with a monthly payment of RMB 15,000, which was significant compared with his forestry bureau salary.

145. In addition, at material times, Sino and/or its subsidiaries and/or its suppliers made cash payments and gave "gifts" to forestry bureau officials, which potentially constituted a serious criminal offence under the laws of the PRC. At least some of these payments and gifts were made or given in order to induce the recipients to issue "confirmation letters" in relation to Sino's purported holdings in the PRC of standing timber. These practices utterly compromised the integrity of the process whereby those "confirmation letters" were obtained.

146. Further, a chief of a forestry bureau who had authorized the issuance of confirmations to Sino was arrested due to corruption charges. That forestry bureau had issued confirmations only to Sino and to no other companies. Subsequent to the termination of that forestry bureau chief, that forestry bureau did not issue confirmations to any company.

147. The foregoing facts were material because: (1) they undermined the reliability (if any) of the documentation upon which Sino relied and continues to rely to establish its ownership of

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standing timber; and (2) the corruption in which Sino was engaged exposed Sino to potential criminal penalties, including substantial fines, as well as a risk of severe reputational damage in Sino's most important market, the PRC.

148. However, none of these facts was disclosed in any of the Impugned Documents. On the contrary, Sino only made the following disclosure regarding former government officials in its 2007 Annual Report (and in no other Impugned Document), which was materially incomplete, and a misrepresentation:

To ensure successful growth, we have trained and promoted staff from within our organization, and hired knowledgeable people with relevant working experience and industry expertise – some joined us from forestry bureaus in various regions and provinces and/or state-owned tree farms. [...] 4. Based in Heyuan, Guangdong, Deputy GM responsible for Heyuan plantations, previously with forestry bureau; studied at Yangdongxian Dangxiao [Mr. Liang] 5. Based in Hunan, Plantation controller, graduated from Hunan Agricultural University, previously Assistant Manager of state-owned farm trees in Hunan [Mr. Xie].

149. In respect of Sino's purported title to standing timber in the PRC, Sino possessed Plantation Rights Certificates, or registered title, only in respect of 18% of its purported holdings of standing timber as at December 31, 2010, a fact nowhere disclosed by Sino during the Class Period. This fact was highly material to Sino, inasmuch as standing timber comprised a large proportion of Sino's assets throughout the Class Period, and in the absence of Plantation Rights Certificates, Sino could not establish its title to that standing timber.

150. Rather than disclose this highly material fact, Sino made the following misrepresentations in the following Impugned Documents:

- (a) In the 2008 AIF: *"We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased tree plantations and planted tree plantations currently under our management, and we are in the process of applying for the plantation rights*

certificates for those plantations for which we have not obtained such certificates” [emphasis added];

- (b) In the 2009 AIF: “*We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased plantations and planted plantations currently under our management*, and we are in the process of applying for the plantation rights certificates for those plantations for which we have not obtained such certificates” [emphasis added]; and
- (c) In the 2010 AIF: “*We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased plantations and planted plantations currently under our management*, and we are in the process of applying for the plantation rights certificates for those plantations for which we have not obtained such certificates” [emphasis added].

151. In the absence of Plantation Rights Certificates, Sino relies principally on the purchase contracts entered into by its BVI subsidiaries (“BVIs”) in order to demonstrate its ownership of standing timber.

152. However, under PRC law, those contracts are void and unenforceable.

153. In the alternative, if those contracts are valid and enforceable, they are enforceable only as against the counterparties through which Sino purported to acquire the standing timber, and not against the party who has registered title (if any) to the standing timber. Because some or all of those counterparties were or became insolvent, corporate shells or thinly capitalized, then any claims that Sino would have against those counterparties under PRC law, whether for unjust enrichment or otherwise, were of little to no value, and certainly constituted no substitute for registered title to the standing timber which Sino purported to own.

154. Sino never disclosed these material facts during the Class Period, whether in the Impugned Documents or otherwise. On the contrary, Sino made the following misrepresentations in relation to its purported title to standing timber:

- (a) In the July 2008 Offering Memorandum, Sino stated “Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations”;
- (b) In the June 2009 Offering Memorandum, Sino stated “Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations”;
- (c) In the October 2010 Offering Memorandum, Sino stated “Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations”;
- (d) In the 2006 AIF, Sino stated “Based on the supplemental purchase contracts and the plantation rights certificates issued by the relevant forestry departments, we have the legal right to own our purchased tree plantations”;
- (e) In the 2007 AIF, Sino stated “Based on the relevant purchase contracts and the approvals issued by the relevant forestry departments, we have the legal right to own our purchased tree plantations”;
- (f) In the 2008 AIF, Sino stated “Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased tree plantations”;

- (g) In the 2009 AIF, Sino stated “Based on the relevant purchase contracts and the approvals issued by the local forestry bureaus, we legally own our purchased plantations”;
- (h) In the December 2009 Offering Memorandum, Sino stated “Based on the relevant purchase contracts and the approvals issued by the local forestry bureaus, we legally own our purchased plantations”; and
- (i) In the 2010 AIF, Sino stated “Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations.”

155. In addition, during the Class Period, Sino never disclosed the material fact, belatedly revealed in the Second Report, that *“in practice it is not able to obtain Plantation Rights Certificates for standing timber purchases when no land transfer rights are transferred”* [emphasis added].

156. On the contrary, during the Class Period, Sino made the following misrepresentation in each of the 2006 and 2007 AIFs:

Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership rights and its system of issuing certificates to the persons having plantation land use rights, to owners owning the plantation trees and to owners of the plantation land. In April 2000, the PRC State Forestry Bureau announced the “Notice on the Implementation of Nationwide Uniform Plantation Right Certificates” (Lin Zi Fa [2000] No. 159) on April 19, 2000 (the “Notice”). Under the Notice, a new uniform form of plantation rights certificate is to be used commencing from the date of the Notice. *The same type of new form plantation rights certificate will be issued to the persons having the right to use the plantation land, to persons who own the plantation land and plantation trees, and to persons having the right to use plantation trees.*

[Emphasis added]

157. Under PRC law, county and provincial forestry bureaus have no authority to issue confirmation letters. Such letters cannot be relied upon in a court of law to resolve a dispute and are not a guarantee of title. Notwithstanding this, during the Class Period, Sino made the following misrepresentations:

- (a) In the 2006 AIF: “In addition, for the purchased tree plantations, *we have obtained confirmations from the relevant forestry bureaus that we have the legal right to own the purchased tree plantations for which we have not received certificates*” [emphasis added]; and
- (b) In the 2007 AIF: “For our Purchased Tree Plantations, we have applied for the relevant Plantation Rights Certificates with the competent local forestry departments. As the relevant locations where we purchased our Purchased Tree Plantations have not fully implemented the new form Plantation Rights Certificate, we are not able to obtain all the corresponding Plantation Rights Certificates for our Purchased Tree Plantations. *In this connection, we obtained confirmation on our ownership of our Purchased Tree Plantations from the relevant forestry departments.*” [emphasis added]

E. Misrepresentations relating to Sino's Relationships with its AIs

158. In addition to the misrepresentations alleged above in relation to Sino's AIs, including those alleged in Section VI.C hereof (*Misrepresentations relating to Sino's Related Party Transactions*), Sino made the following misrepresentations during the Class Period in relation to its relationships with its AIs.

(i) Sino Misrepresents the Degree of its Reliance on its AIs

159. On March 30, 2007, Sino issued and filed on SEDAR its 2006 AIF. In that AIF, Sino stated:

...PRC laws and regulations require foreign companies to obtain licenses to engage in any business activities in the PRC. As a result of these requirements, we currently engage in our trading activities through PRC authorized intermediaries that have the requisite business licenses. There is no assurance that the PRC government will not take action to restrict our ability to engage in trading activities through our authorized intermediaries. *In order to reduce our reliance on the authorized intermediaries, we intend to use a WFOE in the PRC to enter into contracts directly with suppliers of raw timber, and then process the raw timber, or engage others to process raw timber on its behalf, and sell logs, wood chips and wood-based products to customers, although it would not be able to engage in pure trading activities.*

[Emphasis added.]

160. In its 2007 AIF, which Sino filed on March 28, 2008, Sino again declared its intention to reduce its reliance upon AIs.

161. These statements were false and/or materially misleading when made, inasmuch as Sino had no intention to reduce materially its reliance on AIs, because its AIs were critical to Sino's ability to inflate its revenue and net income. Rather, these statements had the effect of mitigating any investor concern arising from Sino's extensive reliance upon AIs.

162. Throughout the Class Period, Sino continued to depend heavily upon AIs for its purported sales of standing timber. In fact, contrary to Sino's purported intention to reduce its reliance on its AIs, Sino's reliance on its AIs in fact *increased* during the Class Period.

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(ii) *Sino Misrepresents the Tax-related Risks Arising from its use of AIs*

163. Throughout the Class Period, Sino materially understated the tax-related risks arising from its use of AIs.

164. Tax evasion penalties in the PRC are severe. Depending on whether the PRC authorities seek recovery of unpaid taxes by means of a civil or criminal proceeding, its claims for unpaid tax are subject to either a five- or ten-year limitation period. The unintentional failure to pay taxes is subject to a 0.05% per day interest penalty, while an intentional failure to pay taxes is punishable with fines of up to five times the unpaid taxes, and confiscation of part or all of the criminal's personal properties maybe also imposed.

165. Therefore, because Sino professed to be unable to determine whether its AIs have paid required taxes, the tax-related risks arising from Sino's use of AIs were potentially devastating. Sino failed, however, to disclose these aspects of the PRC tax regime in its Class Period disclosure documents, as alleged more particularly below.

166. Based upon Sino's reported results, Sino's tax accruals in all of its Impugned Documents that were interim and annual financial statements were materially deficient. For example, depending on whether the PRC tax authorities would assess interest at the rate of 18.75% per annum, or would assess no interest, on the unpaid income taxes of Sino's BVI subsidiaries, and depending also on whether one assumes that Sino's AIs have paid no income taxes or have paid 50% of the income taxes due to the PRC, then Sino's tax accruals in its 2007, 2008, 2009 and 2010 Audited Annual Financial Statements were understated by, respectively, US\$10 million to US\$150 million, US\$50 million to US\$260 million, US\$81 million to US\$371 million, and US\$83 million to US\$493 million. Importantly, were one to consider the impact of unpaid taxes other than unpaid income taxes (for example, unpaid value-added taxes), then the amounts by

which Sino's tax accruals were understated in these financial statements would be substantially larger.

167. The aforementioned estimates of the amounts by which Sino's tax accruals were understated also assume that the PRC tax authorities only impose interest charges on Sino's BVI Subsidiaries and impose no other penalties for unpaid taxes, and assume further that the PRC authorities seek back taxes only for the preceding five years. As indicated above, each of these assumptions is likely to be unduly optimistic. In any case, Sino's inadequate tax accruals violated GAAP, and constituted misrepresentations.

168. Sino also violated GAAP in its 2009 Audited Annual Financial Statements by failing to apply to its 2009 financial results the PRC tax guidance that was issued in February 2010. Although that guidance was issued after year-end 2009, GAAP required that Sino apply that guidance to its 2009 financial results, because that guidance was issued in the subsequent events period.

169. Based upon Sino's reported profit margins on its dealings with AIs, which margins are extraordinary both in relation to the profit margins of Sino's peers, and in relation to the limited risks that Sino purports to assume in its transactions with its AIs, Sino's AIs are not satisfying their tax obligations, a fact that was either known to the Defendants or ought to have been known. If Sino's extraordinary profit margins are real, then Sino and its AIs must be dividing the gains from non-payment of taxes to the PRC.

170. During the Class Period, Sino never disclosed the true nature of the tax-related risks to which it was exposed. This omission, in violation of GAAP, rendered each of the following statements a misrepresentation:

- (a) In the 2006 Annual Financial Statements, note 11 [b] "Provision for tax related liabilities" and associated text;
- (b) In the 2006 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;
- (c) In the AIF dated March 30, 2007, the section "Estimation of the Company's provision for income and related taxes," and associated text;
- (d) In the Q1 and Q2 2007 Financial Statements, note 5 "Provision for Tax Related Liabilities," and associated text;
- (e) In the Q3 2007 Financial Statements, note 6 "Provision for Tax Related Liabilities," and associated text;
- (f) In the 2007 Annual Financial Statements, note 13 [b] "Provision for tax related liabilities," and associated text;
- (g) In the 2007 Annual MD&A and Amended 2007 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;
- (h) In the AIF dated March 28, 2008, the section "Estimation of the Corporation's provision for income and related taxes," and associated text;
- (i) In the Q1, Q2 and Q3 2008 Financial Statements, note 12 "Provision for Tax Related Liabilities," and associated text;
- (j) In the Q1, Q2 and Q3 2008 MD&As, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;
- (k) In the July 2008 Offering Memorandum, the subsection "Taxation" in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations," and associated text;

- (l) In the 2008 Annual Financial Statements, note 13 [d] "Provision for tax related liabilities," and associated text;
- (m) In the 2008 Annual MD&A and Amended 2008 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;
- (n) In the AIF dated March 31, 2009, the section "We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts we have estimated and for which we have provisioned," and associated text;
- (o) In the Q1, Q2 and Q3 2009 Financial Statements, note 13 "Provision for Tax Related Liabilities," and associated text;
- (p) In the Q1, Q2 and Q3 2009 MD&As, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;
- (q) In the 2009 Annual Financial Statements, note 15 [d] "Provision for tax related liabilities," and associated text;
- (r) In the 2009 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;
- (s) In the AIF dated March 31, 2010, the section "We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts we have estimated and for which we have provisioned," and associated text;
- (t) In the Q1 and Q2 2010 Financial Statements, note 14 "Provision for Tax Related Liabilities," and associated text;
- (u) In the Q1 and Q2 2010 MD&As, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;

- (v) In the Q3 2010 Financial Statements, note 14 "Provision and Contingencies for Tax Related Liabilities," and associated text; and
- (w) In the Q3 2010 MD&As, the subsection "Provision and Contingencies for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;
- (x) In the October 2010 Offering Memorandum, the subsection "Taxation" in the section "Selected Financial Information," and associated text;
- (y) In the 2010 Annual Financial Statements, note 18 "Provision and Contingencies for Tax Related Liabilities," and associated text;
- (z) In the 2010 Annual MD&A, the subsection "Provision and Contingencies for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text; and
- (aa) In the AIF dated March 31, 2011, the section "We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts we have estimated and for which we have provisioned," and associated text.

171. In every Impugned Document that is a financial statement, the line item "Accounts payable and accrued liabilities" and associated figures on the Consolidated Balance Sheets fails to properly account for Sino's tax accruals and is a misrepresentation, and a violation of GAAP.

172. During the Class Period, Sino also failed to disclose in any of the Impugned Documents that were AIFs, MD&As, financial statements, Prospectuses or Offering Memoranda, the risks relating to the repatriation of its earnings from the PRC. In 2010, Sino added two new sections to its AIF regarding the risk that it would not be able to repatriate earnings from its BVI subsidiaries (which deal with the AIs). The amount of retained earnings that may not be able to be repatriated is stated therein to be US\$1.4 billion. Notwithstanding this disclosure, Sino did not

disclose in these Impugned Documents that it would be unable to repatriate *any* earnings absent proof of payment of PRC taxes, which it has admitted that it lacks.

(iii) *Sino Misrepresents its Accounting Treatment of its AIs*

173. In addition, there are material discrepancies in Sino's descriptions of its accounting treatment of its AIs. Beginning in the 2003 AIF, Sino described its AIs as follows:

Because of the provisions in the Operational Procedures that specify when we and the authorized intermediary assume the risks and obligations relating to the raw timber or wood chips, as the case may be, we treat these transactions for accounting purposes as providing that we take title to the raw timber when it is delivered to the authorized intermediary. Title then passes to the authorized intermediary once the timber is processed into wood chips. *Accordingly, we treat the authorized intermediaries for accounting purposes as being both our suppliers and customers in these transactions.*

[Emphasis added.]

174. Sino's disclosures were consistent in that regard up to and including Sino's first AIF issued in the Class Period (the 2006 AIF), which states:

Because of the provisions in the Operational Procedures that specify when we and the AI assume the risks and obligations relating to the raw timber or wood chips, as the case may be, we treat these transactions for accounting purposes as providing that we take title to the raw timber when it is delivered to the AI. Title then passes to the AI once the timber is processed into wood chips. *Accordingly, we treat the AI for accounting purposes as being both our supplier and customer in these transactions.*

[Emphasis added.]

175. In subsequent AIFs, Sino ceased without explanation to disclose whether it treated AIs for accounting purposes as being both the supplier and the customer.

176. Following the issuance of Muddy Waters' report on the last day of the Class Period, however, Sino declared publicly that Muddy Waters was "wrong" in its assertion that, for accounting purposes, Sino treated its AIs as being both supplier and customer in transactions. This claim by Sino implies either that Sino misrepresented its accounting treatment of AIs in its

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2006 AIF (and in its AIFs for prior years), or that Sino changed its accounting treatment of its AIs after the issuance of its 2006 AIF. If the latter is true, then Sino was obliged by GAAP to disclose its change in its accounting treatment of its AIs. It failed to do so.

F. *Misrepresentations relating to Sino's Cash Flow Statements*

177. Given the nature of Sino's operations, that of a frequent trader of standing timber, Sino improperly accounted for its purchases of timber assets as "Investments" in its Consolidated Statements Of Cash Flow. In fact, such purchases are "Inventory" within the meaning of GAAP, given the nature of Sino's business.

178. Additionally, Sino violated the GAAP 'matching' principle in treating timber asset purchases as "Investments" and the sale of timber assets as "Inventory": cash flow that came into the company was treated as cash flow from operations, but cash flow that was spent by Sino was treated as cash flow for investments. As a result, "Additions to timber holding" was improperly treated as a "Cash Flows Used In Investing Activities" instead of "Cash Flows From Operating Activities" and the item "Depletion of timber holdings included in cost of sales" should not be included in "Cash Flows From Operating Activities," because it is not a cash item.

179. The effect of these misstatements is that Sino's Cash Flows From Operating Activities were materially overstated throughout the Class Period, which created the impression that Sino was a far more successful cash generator than it was. Such mismatching and misclassification is a violation of GAAP.

180. Cash Flows From Operating Activities are one of the crucial metrics used by the financial analysts who followed Sino's performance. These misstatements were designed to, and did, have the effect of causing such analysts to materially overstate the value of Sino. This material

overstatement was incorporated into various research reports made available to the Class Members, the market and the public at large.

181. Matching is a foundational requirement of GAAP reporting. E&Y and BDO were aware, at all material times, that Sino was required to adhere to the matching principle. If E&Y and BDO had conducted GAAS-complaint audits, they would have been aware that Sino's reporting was not GAAP compliant with regard to the matching principle. Accordingly, if they had conducted GAAS-compliant audits, the statements by E&Y and BDO that Sino's reporting was GAAP-compliant were not only false, but were made, at a minimum, recklessly.

182. Further, at all material times, E&Y and BDO were aware that misstatements in Cash Flows From Operating Activities would materially impact the market's valuation of Sino.

183. Accordingly, in every Impugned Document that is a financial statement, the Consolidated Statements Of Cash Flow are a misrepresentation and, particularly, the Cash Flows From Operating Activities item and associated figures is materially overstated, the "additions to timber holdings" item and figures is required to be listed as Cash Flows From Operating Activities, and the "depletion of timber holdings included in cost of sales" item and figures should not have been included.

G. Misrepresentations relating to Certain Risks to which Sino was exposed

(i) Sino is conducting "business activities" in China

184. At material times, PRC law required foreign entities engaging in "business activities" in the PRC to register to obtain and maintain a license. Violation of this requirement could have resulted in both administrative sanctions and criminal punishment, including banning the unlicensed business activities, confiscating illegal income and properties used exclusively therefor, and/or an administrative fines of no more than RMB 500,000. Possible criminal punishment included a criminal fine from 1 to 5 times the amount of the profits gained.

185. Consequently, were Sino's BVI subsidiaries to have been engaged in unlicensed in "business activities" in the PRC during the Class Period, they would have been exposed to risks that were highly material to Sino.

186. Under PRC law, the term "business activities" generally encompasses any for-profit activities, and Sino's BVI subsidiaries were in fact engaged in unlicensed "business activities" in the PRC during the Class Period. However, Sino did not disclose this fact in any of the Impugned Documents, including in its AIFs for 2008-2010, which purported to make full disclosure of the material risks to which Sino was then exposed.

(ii) Sino fails to disclose that no proceeds were paid to it by its AIs

187. In the Second Report, Sino belatedly revealed that:

In practice, proceeds from the Entrusted Sale Agreements are not paid to SF but are held by the AIs as instructed by SF and subsequently used to pay for further purchases of standing timber by the same or other BVIs. The AIs will continue to hold these proceeds until the Company instructs the AIs to use these proceeds to pay for new BVI standing timber purchases. *No proceeds are directly paid to the Company, either onshore or offshore.*

[Emphasis added]

188. This material fact was never disclosed in any of the Impugned Documents during the Class Period. On the contrary, Sino made the following statements during the Class Period in relation to the proceeds paid to it by its AIs, each of which was materially misleading and therefore a misrepresentation:

- (a) In the 2005 financial statements, Sino stated: "As a result, *the majority* of the accounts receivable arising from sales of wood chips and standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other PRC liabilities" [emphasis added];
- (b) In the 2006 Annual MD&A, the subsection "Provision for Tax Related Liabilities" in the section "Critical Accounting Estimates," and associated text;
- (c) In the 2006 financial statements, Sino stated: "As a result, *the majority* of the accounts receivable arising from sales of wood chips and standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi" [emphasis added];
- (d) In the 2007 financial statements, Sino stated: "As a result, *the majority* of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi;"
- (e) In the 2008 financial statements, Sino stated: "As a result, *the majority* of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi" [emphasis added];
- (f) In the 2009 financial statements, Sino stated: "As a result, *the majority* of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi" [emphasis added]; and

- (g) In the 2010 financial statements, Sino stated: "As a result, *the majority* of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi" [emphasis added].

H. *Misrepresentations relating to Sino's GAAP Compliance and the Auditors' GAAS Compliance*

(i) Sino, Chan and Horsley misrepresent that Sino complied with GAAP

189. In each of its Class Period financial statements, Sino represented that its financial reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein.

190. In particular, Sino misrepresented in those financial statements that it was GAAP-compliant as follows:

- (a) In the annual statements filed on March 19, 2007, at Note 1: "These consolidated financial statements Sino-Forest Corporation (the "Company") have been prepared in United States dollars in accordance with Canadian generally accepted accounting principles";
- (b) In the annual financial statements filed on March 18, 2008, at Note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles";
- (c) In the annual financial statements filed on March 16, 2009, at note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles";

- (d) In the annual financial statements filed on March 16, 2010, at note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles"; and
- (e) In the annual financial statements filed on March 15, 2011, at note 1: "The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles".

191. In each of its Class Period MD&As, Sino represented that its reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein.

192. In particular, Sino misrepresented in those MD&As that it was GAAP-compliant as follows:

- (a) In the annual MD&A filed on March 19, 2007: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";
- (b) In the quarterly MD&A filed on May 14, 2007: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";
- (c) In the quarterly MD&A filed on August 13, 2007: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";
- (d) In the quarterly MD&A filed on November 12, 2007: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";

- (e) In the annual MD&A filed on March 18, 2008: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";
- (f) In the amended annual MD&A filed on March 28, 2008: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";
- (g) In the quarterly MD&A filed on May 13, 2008: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";
- (h) In the quarterly MD&A filed on August 12, 2008: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";
- (i) In the quarterly MD&A filed on November 13, 2008: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP")";
- (j) In the annual MD&A filed on March 16, 2009: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";
- (k) In the amended annual MD&A filed on March 17, 2009: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";
- (l) In the quarterly MD&A filed on May 11, 2009: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";
- (m) In the quarterly MD&A filed on August 10, 2009: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP)";

- (n) In the quarterly MD&A filed on November 12, 2009: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP");
- (o) In the annual MD&A files on March 16, 2010: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP");
- (p) In the quarterly MD&A filed on May 12, 2010: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP");
- (q) In the quarterly MD&A filed on August 10, 2010: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP");
- (r) In the quarterly MD&A filed on November 10, 2010: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP"); and
- (s) In the annual MD&A filed on March 15, 2011: "Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian Generally Accepted Accounting Principles ("GAAP")."

193. In the Offerings, Sino represented that its reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein.

194. In particular, Sino misrepresented in the Offerings that it was GAAP-compliant as follows:

- (a) In the July 2008 Offering Memorandum: "We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada ("Canadian GAAP")[...]" "Our auditors conduct their audit of our

financial statements in accordance with auditing standards generally accepted in Canada” and “Each of the foregoing reports or financial statements will be prepared in accordance with Canadian generally accepted accounting principles other than for reports prepared for financial periods commencing on or after January 1, 2011 [...]”;

- (b) In the June 2009 Offering Memorandum: “We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada (“Canadian GAAP”)[...],” “Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada,” “The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP,” “Our audited and consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 and our unaudited interim consolidated financial statements for the three-month periods ended March 31, 2008 and 2009 have been prepared in accordance with Canadian GAAP”;
- (c) In the June 2009 Offering Memorandum: “We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada (“Canadian GAAP”)[...],” “Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada” and “The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP”; and
- (d) In the October 2010 Offering Memorandum: “We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada (“Canadian GAAP”)[...],” “Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada,” “The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP,” “Our audited and consolidated financial statements for the years ended December 31, 2007, 2008 and 2009 and our unaudited interim consolidated financial statements for the six-

month periods ended June 30, 2009 and 2010 have been prepared in accordance with Canadian GAAP.”

195. In the Class Period Management’s Reports, Chan and Horsley represented that Sino’s reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein.

196. In particular, Chan and Horsley misrepresented in those Management’s Reports that Sino’s financial statements were GAAP-compliant as follows:

- (a) In the annual statements filed on March 19, 2007 Chan and Horsley stated: “The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles”;
- (b) In the annual financial statements filed on March 18, 2008 Chan and Horsley stated: “The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles”;
- (c) In the annual financial statements filed on March 16, 2009 Chan and Horsley stated: “The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles”;
- (d) In the annual financial statements filed on March 16, 2010 Chan and Horsley stated: “The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles”; and
- (e) In the annual financial statements filed on March 15, 2011 Chan and Horsley stated: “The consolidated financial statements contained in this Annual Report

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have been prepared by management in accordance with Canadian generally accepted accounting principles.”

(ii) *E&Y and BDO misrepresent that Sino complied with GAAP and that they complied with GAAS*

197. In each of Sino’s Class Period annual financial statements, E&Y or BDO, as the case may be, represented that Sino’s reporting was GAAP-compliant, which was a misrepresentation for the reasons set out elsewhere herein. In addition, in each such annual financial statement, E&Y and BDO, as the case may be, represented that they had conducted their audit in compliance with GAAS, which was a misrepresentation because they did not in fact conduct their audits in accordance with GAAS.

198. In particular, E&Y and BDO misrepresented that Sino’s financial statements were GAAP-compliant and that they had conducted their audits in compliance with GAAS as follows:

- (a) In Sino’s annual financial statements filed on March 19, 2007, BDO stated: “We conducted our audit in accordance with Canadian generally accepted auditing standards” and “In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles”;
- (b) In the June 2007 Prospectus, BDO stated: “We have complied with Canadian generally accepted standards for an auditor’s involvement with offering documents”;
- (c) In Sino’s annual financial statements filed on March 18, 2008, E&Y stated: “We conducted our audit in accordance with Canadian generally accepted auditing standards” and “In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at

December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. The financial statements as at December 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 19, 2007”;

- (d) In the July 2008 Offering Memorandum, BDO stated: “We conducted our audit in accordance with Canadian generally accepted auditing standards” and “In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles” and E&Y stated “We conducted our audit in accordance with Canadian generally accepted auditing standards” and “In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles”;
- (e) In Sino’s annual financial statements filed on March 16, 2009, E&Y stated: “We conducted our audits in accordance with Canadian generally accepted auditing standards” and “In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles”;
- (f) In Sino’s annual financial statements filed on March 16, 2010, E&Y stated: “We conducted our audits in accordance with Canadian generally accepted auditing standards” and “In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows

for the years then ended in accordance with Canadian generally accepted accounting principles"; and

- (g) In Sino's annual financial statements filed on March 15, 2011, E&Y stated: "We conducted our audits in accordance with Canadian generally accepted auditing standards." and "In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sino-Forest corporation as at December 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles."

(iii) *The Market Relied on Sino's Purported GAAP-compliance and E&Y's and BDO's purported GAAS-compliance in Sino's Financial Reporting*

199. As a public company, Sino communicated the results it claimed to have achieved to the Class Members via quarterly and annual financial results, among other disclosure documents. Sino's auditors, E&Y and BDO, as the case may be, were instrumental in the communication of Sino's financial information to the Class Members. The auditors certified that the financial statements were compliant with GAAP and that they had performed their audits in compliance with GAAS. Neither was true.

200. The Class Members invested in Sino's securities on the critical premise that Sino's financial statements were in fact GAAP-compliant, and that Sino's auditors had in fact conducted their audits in compliance with GAAS. Sino's reported financial results were also followed by analysts at numerous financial institutions. These analysts promptly reported to the market at large when Sino made earnings announcements, and incorporated into their Sino-related analyses and reports Sino's purportedly GAAP-compliant financial results. These analyses and reports, in turn, significantly affected the market price for Sino's securities.

201. The market, including the Class Members, would not have relied on Sino's financial reporting had the auditors disclosed that Sino's financial statements were not reliable or that they had not followed the processes that would have amply revealed that those statements were reliable.

VII. CHAN'S AND HORSLEY'S FALSE CERTIFICATIONS

202. Pursuant to National Instrument 52-109, the defendants Chan, as CEO, and Horsley, as CFO, were required at the material times to certify Sino's annual and quarterly MD&As and Financial Statements as well as the AIFs (and all documents incorporated into the AIFs). Such certifications included statements that the filings "do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made" and that the reports "fairly present in all material respects the financial condition, results of operations and cash flows of the issuer."

203. As particularized elsewhere herein, however, the Impugned Documents contained the Representation, which was false, as well as the other misrepresentations alleged above. Accordingly, the certifications given by Chan and Horsley were false and were themselves misrepresentations. Chan and Horsley made such false certifications knowingly or, at a minimum, recklessly.

VIII. THE TRUTH IS REVEALED

204. On June 2, 2011, Muddy Waters issued its initial report on Sino, and stated in part therein:

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Sino-Forest Corp (TSE: TRE) is the granddaddy of China RTO frauds. It has always been a fraud – reporting excellent results from one of its early joint ventures – even though, because of TRE's default on its investment obligations, the JV never went into operation. TRE just lied.

The foundation of TRE's fraud is a convoluted structure whereby it claims to run most of its revenues through "authorized intermediaries" ("AI"). AIs are supposedly timber trader customers who purportedly pay much of TRE's value added and income taxes. At the same time, these AIs allow TRE a gross margin of 55% on standing timber merely for TRE having speculated on trees.

The sole purpose of this structure is to fabricate sales transactions while having an excuse for not having the VAT invoices that are the mainstay of China audit work. If TRE really were processing over one billion dollars in sales through AIs, TRE and the AIs would be in serious legal trouble. No legitimate public company would take such risks – particularly because this structure has zero upside.

[...]

On the other side of the books, TRE massively exaggerates its assets. TRE significantly falsifies its investments in plantation fiber (trees). It purports to have purchased \$2.891 billion in standing timber under master agreements since 2006
[...]

[...]

Valuation

Because TRE has \$2.1 billion in debt outstanding, which we believe exceeds the potential recovery, we value its equity at less than \$1.00 per share.

205. Muddy Waters' report also disclosed that (a) Sino's business is a fraudulent scheme; (b) Sino systemically overstated the value of its assets; (c) Sino failed to disclose various related party transactions; (d) Sino misstated that it had enforced high standards of governance; (e) Sino misstated that its reliance on the AIs had decreased; (f) Sino misrepresented the tax risk associated with the use of AIs; and (g) Sino failed to disclose the risks relating to repatriation of earnings from PRC.

206. After Muddy Waters' initial report became public, Sino shares fell to \$14.46, at which point trading was halted (a decline of 20.6% from the pre-disclosure close of \$18.21). When

trading was allowed to resume the next day, Sino's shares fell to a close of \$5.23 (a decline of 71.3% from June 1).

207. On November 13, 2011 Sino released the Second Report in redacted form. Therein, the Committee summarized its findings:

B. Overview of Principal Findings

The following sets out a very high level overview of the IC's principal findings and should be read in conjunction with the balance of this report.

Timber Ownership

[...]

The Company does not obtain registered title to BVI purchased plantations. In the case of the BVIs' plantations, the IC has visited forestry bureaus, Suppliers and AIs to seek independent evidence to establish a chain of title or payment transactions to verify such acquisitions. The purchase contracts, set-off arrangement documentation and forestry bureau confirmations constitute the documentary evidence as to the Company's contractual or other rights. ***The IC has been advised that the Company's rights to such plantations could be open to challenge. However, Management has advised that, to date, it is unaware of any such challenges that have not been resolved*** with the Suppliers in a manner satisfactory to the Company.

Forestry Bureau Confirmations and Plantation Rights Certificates

Registered title, through Plantation Rights Certificates is not available in the jurisdictions (i.e. cities and counties) examined by the IC Advisors for standing timber that is held without land use/lease rights. ***Therefore the Company was not able to obtain Plantation Rights Certificates for its BVIs standing timber assets in those areas.*** In these circumstances, the Company sought confirmations from the relevant local forestry bureau acknowledging its rights to the standing timber.

The IC Advisors reviewed forestry bureau confirmations for virtually all BVIs assets and non-Mandra WFOE purchased plantations held as at December 31, 2010. The IC Advisors, in meetings organized by Management, met with a sample of forestry bureaus with a view to obtaining verification of the Company's rights to standing timber in those jurisdictions. The result of such meetings to date have concluded with the forestry bureaus or related entities having issued new confirmations as to the Company's contractual rights to the Company in respect of 111,177 Ha. as of December 31, 2010 and 133,040 Ha. as of March 31, 2011, and have acknowledged the issuance of existing confirmations issued to the

Company as to certain rights, among other things, in respect of 113,058 Ha. as of December 31, 2010.

Forestry bureau confirmations are not officially recognized documents and are not issued pursuant to a legislative mandate or, to the knowledge of the IC, a published policy. It appears they were issued at the request of the Company or its Suppliers. The confirmations are not title documents, in the Western sense of that term, although the IC believes they should be viewed as comfort indicating the relevant forestry bureau does not dispute SF's claims to the standing timber to which they relate and might provide comfort in case of disputes. The purchase contracts are the primary evidence of the Company's interest in timber assets.

In the meetings with forestry bureaus, the IC Advisors did not obtain significant insight into the internal authorization or diligence processes undertaken by the forestry bureaus in issuing confirmations and, as reflected elsewhere in this report, the IC did not have visibility into or complete comfort regarding the methods by which those confirmations were obtained. It should be noted that several Suppliers observed that SF was more demanding than other buyers in requiring forestry bureau confirmations.

Book Value of Timber

Based on its review to date, the IC is satisfied that the book value of the BVIs timber assets of \$2.476 billion reflected on its 2010 Financial Statements and of SP WFOE standing timber assets of \$298.6 million reflected in its 2010 Financial Statements reflects the purchase prices for such assets as set out in the BVIs and WFOE standing timber purchase contracts reviewed by the IC Advisors. Further, the purchase prices for such BVIs timber assets have been reconciled to the Company's financial statements based on set-off documentation relating to such contracts that were reviewed by the IC. However, *these comments are also subject to the conclusions set out above under "Timber Ownership" on title and other rights to plantation assets.*

The IC Advisors reviewed documentation acknowledging the execution of the set-off arrangements between Suppliers, the Company and AIs for the 2006-2010 period. *However, the IC Advisors were unable to review any documentation of AIs or Suppliers which independently verified movements of cash in connection with such set-off arrangements between Suppliers, the Company and the AIs used to settle purchase prices paid to Suppliers by AIs on behalf of SF.* We note also that the independent valuation referred to in Part VIII below has not yet been completed.

Revenue Reconciliation

As reported in its First Interim Report, the IC has reconciled reported 2010 total revenue to the sales prices in BVIs timber sales contracts, together with macro customer level data from other businesses. However, *the IC was unable to review any documentation of AIs or Suppliers which independently verified movements*

of cash in connection with set-off arrangements used to settle purchase prices paid, or sale proceeds received by, or on behalf of SF.

Relationships

• Yuda Wood: The IC is satisfied that Mr. Huang Ran is not currently an employee of the Company and that Yuda Wood is not a subsidiary of the Company. However, *there is evidence suggesting close cooperation (including administrative assistance, possible payment of capital at the time of establishment, joint control of certain of Yuda Wood's RMB bank accounts and the numerous emails indicating coordination of funding and other business activities)*. Management has explained these arrangements were mechanisms that allowed the Company to monitor its interest in the timber transactions. Further, *Huang Ran (a Yuda Wood employee) has an ownership and/or directorship in a number of Suppliers* (See Section VI.B). The IC Advisors have been introduced to persons identified as influential backers of Yuda Wood but were unable to determine the relationships, if any, of such persons with Yuda Wood, the Company or other Suppliers or AIs. *Management explanations of a number of Yuda Wood-related emails and answers to E&Y's questions are being reviewed by the IC and may not be capable of independent verification.*

• Other: The IC's review has identified other situations which require further review. *These situations suggest that the Company may have close relationships with certain Suppliers, and certain Suppliers and AIs may have cross-ownership and other relationships with each other.* The IC notes that in the interviews conducted by the IC with selected AIs and Suppliers, all such parties represented that they were independent of SF. Management has very recently provided information and analysis intended to explain these situations. The IC is reviewing this material from Management and intends to report its findings in this regard in its final report to the Board. Some of such information and explanations may not be capable of independent verification.

• Accounting Considerations: *To the extent that any of SF's purchase and sale transactions are with related parties for accounting purposes, the value of these transactions as recorded on the books and records of the Company may be impacted.*

[...]

BVI Structure

The BVI structure used by SF to purchase and sell standing timber assets could be challenged by the relevant Chinese authorities as the undertaking of "business activities" within China by foreign companies, which may only be undertaken by entities established within China with the requisite approvals. However, there is no clear definition of what constitutes "business activities" under Chinese law and there are different views among the IC's Chinese counsel and the Company's Chinese counsel as to whether the purchase and sale of timber in China as

undertaken by the BVIs could be considered to constitute "business activities" within China. In the event that the relevant Chinese authorities consider the BVIs to be undertaking "business activities" within China, they may be required to cease such activities and could be subject to other regulatory action. As regularization of foreign businesses in China is an ongoing process, the government has in the past tended to allow foreign companies time to restructure their operations in accordance with regulatory requirements (the cost of which is uncertain), rather than enforcing the laws strictly and imposing penalties without notice. See Section II.B.2

C. Challenges

Throughout its process, the IC has encountered numerous challenges in its attempts to implement a robust independent process which would yield reliable results. Among those challenges are the following:

(a) Chinese Legal Regime for Forestry:

- national laws and policies appear not yet to be implemented at all local levels;
- in practice, none of the local jurisdictions tested in which BVIs hold standing timber appears to have instituted a government registry and documentation system for the ownership of standing timber as distinct from a government registry system for the ownership of plantation land use rights;
- the registration of plantation land use rights, the issue of Plantation Rights Certificates and the establishment of registries, is incomplete in some jurisdictions based on the information available to the IC;
- as a result, *title to standing timber, when not held in conjunction with a land use right, cannot be definitively proven by reference to a government maintained register*; and
- Sino-Forest has requested confirmations from forestry bureaus of its acquisition of timber holdings (excluding land leases) as additional evidence of ownership. Certain forestry bureaus and Suppliers have indicated the confirmation was beyond the typical diligence practice in China for acquisition of timber holdings.

(b) Obtaining Information from Third Parties: For a variety of reasons, all of them outside the control of the IC, it is very difficult to obtain information from third parties in China. These reasons include the following:

- *many of the third parties from whom the IC wanted information (e.g., AIs, Suppliers and forestry bureaus) are not compellable by the Company or Canadian legal processes*;
- third parties appeared to have concerns relating to disclosure of information regarding their operations that could become public or fall into the hands of

Chinese government authorities: *many third parties explained their reluctance to provide requested documentation and information as being "for tax reasons" but declined to elaborate*; and

- awareness of MW allegations, investigations and information gathering by the OSC and other parties, and court proceedings; while not often explicitly articulated, third parties had an awareness of the controversy surrounding SF and a reluctance to be associated with any of these allegations or drawn into any of these processes.

[...]

(e) Corporate Governance/Operational Weaknesses: *Management has asserted that business in China is based upon relationships*. The IC and the IC Advisors have observed this through their efforts to obtain meetings with forestry bureaus, Suppliers and AIs and their other experience in China. The importance of relationships appears to have resulted in dependence on a relatively small group of Management who are integral to maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority or lack of segregation of duties has been previously disclosed by the Company as a control weakness. As a result and as disclosed in the 2010 MD&A, senior Management in their ongoing evaluation of disclosure controls and procedures and internal controls over financial reporting, recognizing the disclosed weakness, determined that the design and controls were ineffective. The Chairman and Chief Financial Officer provided annual and quarterly certifications of their regulatory filings. Related to this weakness the following challenges presented themselves in the examination by the IC and the IC Advisors:

- operational and administration systems that are generally not sophisticated having regard to the size and complexity of the Company's business and in relation to North American practices; including:

- *incomplete or inadequate record creation and retention practices;*
- contracts not maintained in a central location;
- significant volumes of data maintained across multiple locations on decentralized servers;
- *data on some servers in China appearing to have been deleted on an irregular basis, and there is no back-up system;*
- no integrated accounting system: accounting data is not maintained on a single, consolidated application, which can require extensive manual procedures to produce reports; and

- a treasury function that was centralized for certain major financial accounts, but was not actively involved in the control or management of numerous local operations bank accounts;
- *no internal audit function* although there is evidence the Company has undertaken and continues to assess its disclosure controls and procedures and internal controls over financial reporting using senior Management and independent control consultants;
- *SF employees conduct Company affairs from time to time using personal devices and non-corporate email addresses* which have been observed to be shared across groups of staff and changed on a periodic and organized basis; this complicated and delayed the examination of email data by the IC Advisors; and
- lack of full cooperation/openness in the ICs examination from certain members of Management.

(f) Complexity, Lack of Visibility into, and Limitations of BVIs Model: *The use of AIs and Suppliers as an essential feature of the BVIs standing timber business model contributes to the lack of visibility into title documentation, cash movements and tax liability since cash settlement in respect of the BVIs standing timber transactions takes place outside of the Company's books.*

(g) Cooperation and openness of the Company's executives throughout the process: From the outset, the IC Advisors sought the full cooperation and support of Allen Chan and the executive management team. Initially, the executive management team appeared ill-prepared to address the IC's concerns in an organized fashion and there was perhaps a degree of culture shock as Management adjusted to the IC Advisors' examination. *In any event, significant amounts of material information, particularly with respect to the relationship with Yuda Wood, interrelationships between AIs and/or Suppliers, were not provided to the IC Advisors as requested.* In late August 2011 on the instructions of the IC, interviews of Management were conducted by the IC Advisors in which documents evidencing these connections were put to the Management for explanation. As a result of these interviews (which were also attended by BJ) the Company placed certain members of Management on administrative leave upon the advice of Company counsel. At the same time the OSC made allegations in the CTO of Management misconduct.

[...]

(h) Independence of the IC Process: *The cooperation and collaboration of the IC with Management (operating under the direction of the new Chief Executive Officer) and with Company counsel in completing certain aspects of the IC's mandate has been noted by the OSC and by E&Y. Both have questioned the degree of independence of the IC from Management as a result of this interaction.* The IC has explained the practical impediments to its work in the context of the distinct business culture (and associated issues of privacy) in the

forestry sector in China in which the Company operates. Cooperation of third parties in Hong Kong and China, including employees, depends heavily on relationships and trust. As noted above, the Company's placing certain members of Management on administrative leave, as well as the OSC's allegations in the CTO, further hampered the IC's ability to conduct its process. As a result, the work of the IC was frequently done with the assistance of, or in reliance on, the new Chief Executive Officer and his Management team and Company counsel. Given that Mr. Martin was, in effect, selected by the IC and BJ was appointed in late June 2011, the IC concluded that, while not ideal, this was a practical and appropriate way to proceed in the circumstances. As evidenced by the increased number of scheduled meetings with forestry bureaus, Suppliers and AIs, and, very recently, the delivery to the IC of information regarding AIs and Suppliers and relationships among the Company and such parties, it is acknowledged that Mr. Martin's involvement in the process has been beneficial. It is also acknowledged that in executing his role and assisting the IC he has had to rely on certain of the members of Management who had been placed on administrative leave.

[Emphasis added]

208. On January 31, 2012, Sino released the Final Report. In material part, it read:

This Final Report of the IC sets out the activities undertaken by the IC since mid-November, the findings from such activities and the IC's conclusions regarding its examination and review. The IC's activities during this period have been limited as a result of Canadian and Chinese holidays (Christmas, New Year and Chinese New Year) and the extensive involvement of IC members in the Company's Restructuring and Audit Committees, both of which are advised by different advisors than those retained by the IC. *The IC believes that, notwithstanding there remain issues which have not been fully answered, the work of the IC is now at the point of diminishing returns because much of the information which it is seeking lies with non-compellable third parties, may not exist or is apparently not retrievable from the records of the Company.*

In December 2011, the Company defaulted under the indentures relating to its outstanding bonds with the result that its resources are now more focused on dealing with its bondholders. This process is being overseen by the Restructuring Committee appointed by the Board. Pursuant to the Waiver Agreement dated January 18, 2012 between the Company and the holders of a majority of the principal amount of its 2014 Notes, the Company agreed, among other things, that the final report of the IC to the Board would be made public by January 31, 2012.

Given the circumstances described above, the IC understands that, with the delivery of this Final Report, its review and examination activities are terminated. the IC does not expect to undertake further work other than assisting with responses to regulators and the RCMP as required and engaging in such further specific activities as the IC may deem advisable or the Board may instruct. The

IC has asked the IC Advisors to remain available to assist and advise the IC upon its instructions.

[...]

II. RELATIONSHIPS

The objectives of the IC's examination of the Company's relationships with its AIs and Suppliers were to determine, in light of the MW allegations, if such relationships are arm's length and to obtain, if possible, independent verification of the cash flows underlying the set-off transactions described in Section II.A of the Second Interim Report. *That the Company's relationships with its AIs and Suppliers be arm's length is relevant to SF's ability under GAAP to:*

- *book its timber assets at cost in its 2011 and prior years' financial statements, both audited and unaudited*
- *recognize revenue from standing timber sales as currently reflected in its 2011 and prior years' financial statements, both audited and unaudited.*

A. Yuda Wood

Yuda Wood was founded in April 2006 and was until 2010 a Supplier of SF. Its business with SF from 2007 to 2010 totalled approximately 152,164 Ha and RMB 4.94 billion. Section VI.A and Schedule VI.A.2(a) of the Second Interim Report described the MW allegations relating to Yuda Wood, the review conducted by the IC and its findings to date. The IC concluded that Huang Ran is not currently an employee, and that Yuda Wood is not a subsidiary, of the Company. *However, there is evidence suggesting a close cooperation between SF and Yuda Wood which the IC had asked Management to explain.* At the time the Second Interim Report was issued, the IC was continuing to review Management's explanations of a number of Yuda Wood-related emails and certain questions arising therefrom.

Subsequent to the issuance of its Second Interim Report in mid-November, the IC, with the assistance of the IC Advisors, has reviewed the Management responses provided to date relating to Yuda Wood and has sought further explanations and documentary support for such explanations. This was supplementary to the activities of the Audit Committee of SF and its advisors who have had during this period primary carriage of examining Management's responses on the interactions of SF and Yuda Wood. *While many answers and explanations have been obtained, the IC believes that they are not yet sufficient to allow it to fully understand the nature and scope of the relationship between SF and Yuda Wood. Accordingly, based on the information it has obtained, the IC is still unable to independently verify that the relationship of Yuda Wood is at arm's length to SF.* It is to be noted that Management is of the view that Yuda Wood is unrelated to SF for accounting purposes. The IC remains satisfied that Yuda is not a subsidiary of SF. Management continues to undertake work related to Yuda

Wood, including seeking documentation from third parties and responding to e-mails where the responses are not yet complete or prepared. Management has provided certain banking records to the Audit Committee that the Audit Committee advises support Management's position that SF did not capitalize Yuda Wood (but that review is not yet completed). The IC anticipates that Management will continue to work with the Audit Committee, Company counsel and E&Y on these issues.

B. Other Relationships

Section VI.B.1 of the Second Interim Report described certain other relationships which had been identified in the course of the IC's preparation for certain interviews with AIs and Suppliers. *These relationships include (i) thirteen Suppliers where former SF employees, consultants or secondees are or have been directors, officers and/or shareholders (including Yuda Wood); (ii) an AI with a former SF employee in a senior position; (iii) potential relationships between AIs and Suppliers; (iv) set-off payments for BVI standing timber purchases being made by companies that are not AIs and other setoff arrangements involving non-AI entities; (v) payments by AIs to potentially connected Suppliers; and (vi) sale of standing timber to an AI potentially connected to a Supplier of that timber. Unless expressly addressed herein, the IC has no further update of a material nature on the items raised above.*

On the instructions of the IC, the IC Advisors gave the details of these possible relationships to Management for further follow up and explanation. Just prior to the Second Interim Report, Management provided information regarding AIs and Suppliers relationships among the Company and such parties.

This information was in the form of a report dated November 10, 2011, subsequently updated on November 21, 2011 and January 20, 2012 (the latest version being the "Kaitong Report") prepared by Kaitong Law Firm ("Kaitong"), a Chinese law firm which advises the Company. The Kaitong Report has been separately delivered to the Board. *Kaitong has advised that much of the information in the Kaitong Report was provided by Management and has not been independently verified by such law firm or the IC.*

[...]

The Kaitong Report generally describes certain relationships amongst AIs and Suppliers and certain relationships between their personnel and Sino-Forest, either identified by Management or through SAIC and other searches. The Kaitong Report also specifically addresses certain relationships identified in the Second Interim Report. The four main areas of information in the Kaitong Report are as follows and are discussed in more detail below:

(i) Backers to Suppliers and AIs: The Kaitong Report explains the concept of "backers" to both Suppliers and AIs. The Kaitong Report suggests that backers are individuals with considerable influence in political, social or business circles,

or all three. The Kaitong Report also states that such backers or their identified main business entities do not generally appear in SAIC filings by the Suppliers or AIs as shareholders thereof and, in most instances, in any other capacity.

(ii) *Suppliers and AIs with Former SF Personnel: The appendices to the Kaitong Report list certain Suppliers that have former SF personnel as current shareholders.*

(iii) Common Shareholders Between Suppliers and AIs: The Kaitong Report states that there are 5 Suppliers and 3 AIs with current common shareholders but there is no cross majority ownership positions between Suppliers and AIs.

(iv) Transactions Involving Suppliers and AIs that have Shareholders in common: The Kaitong Report states that, where SF has had transactions with Suppliers and AIs that have certain current shareholders in common as noted above, the subject timber in those transactions is not the same; that is, the timber which SF buys from such Suppliers and the timber which SF sells to such AIs are located in different counties or provinces.

The IC Advisors have reviewed the Kaitong Report on behalf of the IC. The IC Advisors liaised with Kaitong and met with Kaitong and current and former Management. A description of the Kaitong Report and the IC's findings and comments are summarized below. By way of summary, the Kaitong Report provides considerable information regarding relationships among Suppliers and AIs, and between them and SF, but much of this information related to the relationship of each backer with the associated Suppliers and AIs is not supported by any documentary or other independent evidence. *As such, some of the information provided is unverified and, particularly as it relates to the nature of the relationships with the backers, is viewed by the IC to be likely unverifiable by it.*

1. Backers to Suppliers and AIs

[...]

Given the general lack of information on the backers or the nature and scope of the relationships between the Suppliers or AIs and their respective backers and the absence of any documentary support or independent evidence of such relationships, the IC has been unable to reach any conclusion as to the existence, nature or importance of such relationships. *As a result, the IC is unable to assess the implications, if any, of these backers with respect to SF's relationships with its Suppliers or AIs. Based on its experience to date, including interviews with Suppliers and AIs involving persons who have now been identified as backers in the Kaitong Report, the IC believes that it would be very difficult for the IC Advisors to arrange interviews with either the AIs or Suppliers or their respective backers and, if arranged, that such interviews would yield very little, if any, verifiable information to such advisors.* The IC understands Management is continuing to seek meetings with its AIs and Suppliers with the objective of

obtaining information, to the extent such is available, that will provide further background to the relationships to the Audit Committee.

[...]

2. Suppliers and AIs with Former SF Personnel

The Appendices to the Kaitong Report list the Suppliers with former SF personnel as current shareholders. According to the information previously obtained by the IC Advisors, the identification of former SF personnel indicated in the Kaitong Report to be current shareholders of past or current Suppliers is correct.

(a) Suppliers with former SF personnel

The Kaitong Report, which is limited to examining Suppliers where ex-SF employees are current shareholders as shown in SAIC filings, does not provide material new information concerning Suppliers where former SF employees were identified by the IC in the Second Interim Report as having various past or present connections to current or former Suppliers except that the Kaitong Report provides an explanation of two transactions identified in the Second Interim Report. These involved purchases of standing timber by SF from Suppliers controlled by persons who were employees of SF at the time of these transactions. Neither of the Suppliers have been related to an identified backer in the Kaitong Report. The explanations are similar indicating that neither of the SF employees was an officer in charge of plantation purchases or one of SF's senior management at the time of the transactions. The employees in question were Shareholder #14 in relation to a RMB 49 million purchase from Supplier #18 in December 2007 (shown in SAIC filings to be 100% owned by him) and Shareholder #20 in relation to a RMB 3.3 million purchase from Supplier #23 (shown in SAIC filings to be 70% owned by him) in October 2007. *The Kaitong Report indicates Shareholder #20 is a current employee of SF who then had responsibilities in SF's wood board production business.*

The IC is not aware that the employees' ownership positions were brought to the attention of the Board at the time of the transactions or, subsequently, until the publication of the Second Interim Report and understands the Audit Committee will consider such information.

(b) AIs with former SF personnel

The Kaitong Report indicates that no SF employees are listed in SAIC filing reports as current shareholders of AIs. Except as noted herein, the IC agrees with this statement. The Kaitong Report does not address the apparent role of an ex-employee Officer #3 who was introduced to the IC as the person in charge of AI #2 by Backer #5 of AI Conglomerate #1. Backer #5 is identified in the Kaitong Report as a backer of two AIs, including AI#2. (The Kaitong Report properly does not include AI #14, as an AI for this purpose, whose 100% shareholder is former SF employee Officer #3. However, the IC is satisfied that the activities of

this entity primarily relate to certain onshoring transactions that facilitated the transfer of SF BVI timber assets to SF WFOE subsidiaries.)

There was one other instance where a past shareholding relationship has been identified between an AI #10 and persons who were previously or are still shown on the SF human resources records, Shareholder #26 and Shareholder #27. Management has explained that such entity sold wood board processing and other assets to SF and that the persons associated with that company consulted with SF after such sale in relation to the purchased wood board processing assets. *Such entity subsequently also undertook material timber purchases as an AI of SF in 2007-2008 over a time period in which such persons are shown as shareholders of such AI in the SAIC filing reviewed (as to 47.5% for Shareholder #26 and as to 52.5% for Shareholder #27). That time period also intersects the time that Shareholder #26 is shown in such human resources records and partially intersects the time that Shareholder #27 is shown on such records. Management has also explained that Shareholder #26 subsequent to the time of such AI sales became an employee of a SF wood board processing subsidiary. Management has provided certain documentary evidence of its explanations. The IC understands that the Audit Committee will consider this matter.*

3. Common Shareholders between Supplier and AIs

The Kaitong Report states that there are 5 Suppliers and 3 AIs that respectively have certain common current shareholders but also states that there is no cross control by those current shareholders of such Suppliers or AIs based on SAIC filings. The Kaitong Report correctly addresses current cross shareholdings in Suppliers and AIs based on SAIC filings but does not address certain other shareholdings. With the exception of one situation of cross control in the past, the IC has not identified a circumstance in the SAIC filings reviewed where the same person controlled a Supplier at the time it controlled a different AI. *The one exception is that from April 2002 to February 2006, AI #13 is shown in SAIC filings as the 90% shareholder of Supplier/AI #14. AI #13 did business with SF BVIs from 2005 through 2007 and Supplier/AI #14 supplied SF BVIs from 2004 through 2006. However, the IC to date has only identified one contract involving timber bought from Supplier/AI #14 that was subsequently sold to AI #13. It involved a parcel of 2,379 Ha. timber sold to AI #13 in December 2005 that originated from a larger timber purchase contract with Supplier/AI #14 earlier that year. Management has provided an explanation for this transaction. The IC understands that the Audit Committee will consider this matter.*

4. Transactions involving Suppliers and AIs with Current Shareholders in Common

The Kaitong Report states that where SF has had transactions with 5 Suppliers and 3 AIs that have current shareholders in common (but no one controlling shareholder) as shown in SAIC filings, the subject timber in the transactions they

each undertook with SF is not the same; that is, the timber which SF buys from the Suppliers and the timber which SF sells to the AIs where the Supplier and AI have a current common shareholder were located in different areas and do not involve the same plots of timber. The Kaitong Report further states that where SF has had transactions with 5 Suppliers and 3 AIs with current shareholders in common as shown in SAIC filings, SF had transactions with those AIs prior to having transactions with those Suppliers, thus SF was not overstating its transactions by buying and selling to the same counterparties.

[...]

The Kaitong Report does not specifically address historical situations involving common shareholders and potential other interconnections between AIs and Suppliers that may appear as a result of the identification of backers. There is generally no ownership connection shown in SAIC filings between backers and the Suppliers and AIs associated with such backers in the Kaitong Report.

[...]

VI. OUTSTANDING MATTERS

As noted in Section I above, the IC understands that with the delivery of this report, its examination and review activities are terminated. The IC would expect its next steps may include only:

- (a) assisting in responses to regulators and RCMP as required; and
- (b) such other specific activities as it may deem advisable or the Board may instruct.

[Emphasis added]

IX. SINO REWARDS ITS EXPERTS

209. Bowland, Hyde and West are former E&Y partners and employees. They served on Sino's Audit Committee but purported to exercise oversight of their former E&Y colleagues. In addition, Sino's Vice-President, Finance (Corporate), Thomas M. Maradin, is a former E&Y employee.

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210. The charter of Sino's Audit Committee required that Ardell, Bowland, Hyde and West "review and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the Auditor." Sino's practice of appointing E&Y personnel to its board – and paying them handsomely (for example, Hyde was paid \$163,623 by Sino in 2010, \$115,962 in 2009, \$57,000 in 2008 and \$55,875 in 2007, plus options and other compensation) – undermined the Audit Committee's oversight of E&Y.

211. E&Y's independence was impaired by the significant non-audit fees it was paid during 2008-2010, which total \$712,000 in 2008, \$1,225,000 in 2009 and \$992,000 in 2010.

212. Further, Andrew Fyfe, the former Asia-Pacific President for Pöyry Forestry Industry Ltd, was appointed Chief Operating Officer of Greenheart, and is the director of several Sino subsidiaries. Fyfe signed the Pöyry valuation report dated June 30, 2004, March 22, 2005, March 23, 2006, March 14, 2008 and April 1, 2009.

213. George Ho, Sino's Vice President, Finance (China), is a former Senior Manager of the BDO.

X. THE DEFENDANTS' RELATIONSHIP TO THE CLASS

214. By virtue of their purported accounting, financial and/or managerial acumen and qualifications, and by virtue of their having assumed, voluntarily and for profit, the role of gatekeepers, the Defendants had a duty at common law, informed by the Securities Legislation and/or the *CBCA*, to exercise care and diligence to ensure that the Impugned Documents fairly and accurately disclosed Sino's financial condition and performance in accordance with GAAP.

215. Sino is a reporting issuer and had an obligation to make timely, full, true and accurate disclosure of material facts and changes with respect to its business and affairs.

216. The Individual Defendants, by virtue of their positions as senior officers and/or directors of Sino, owed a duty to the Class Members to ensure that public statements on behalf of Sino were not untrue, inaccurate or misleading. The continuous disclosure requirements in Canadian securities law mandated that Sino provide the Impugned Documents, including quarterly and annual financial statements. These documents were meant to be read by Class Members who acquired Sino's Securities in the secondary market and to be relied on by them in making investment decisions. This public disclosure was prepared to attract investment, and Sino and the Individual Defendants intended that Class Members would rely on public disclosure for that purpose. With respect to Prospectuses and Offering Memoranda, these documents were prepared for primary market purchasers. They include detailed content as mandated under Canadian securities legislation, national instruments and OSC rules. They were meant to be read by the Class Members who acquired Sino's Securities in the primary market, and to be relied on by them in making decisions about whether to purchase the shares or notes under the Offerings to which these Prospectuses and Offering Memoranda related.

217. Chan and Horsley had statutory obligations under Canadian securities law to ensure the accuracy of disclosure documents and provided certifications in respect of the annual reports, financial statements and Prospectuses during the Class Period. The other Individual Defendants were directors of Sino during the Class Period and each had a statutory obligation as a director under the *CBCA* to manage or supervise the management of the business and affairs of Sino. These Individual Defendants also owed a statutory duty of care to shareholders under section 122 of the *CBCA*. In addition, Poon, along with Chan, co-founded Sino and has been its president since 1994. He is intimately aware of Sino's operations and as a long-standing senior officer, he

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had an obligation to ensure proper disclosure. Poon authorized, permitted or acquiesced in the release of the Impugned Documents.

218. BDO and E&Y acted as Sino's auditors and provided audit reports in Sino's annual financial statements that were directed to shareholders. These audit reports specified that BDO and E&Y had conducted an audit in accordance with GAAS, which was untrue, and included their opinions that the financial statements presented fairly, in all material respects, the financial position of Sino, the results of operations and Sino's cash flows, in accordance with GAAP. BDO and E&Y knew and intended that Class Members would rely on the audit reports and assurances about the material accuracy of the financial statements.

219. Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD each signed one or more of the Prospectuses and certified that, to the best of its knowledge, information and belief, the particular prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby. These defendants knew that the Class Members who acquired Sino's Securities in the primary market would rely on these assurances and the trustworthiness that would be credited to the Prospectuses because of their involvement. Further, those Class Members that purchased shares under these Prospectuses purchased their shares from these defendants as principals.

220. Credit Suisse USA, TD and Banc of America acted as initial purchasers or dealer managers for one or more of the note Offerings. These defendants knew that persons purchasing these notes would rely on the trustworthiness that would be credited to the Offering Memoranda because of their involvement.

XI. THE PLAINTIFFS' CAUSES OF ACTION

A. *Negligent Misrepresentation*

221. As against all Defendants except Pöyry and the Underwriters, and on behalf of all Class Members who acquired Sino's Securities in the secondary market, the Plaintiffs plead negligent misrepresentation for all of the Impugned Documents except the Offering Memoranda.

222. Labourers and Wong, on behalf of Class Members who purchased Sino Securities in one of the distributions to which a Prospectus related, plead negligent misrepresentation as against Sino, Chan, Horsley, Poon, Wang, Martin, Mak, Murray, Hyde, BDO, E&Y, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD for the Prospectuses.

223. Grant, on behalf of Class Members who purchased Sino Securities in one of the distributions to which an Offering Memorandum related, pleads negligent misrepresentation as against Sino, BDO and E&Y for the Offering Memoranda.

224. In support of these claims, the sole misrepresentation that the Plaintiffs plead is the Representation. The Representation is contained in the language relating to GAAP particularized above, and was untrue for the reasons particularized elsewhere herein.

225. The Impugned Documents were prepared for the purpose of attracting investment and inducing members of the investing public to purchase Sino securities. The Defendants knew and intended at all material times that those documents had been prepared for that purpose, and that the Class Members would rely reasonably and to their detriment upon such documents in making the decision to purchase Sino securities.

226. The Defendants further knew and intended that the information contained in the Impugned Documents would be incorporated into the price of Sino's publicly traded securities

such that the trading price of those securities would at all times reflect the information contained in the Impugned Documents.

227. As set out elsewhere herein, the Defendants, other than Pöyry, Credit Suisse USA and Banc of America, had a duty at common law to exercise care and diligence to ensure that the Impugned Documents fairly and accurately disclosed Sino's financial condition and performance in accordance with GAAP.

228. These Defendants breached that duty by making the Representation as particularized above.

229. The Plaintiffs and the other Class Members directly or indirectly relied upon the Representation in making a decision to purchase the securities of Sino, and suffered damages when the falsity of the Representation was revealed on June 2, 2011.

230. Alternatively, the Plaintiffs and the other Class Members relied upon the Representation by the act of purchasing Sino securities in an efficient market that promptly incorporated into the price of those securities all publicly available material information regarding the securities of Sino. As a result, the repeated publication of the Representation in these Impugned Documents caused the price of Sino's shares to trade at inflated prices during the Class Period, thus directly resulting in damage to the Plaintiffs and Class Members.

B. Statutory Claims, Negligence, Oppression, Unjust Enrichment and Conspiracy

(i) Statutory Liability—Secondary Market under the Securities Legislation

231. The Plaintiffs plead the claim found in Part XXIII.1 of the OSA, and, if required, the equivalent sections of the Securities Legislation other than the OSA, against all Defendants except the Underwriters.

232. Each of the Impugned Documents except for the December 2009 and October 2010 Offering Memoranda is a "Core Document" within the meaning of the Securities Legislation.

233. Each of these Impugned Documents contained one or more misrepresentations as particularized above. Such misrepresentations and the Representation are misrepresentations for the purposes of the Securities Legislation.

234. Each of the Individual Defendants was an officer and/or director of Sino at material times. Each of the Individual Defendants authorized, permitted or acquiesced in the release of some or all of these Impugned Documents.

235. Sino is a reporting issuer within the meaning of the Securities Legislation.

236. E&Y is an expert within the meaning of the Securities Legislation. E&Y consented to the use of its statements particularized above in these Impugned Documents.

237. BDO is an expert within the meaning of the Securities Legislation. BDO consented to the use of its statements particularize above in these Impugned Documents.

238. Pöyry is an expert within the meaning of the Securities Legislation. Pöyry consented to the use of its statements particularized above in these Impugned Documents.

239. At all material times, each of Sino, Chan, Poon and Horsley, BDO and E&Y knew or, in the alternative, was wilfully blind to the fact, that the Impugned Documents contained the Representation and that the Representation was false, and that the Impugned Documents contained other of the misrepresentations that are alleged above to have been contained therein.

(ii) *Statutory Liability – Primary Market for Sino's Shares under the Securities Legislation*

240. As against Sino, Chan, Horsley, Wang, Martin, Mak, Murray, Hyde, Pöyry, BDO, E&Y, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD, and on behalf

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of those Class Members who purchased Sino shares in one of the distributions to which the June 2009 or December 2009 Prospectuses related, Labourers and Wong assert the cause of action set forth in s. 130 of the *OSA* and, if necessary, the equivalent provisions of the Securities Legislation other than the *OSA*.

241. Sino issued the June 2009 and December 2009 Prospectuses, which contained the Representation and the other misrepresentations that are alleged above to have been contained in those Prospectuses or in the Sino disclosure documents incorporated therein by reference.

(iii) *Statutory Liability – Primary Market for Sino's Notes under the Securities Legislation*

242. As against Sino, and on behalf of those Class Members who purchased or otherwise acquired Sino's notes in one of the offerings to which the July 2008, June 2009, December 2009, and October 2010 Offering Memoranda related, Grant asserts the cause of action set forth in s. 130.1 of the *OSA* and, if necessary, the equivalent provisions of the Securities Legislation other than the *OSA*.

243. Sino issued the July 2008, June 2009, December 2009 and October 2010 Offering Memoranda, which contained the Representation and the other misrepresentations that are alleged above to have been contained in those Offering Memoranda or in the Sino disclosure documents incorporated therein by reference.

(iv) *Negligence Simpliciter – Primary Market for Sino's Securities*

244. Sino, Chan, Poon, Horsley, Wang, Martin, Mak, Murray, Hyde, BDO, E&Y, Pöyry and the Underwriters (collectively, the "**Primary Market Defendants**") acted negligently in connection with one or more of the Offerings.

245. As against Sino, Chan, Horsley, Poon, Wang, Martin, Mak, Murray, Hyde, BDO, E&Y, Pöyry, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD, and on

behalf of those Class Members who purchased Sino's Securities in one of the distributions to which those Prospectuses related, Labourers and Wong assert negligence simpliciter.

246. As against Sino, BDO, E&Y, Pöyry, Credit Suisse USA, Banc of America and TD, and on behalf of those Class Members who purchased Sino's Securities in one of the distributions to which the Offering Memoranda related, Grant asserts negligence simpliciter.

247. The Primary Market Defendants owed a duty of care to ensure that the Prospectuses and/or the Offering Memoranda they issued, or authorized to be issued, or in respect of which they acted as an underwriter, initial purchaser or dealer manager, made full, true and plain disclosure of all material facts relating to the Securities offered thereby, or to ensure that their opinions or reports contained in such Prospectuses and Offering Memoranda did not contain a misrepresentation.

248. At all times material to the matters complained of herein, the Primary Market Defendants ought to have known that such Prospectuses or Offering Memoranda and the documents incorporated therein by reference were materially misleading in that they contained the Representation and the other misrepresentations particularized above.

249. Chan, Poon, Horsley, Wang, Martin, Mak, Murray and Hyde were senior officers and/or directors at the time the Offerings to which the Prospectuses related. These Prospectuses were created for the purposes of obtaining financing for Sino's operations. Chan, Horsley, Martin and Hyde signed each of the Prospectuses and certified that they made full, true and plain disclosure of all material facts relating to the shares offered. Wang, Mak and Murray were directors during one or more of these Offerings and each had a statutory obligation to manage or supervise the management of the business and affairs of Sino. Poon was a director for the June 2007 share Offering and was president of Sino at the time of the June 2009 and December 2009 Offering.

Poon, along with Chan, co-founded Sino and has been the president since 1994. He is intimately aware of Sino's business and affairs.

250. The Underwriters acted as underwriters, initial purchasers or dealer managers for the Offerings to which the Prospectuses and Offering Memoranda related. They had an obligation to conduct due diligence in respect of those Offerings and ensure that those Securities were offering at a price that reflected their true value or that such distributions did not proceed if inappropriate. In addition, Dundee, Merrill, Credit Suisse, Scotia, CIBC, RBC, Maison, Canaccord and TD signed one or more of the Prospectuses and certified that to the best of their knowledge, information and belief, the Prospectuses constituted full, true and plain disclosure of all material facts relating to the shares offered.

251. E&Y and BDO acted as Sino's auditors and had a duty to maintain or to ensure that Sino maintained appropriate internal controls to ensure that Sino's disclosure documents adequately and fairly presented the business and affairs of Sino on a timely basis.

252. Pöyry had a duty to ensure that its opinions and reports reflected the true nature and value of Sino's assets. Pöyry, at the time it produced each of the 2008 Valuations, 2009 Valuations, and 2010 Valuations, specifically consented to the inclusion of those valuations or a summary at any time that Sino or its subsidiaries filed any documents on SEDAR or issued any documents pursuant to which any securities of Sino or any subsidiary were offered for sale.

253. The Primary Market Defendants have violated their duties to those Class Members who purchased Sino's Securities in the distributions to which a Prospectus or an Offering Memorandum related.

254. The reasonable standard of care expected in the circumstances required the Primary Market Defendants to prevent the distributions to which the Prospectuses or the Offering Memoranda related from occurring prior to the correction of the Representation and the other misrepresentations alleged above to have been contained in the Prospectuses or the Offering Memoranda, or in the documents incorporated therein by reference. Those Defendants failed to meet the standard of care required by causing the Offerings to occur before the correction of such misrepresentations.

255. In addition, by failing to attend and participate in Sino board and board committee meetings to a reasonable degree, Murray and Poon effectively abdicated their duties to the Class Members and as directors of Sino.

256. Sino, E&Y, BDO and the Individual Defendants further breached their duty of care as they failed to maintain or to ensure that Sino maintained appropriate internal controls to ensure that Sino's disclosure documents adequately and fairly presented the business and affairs of Sino on a timely basis.

257. Had the Primary Market Defendants exercised reasonable care and diligence in connection with the distributions to which the Prospectuses related, then securities regulators likely would not have issued a receipt for any of the Prospectuses, and those distributions would not have occurred, or would have occurred at prices that reflected the true value of Sino's shares.

258. Had the Primary Market Defendants exercised reasonable care and diligence in connection with the distributions to which the Offering Memoranda related, then those distributions would not have occurred, or would have occurred at prices that reflected the true value of Sino's notes.

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259. The Primary Market Defendants' negligence in relation to the Prospectuses and the Offering Memoranda resulted in damage to Labourers, Grant and Wong, and to the other Class Members who purchased Sino's Securities in the related distributions. Had those Defendants satisfied their duty of care to such Class Members, then those Class Members would not have purchased the Securities that they acquired under the Prospectuses or the Offering Memoranda, or they would have purchased them at a much lower price that reflected their true value.

(v) *Unjust Enrichment of Chan, Martin, Poon, Horsley, Mak and Murray*

260. As a result of the Representation and the other misrepresentations particularized above, Sino's shares traded, and were sold by Chan, Martin, Poon, Horsley, Mak and Murray, at artificially inflated prices during the Class Period.

261. Chan, Martin, Poon, Horsley, Mak and Murray were enriched by their wrongful acts and omissions during the Class Period, and the Class Members who purchased Sino shares from such Defendants suffered a corresponding deprivation.

262. There was no juristic reason for the resulting enrichment of Chan, Martin, Poon, Horsley, Mak and Murray.

263. The Class Members who purchased Sino shares from Chan, Martin, Poon, Horsley, Mak and Murray during the Class Period are entitled to the difference between the price they paid to such Defendants for such shares, and the price that they would have paid had the Defendants not made the Representation and the other misrepresentations particularized above, and had not committed the wrongful acts and omissions particularized above.

(vi) *Unjust Enrichment of Sino*

264. Throughout the Class Period, Sino made the Offerings. Such Offerings were made via various documents, particularized above, that contained the Representation and the misrepresentations particularized above.

265. The Securities sold by Sino via the Offerings were sold at artificially inflated prices as a result of the Representation and the others misrepresentations particularized above.

266. Sino was enriched by, and those Class Members who purchased the Securities via the Offerings were deprived of, an amount equivalent to the difference between the amount for which the Securities offered were actually sold, and the amount for which such securities would have been sold had the Offerings not included the Representation and the misrepresentations particularized above.

267. The Offerings violated Sino's disclosure obligations under the Securities Legislation and the various instruments promulgated by the securities regulators of the Provinces in which such Offerings were made. There was no juristic reason for the enrichment of Sino.

(vi) *Unjust Enrichment of the Underwriters*

268. Throughout the Class Period, Sino made the Offerings. Such Offerings were made via the Prospectuses and the Offering Memoranda, which contained the Representation and the other misrepresentations particularized above. Each of the Underwriters underwrote one or more of the Offerings.

269. The Securities sold by Sino via the Offerings were sold at artificially inflated prices as a result of the Representation and the other misrepresentations particularized above. The Underwriters earned fees from the Class, whether directly or indirectly, for work that they never

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performed, or that they performed with gross negligence, in connection with the Offerings, or some of them.

270. The Underwriters were enriched by, and those Class Members who purchased securities via the Offerings were deprived of, an amount equivalent to the fees the Underwriters earned in connection with the Offerings.

271. The Offerings violated Sino's disclosure obligations under the Securities Legislation and the various instruments promulgated by the securities regulators of the Provinces in which such Offerings were made. There was no juristic reason for the enrichment of the Underwriters.

272. In addition, some or all of the Underwriters also acted as brokers in secondary market transactions relating to Sino securities, and earned trading commissions from the Class Members in those secondary market transactions in Sino's Securities. Those Underwriters were enriched by, and those Class Members who purchased Sino securities through those Underwriters in their capacity as brokers were deprived of, an amount equivalent to the commissions the Underwriters earned on such secondary market trades.

273. Had those Underwriters who also acted as brokers in secondary market transactions exercised reasonable diligence in connection with the Offerings in which they acted as Underwriters, then Sino's securities likely would not have traded at all in the secondary market, and the Underwriters would not have been paid the aforesaid trading commissions by the Class Members. There was no juristic reason for that enrichment of those Underwriters through their receipt of trading commissions from the Class Members.

(vii) *Oppression*

274. The Plaintiffs and the other Class Members had a reasonable and legitimate expectation that Sino and the Individual Defendants would use their powers to direct the company for Sino's

best interests and, in turn, in the interests of its security holders. More specifically, the Plaintiffs and the other Class Members had a reasonable expectation that:

- (a) Sino and the Individual Defendants would comply with GAAP, and/or cause Sino to comply with GAAP;
- (b) Sino and the Individual Defendants would take reasonable steps to ensure that the Class Members were made aware on a timely basis of material developments in Sino's business and affairs;
- (c) Sino and the Individual Defendants would implement adequate corporate governance procedures and internal controls to ensure that Sino disclosed material facts and material changes in the company's business and affairs on a timely basis;
- (d) Sino and the Individual Defendants would not make the misrepresentations particularized above;
- (e) Sino stock options would not be backdated or otherwise mispriced; and
- (f) the Individual Defendants would adhere to the Code.

275. Such reasonable expectations were not met as:

- (a) Sino did not comply with GAAP;
- (b) the Class Members were not made aware on a timely basis of material developments in Sino's business and affairs;
- (c) Sino's corporate governance procedures and internal controls were inadequate;
- (d) the misrepresentations particularized above were made;
- (e) stock options were backdated and/or otherwise mispriced; and
- (f) the Individual Defendants did not adhere to the Code.

276. Sino's and the Individual Defendants' conduct was oppressive and unfairly prejudicial to the Plaintiffs and the other Class Members and unfairly disregarded their interests. These defendants were charged with the operation of Sino for the benefit of all of its shareholders. The value of the shareholders' investments was based on, among other things:

- (a) the profitability of Sino;
- (b) the integrity of Sino's management and its ability to run the company in the interests of all shareholders;
- (c) Sino's compliance with its disclosure obligations;
- (d) Sino's ongoing representation that its corporate governance procedures met with reasonable standards, and that the business of the company was subjected to reasonable scrutiny; and
- (e) Sino's ongoing representation that its affairs and financial reporting were being conducted in accordance with GAAP.

277. This oppressive conduct impaired the ability of the Plaintiffs and other Class Members to make informed investment decisions about Sino's securities. But for that conduct, the Plaintiffs and the other Class Members would not have suffered the damages alleged herein.

(viii) Conspiracy

278. Sino, Chan, Poon and Horsley conspired with each other and with persons unknown (collectively, the "Conspirators") to inflate the price of Sino's securities. During the Class Period, the Conspirators unlawfully, maliciously and lacking bona fides, agreed together to, among other things, make the Representation and other misrepresentations particularized above, and to profit from such misrepresentations by, among other things, issuing stock options in respect of which the strike price was impermissibly low.

279. The Conspirators' predominant purposes in so conspiring were to:

- (a) inflate the price of Sino's securities, or alternatively, maintain an artificially high trading price for Sino's securities;
- (b) artificially increase the value of the securities they held; and
- (c) inflate the portion of their compensation that was dependent in whole or in part upon the performance of Sino and its securities.

280. In furtherance of the conspiracy, the following are some, but not all, of the acts carried out or caused to be carried out by the Conspirators:

- (a) they agreed to, and did, make the Representation, which they knew was false;
- (b) they agreed to, and did, make the other misrepresentations particularized above, which they knew were false;
- (c) they caused Sino to issue the Impugned Documents which they knew to be materially misleading;
- (d) as alleged more particularly below, they caused to be issued stock options in respect of which the strike price was impermissibly low; and
- (e) they authorized the sale of securities pursuant to Prospectuses and Offering Memoranda that they knew to be materially false and misleading.

281. Stock options are a form of compensation used by companies to incentivize the performance of directors, officers and employees. Options are granted on a certain date (the 'grant date') at a certain price (the 'exercise' or 'strike' price). At some point in the future, typically following a vesting period, an options-holder may, by paying the strike price, exercise the option and convert the option into a share in the company. The option-holder will make money as long as the option's strike price is lower than the market price of the security at the

moment that the option is exercised. This enhances the incentive of the option recipient to work to raise the stock price of the company.

282. There are three types of option grants:

- (a) 'in-the-money' grants are options granted where the strike price is lower than the market price of the security on the date of the grant; such options are not permissible under the TSX Rules and have been prohibited by the TSX Rules at all material times;
- (b) 'at-the-money' grants are options granted where the strike price is equal to the market price of the security on the date of the grant or the closing price the day prior to the grant; and
- (c) 'out-of-the-money' grants are options granted where the strike price is higher than the market price of the security on the date of the grant.

283. Both at-the-money and out-of-the-money options are permissible under the TSX Rules and have been at all material times.

284. The purpose of both at-the-money and out-of-the-money options is to create incentives for option recipients to work to raise the share price of the company. Such options have limited value at the time of the grant, because they entitle the recipient to acquire the company's shares at or above the price at which the recipient could acquire the company's shares in the open market. Options that are in-the-money, however, have substantial value at the time of the grant irrespective of whether the company's stock price rises subsequent to the grant date.

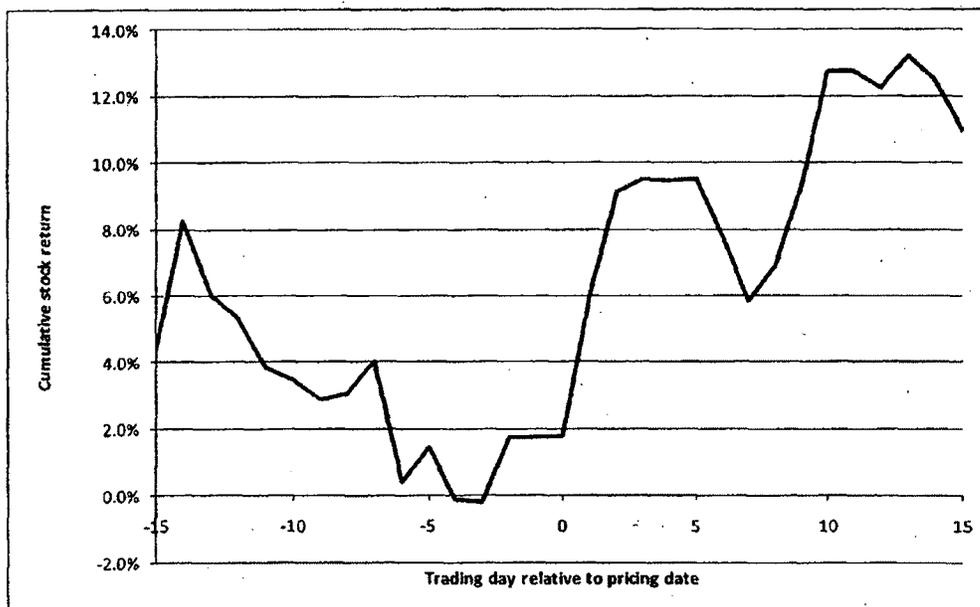
285. At all material times, the Sino Option Plan (the "Plan") prohibited in-the-money options.

286. The Conspirators backdated and/or otherwise mispriced Sino stock options, or caused the backdating and/or mispricing of Sino stock options, in violation of, inter alia: (a) the *OSA* and the rules and regulations promulgated thereunder; (b) the Plan; (c) GAAP; (d) the Code; (e) the TSX

Rules; and (f) the Conspirators' statutory, common law and contractual fiduciary duties and duties of care to Sino and its shareholders, including the Class Members.

287. The Sino stock options that were backdated or otherwise mispriced included those issued on June 26, 1996 to Chan, January 21, 2005 to Horsley, September 14, 2005 to Horsley, June 4, 2007 to Horsley and Chan, August 21, 2007 to Sino insiders other than the Conspirators, November 23, 2007 to George Ho and other Sino insiders, and March 31, 2009 to Sino insiders other than the Conspirators.

288. The graph below shows the average stock price returns for fifteen trading days prior and subsequent to the dates as of which Sino priced its stock options to its insiders. As appears therefrom, on average the dates as of which Sino's stock options were priced were preceded by a substantial decline in Sino's stock price, and were followed by a dramatic increase in Sino's stock price. This pattern could not plausibly be the result of chance.



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289. The conspiracy was unlawful because the Conspirators knowingly and intentionally committed the foregoing acts when they knew such conduct was in violation of, *inter alia*, the OSA, the Securities Legislation other than the OSA, the Code, the rules and requirements of the TSX (the "TSX Rules") and the CBCA. The Conspirators intended to, and did, harm the Class by causing artificial inflation in the price of Sino's securities.

290. The Conspirators directed the conspiracy toward the Plaintiffs and the other Class Members. The Conspirators knew in the circumstances that the conspiracy would, and did, cause loss to the Plaintiffs and the other Class Members. The Plaintiffs and the Class Members suffered damages when the falsity of the Representation and other misrepresentations were revealed on June 2, 2011.

XII. THE RELATIONSHIP BETWEEN SINO'S DISCLOSURES AND THE PRICE OF SINO'S SECURITIES

291. The price of Sino's securities was directly affected during the Class Period by the issuance of the Impugned Documents. The Defendants were aware at all material times of the effect of Sino's disclosure documents upon the price of its Sino's securities.

292. The Impugned Documents were filed, among other places, with SEDAR and the TSX, and thereby became immediately available to, and were reproduced for inspection by, the Class Members, other members of the investing public, financial analysts and the financial press.

293. Sino routinely transmitted the documents referred to above to the financial press, financial analysts and certain prospective and actual holders of Sino securities. Sino provided either copies of the above referenced documents or links thereto on its website.

294. Sino regularly communicated with the public investors and financial analysts via established market communication mechanisms, including through regular disseminations of their disclosure documents, including press releases on newswire services in Canada, the United States and elsewhere. Each time Sino communicated that new material information about Sino financial results to the public the price of Sino securities was directly affected.

295. Sino was the subject of analysts' reports that incorporated certain of the material information contained in the Impugned Documents, with the effect that any recommendations to purchase Sino securities in such reports during the Class Period were based, in whole or in part, upon that information.

296. Sino's securities were and are traded, among other places, on the TSX, which is an efficient and automated market. The price at which Sino's securities traded promptly incorporated material information from Sino's disclosure documents about Sino's business and affairs, including the Representation, which was disseminated to the public through the documents referred to above and distributed by Sino, as well as by other means.

XIII. VICARIOUS LIABILITY

A. *Sino and the Individual Defendants*

297. Sino is vicariously liable for the acts and omissions of the Individual Defendants particularized in this Claim.

298. The acts or omissions particularized and alleged in this Claim to have been done by Sino were authorized, ordered and done by the Individual Defendants and other agents, employees and representatives of Sino, while engaged in the management, direction, control and transaction of the business and affairs of Sino. Such acts and omissions are, therefore, not only the acts and omissions of the Individual Defendants, but are also the acts and omissions of Sino.

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299. At all material times, the Individual Defendants were officers and/or directors of Sino. As their acts and omissions are independently tortious, they are personally liable for same to the Plaintiffs and the other Class Members.

B. E&Y

300. E&Y is vicariously liable for the acts and omissions of each of its officers, directors, partners, agents and employees as set out above.

301. The acts or omissions particularized and alleged in this Claim to have been done by E&Y were authorized, ordered and done by its officers, directors, partners, agents and employees, while engaged in the management, direction, control and transaction of the business and affairs of E&Y. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of E&Y.

C. BDO

302. BDO is vicariously liable for the acts and omissions of each of its officers, directors, partners, agents and employees as set out above.

303. The acts or omissions particularized and alleged in this Claim to have been done by BDO were authorized, ordered and done by its officers, directors, partners, agents and employees, while engaged in the management, direction, control and transaction of the business and affairs of BDO. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of BDO.

D. Pöyry

304. Pöyry is vicariously liable for the acts and omissions of each of its officers, directors, partners, agents and employees as set out above.

305. The acts or omissions particularized and alleged in this Claim to have been done by Pöyry were authorized, ordered and done by its officers, directors, partners, agents and employees, while engaged in the management, direction, control and transaction of the business and affairs of Pöyry. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of Pöyry.

E. The Underwriters

306. The Underwriters are vicariously liable for the acts and omissions of each of their respective officers, directors, partners, agents and employees as set out above.

307. The acts or omissions particularized and alleged in this Claim to have been done by the Underwriters were authorized, ordered and done by each of their respective officers, directors, partners, agents and employees, while engaged in the management, direction, control and transaction of the business and affairs such Underwriters. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of the respective Underwriters.

XIV. REAL AND SUBSTANTIAL CONNECTION WITH ONTARIO

308. The Plaintiffs plead that this action has a real and substantial connection with Ontario because, among other thing:

- (a) Sino is a reporting issuer in Ontario;
- (b) Sino's shares trade on the TSX which is located in Toronto, Ontario;
- (c) Sino's registered office and principal business office is in Mississauga, Ontario;
- (d) the Sino disclosure documents referred to herein were disseminated in and from Ontario;
- (e) a substantial proportion of the Class Members reside in Ontario;

- (f) Sino carries on business in Ontario; and
- (g) a substantial portion of the damages sustained by the Class were sustained by persons and entities domiciled in Ontario.

XV. SERVICE OUTSIDE OF ONTARIO

309. The Plaintiffs may serve the Notice of Action and Statement of Claim outside of Ontario without leave in accordance with rule 17.02 of the Rules of Civil Procedure, because this claim is:

- (a) a claim in respect of personal property in Ontario (para 17.02(a));
- (b) a claim in respect of damage sustained in Ontario (para 17.02(h));
- (c) a claim authorized by statute to be made against a person outside of Ontario by a proceeding in Ontario (para 17.02(n)); and
- (d) a claim against a person outside of Ontario who is a necessary or proper party to a proceeding properly brought against another person served in Ontario (para 17.02(o)); and
- (e) a claim against a person ordinarily resident or carrying on business in Ontario (para 17.02(p)).

XVI. RELEVANT LEGISLATION, PLACE OF TRIAL, JURY TRIAL AND HEADINGS

310. The Plaintiffs plead and rely on the *CJA*, the *CPA*, the Securities Legislation and *CBCA*, all as amended.

311. The Plaintiffs propose that this action be tried in the City of Toronto, in the Province of Ontario, as a proceeding under the *CPA*.

312. The Plaintiffs will serve a jury notice.

313. The headings contained in this Statement of Claim are for convenience only. This Statement of Claim is intended to be read as an integrated whole, and not as a series of unrelated components.

January 26, 2012

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and

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

**ONTARIO
 SUPERIOR COURT OF JUSTICE**

Proceeding commenced at Toronto

Proceeding under the *Class Proceedings Act, 1992*

**FRESH AS AMENDED STATEMENT OF CLAIM
 (NOTICE OF ACTION ISSUED JULY 20, 2011)**

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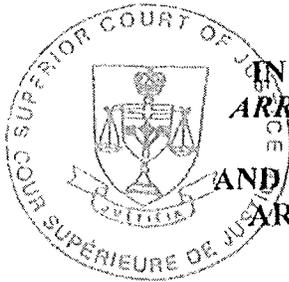
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TAB 8

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR.)	TUESDAY, THE 8 TH
)	
JUSTICE MORAWETZ	)	DAY OF MAY, 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

(Pöyry Settlement Leave Motion)

THIS MOTION made by the Ad Hoc Committee of Purchasers of the Applicant's Securities (the "**Moving Party**"), for advice and direction regarding the impact of the stay of proceedings herein on certain proceedings in the action styled as Trustees of the Labourers' Pension Fund of Central and Eastern Canada et al. (the "**Ontario Plaintiffs**") v. Sino-Forest Corporation et al., bearing (Toronto) Court File No. CV-11-431153-00CP (the "**Ontario Class Action**") and in the action styled as Guining Liu (the "**Quebec Plaintiff**") v. Sino-Forest Corporation et al., bearing (Quebec) Court File No. 200-06-000132-111 (the "**Quebec Class Action**"), was heard this day, at the courthouse at 330 University Avenue, Toronto, Ontario,

ON READING the materials summarized in Schedule "A" to the factum dated May 7, 2012, filed on behalf of the Monitor, as amended, and on hearing the submissions of counsel for FTI Consulting Canada Inc. in its capacity as monitor (the "**Monitor**") and in the presence of counsel for the Moving Party, Pöyry (Beijing) Consulting Company Limited ("**Pöyry**"), Sino-Forest Corporation, the directors and officers named as defendants (the "**Directors**") in the Ontario Class Action, Ernst & Young LLP, BDO Limited, the Underwriters named as defendants

in the Ontario Class Action, and an ad hoc Committee of Bondholders and those other parties present, no one appearing for the other parties served with notice of this motion, although duly served as appears from the affidavit of service, filed:

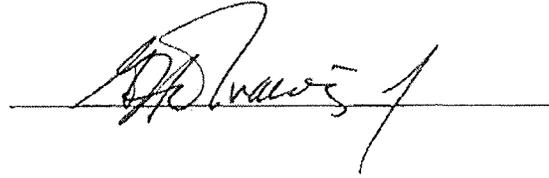
1. **THIS COURT ORDERS** that further service of the Notice of Motion and Motion Record on any party not already served is hereby dispensed with, such that this motion is properly returnable today.
2. **THIS COURT ORDERS** that:
 - a. the Ontario Plaintiffs may proceed on May 17, 2012 in the Ontario Class Action only for the relief sought in paragraphs (f) and, to the extent required, paragraph (g) of the prayer for relief set out in the notice of motion dated April 2, 2012 in Court File No. CV-11-431153-00CP filed in the Ontario Class Action, which notice of motion is in respect of a settlement between the Ontario Plaintiffs, Quebec Plaintiff and Pöyry (the “**Ontario Pöyry Settlement Motion**”); and,
 - b. the Quebec Plaintiff may proceed with similar relief as described in paragraph 2(a) of this order on a similar schedule in a companion motion (the “**Quebec Pöyry Settlement Motion**”) brought in the Quebec Class Action.
3. **THIS COURT ORDERS** that the Ontario Plaintiffs and the Quebec Plaintiff may proceed after September 1, 2012 with (1) the balance of the relief sought in the Ontario Pöyry Settlement Motion and the Quebec Pöyry Settlement Motion, (2) a motion for approval of the settlement between the Ontario Plaintiffs, the Quebec Plaintiff and Pöyry and (3) any motions that are necessary to give effect to the motions mentioned in (1) and (2) above, on dates to be fixed by the Courts supervising the Ontario Class Action and the Quebec Class Action, such motions to be brought on notice to the parties in the Ontario Class Action and the Service List.
4. **THIS COURT ORDERS** that this order is without prejudice to the defendants' rights to oppose in the Ontario Class Action and Quebec Class Action the relief

sought in the Ontario Pöyry Settlement Motion, Quebec Pöyry Settlement Motion or a motion for approval of the settlement between the Ontario Plaintiffs, Quebec Plaintiff and Pöyry.

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



MAY 11 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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDING COMMENCED AT
TORONTO

ORDER

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Ken Rosenberg / Massimo Starnino
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Koskie Minsky LLP
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Kirk Baert / Jonathan Bida
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Siskinds LLP
680 Waterloo Street
London, ON N6A 3V8
A. Dimitri Lascaris / Charles M. Wright
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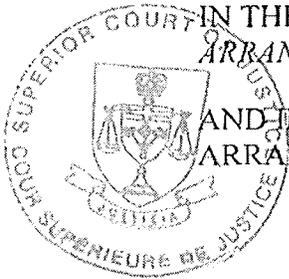
Lawyers for the Ad Hoc Committee of Purchasers of the Applicant's
Securities, including the Representative Plaintiffs in the Ontario Class
Action

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TAB 9

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.)	TUESDAY, THE 8 th
)	
JUSTICE MORAWETZ	)	DAY OF MAY, 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 AND
ARRANGEMENT OF SINO-FOREST CORPORATION

ORDER

(Third Party Stay)

THIS MOTION, made by Sino-Forest Corporation (the "Applicant") for an order addressing the scope of the stay of proceedings herein was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Applicant's Notice of Motion and the materials summarized in Schedule "A" to the factum dated May 7, 2012, filed on behalf of the Monitor, as amended, including the affidavit of W. Judson Martin sworn April 23, 2012 (the "**Judson Affidavit**"), and on hearing the submissions of counsel for FTI Consulting Canada Inc. in its capacity as monitor (the "**Monitor**"), in the presence of counsel for the Applicant, the Applicant's directors and officers named as defendants (the "**Directors**") in the Ontario Class Action (as defined in the Judson Affidavit), Ernst & Young LLP, the plaintiffs in the Ontario Class Action, the underwriters named as defendants in the Ontario Class Action (the "**Underwriters**") and BDO Limited and those other parties present, no one appearing for the other parties served with the Applicant's Motion Record, although duly served as appears from the affidavit of service, filed:

SERVICE AND INTERPRETATION

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record is hereby abridged and validated such that this Motion is properly returnable today and hereby dispenses with further service thereof.

THIRD PARTY STAY AND TOLLING AGREEMENT

2. **THIS COURT ORDERS** that no Proceeding (as defined in the initial order granted by this Court on March 30, 2012 (as the same may be amended from time to time, the “**Initial Order**”)) against or in respect of the Applicant, the Business or the Property (each as defined in the Initial Order), including without limitation the Ontario Class Action and any litigation in which the Applicant and the Directors, or any of them, are defendants, shall be commenced or continued as against any other party to such Proceeding or between or amongst such other parties (cross-claims and third party claims if any), until and including the expiration of the Stay Period (as defined in the Initial Order and as the same may be extended from time to time), provided that, notwithstanding the foregoing and anything to the contrary in the Initial Order, there shall be no stay of any Proceeding against Pöyry (Beijing) Consulting Co. Limited and/or any affiliate, any other Pöyry entity, representative or agent.

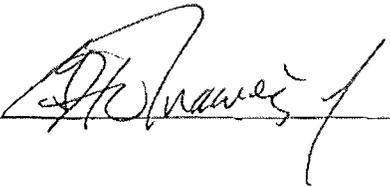
3. **THIS COURT ORDERS** that the Applicant is authorized to enter into agreements among the plaintiffs and defendants in the Ontario Class Action and in the action styled as Guining Liu v. Sino-Forest Corporation et al., bearing (Quebec) Court File No. 200-06-000132-111 (the “**Quebec Class Action**”), providing for, among other things, the tolling of certain limitation periods, as it sees fit, subject to the Monitor’s approval.

MISCELLANEOUS

4. **THIS COURT ORDERS** that this order is subject to any further order of the court on a motion of any party, and is without prejudice to the right of the parties in the Ontario Class Action to move or vary this order on or after September 1, 2012.

5. **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 the 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.



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



MAY 11 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

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)

(PROCEEDING COMMENCED AT TORONTO)

ORDER

BENNETT JONES LLP
Barristers and Solicitors
1 First Canadian Place
100 King Street West, Suite 3400
Toronto ON M5X 1A4

Rob Stanley (LSUC # 27115J)
Kevin Zych (LSUC #33129T)
Derek Bell (LSUC #43420J)
Jonathan Bell (LSUC #55457P)

Lawyers for the Applicant

TAB 10



**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR.	)	WEDNESDAY, THE 25 th
)	
JUSTICE MORAWETZ	)	DAY OF JULY, 2012

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

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

**ORDER
(Mediation)**

THIS MOTION, made by FTI Consulting Canada Inc. in its capacity as monitor (the "**Monitor**") of Sino-Forest Corporation (the "**Applicant**") for a consent order concerning mediation and related relief was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Monitor's Notice of Motion dated July 13, 2012 and the Fifth Report of the Monitor dated July 13, 2012 (the "**Fifth Report**"), the Responding Motion Record of the Applicants and the Responding Motion Record of Pöyry Beijing (as defined below), and on hearing the submissions of counsel for the Applicant, the Monitor, the ad hoc committee of Noteholders (the "**Ad Hoc Noteholders**"), the ad hoc group of purchasers of the Applicant's securities (the "**Plaintiffs**") and the other defendants in the Ontario Class Action and the Quebec Class Action (the "**Third Party Defendants**") and those other parties present, no one appearing for any of the other parties served with the Monitor's Motion Record, although duly served as appears from the affidavit of service of Alma Cano sworn July 13, 2012, filed.

SERVICE AND INTERPRETATION

1. THIS COURT ORDERS that the time for service of the Notice of Motion and the Motion Record, including the Fifth Report, is hereby abridged and validated such that this Motion is properly returnable today and hereby dispenses with further service thereof.
2. THIS COURT ORDERS that capitalized terms used herein and not otherwise defined shall have the meaning given to them in the Fifth Report.

MEDIATION

3. THIS COURT ORDERS that the parties eligible to participate in the Mediation pursuant to paragraph 5 of this Order are the Applicant, the Plaintiffs, the Third Party Defendants (which shall be read to include Pöyry (Beijing) Consulting Company Limited (“**Pöyry Beijing**”)), the Monitor, the Ad Hoc Noteholders and any insurers providing coverage in respect of the Applicant and the Third Party Defendants (collectively, the “**Mediation Parties**”).
4. THIS COURT ORDERS that the subject matter of the Mediation shall be the resolution of the claims of the Plaintiffs against the Applicant and the Third Party Defendants as set out in the statements of claim in the Ontario Class Action and the Quebec Class Action and any and all related claims (the “**Subject Claims**”), provided that for the purpose of the Mediation, the Plaintiffs shall not seek contribution from any of the Mediation Parties with respect to amounts that could have been sought by the Plaintiffs from Pöyry Beijing had the Plaintiffs not reached a settlement with Pöyry Beijing (the “**Pöyry Settlement**”) and provided that the Plaintiffs shall provide to the Mediation Parties, within 10 days of the date of this Order or such further time as this Court may direct, a written summary of evidence proffered by Pöyry Beijing pursuant to the Pöyry Settlement, which summary shall be treated in the same manner as material in the Data Room (as defined below) pursuant to this Order.
5. THIS COURT ORDERS that, where practicable, the Mediation Parties shall participate in the Mediation in person and with representatives present with full authority to settle the Subject Claims (including any insurer providing coverage), provided that, where not practicable, the Mediation Parties may participate in the Mediation through counsel or other representatives, subject to those counsel or other representatives having access to representatives with full

authority and undertaking to promptly pursue instructions with respect to any proposed agreements that arise from the Mediation.

6. THIS COURT ORDERS that parties in addition to the Mediation Parties shall only have standing to participate in the Mediation on consent of the Applicant and the Monitor, acting reasonably, or by further Order of this Court.

DATA ROOM

7. THIS COURT ORDERS that in connection with the Mediation, as soon as practicable, but in any event no later than August 3, 2012, the Applicant shall provide access to the Mediation Parties to the existing data room maintained by Merrill (the "**Data Room**"), provided however that prior to access to the Data Room, all participants (other than the Applicant, the incumbent directors of the Applicant and the Monitor) shall have entered into a confidentiality agreement with the Applicant on terms reasonably acceptable to the Applicant and the Monitor.

8. THIS COURT ORDERS that any Mediation Parties who enter into a confidentiality agreement as contemplated by paragraph 7 of this order shall comply with the terms of such confidentiality agreement.

9. THIS COURT ORDERS that the Applicant, its subsidiaries and affiliates, and their directors, officers, employees, agents and advisors, shall incur no liability in connection with causing, effecting or acquiescing in the establishment of the Data Room or disclosure in respect of such materials and the information contained therein in accordance with this Order. The materials in the Data Room shall be made available without any representation as to the truth of their contents or their completeness, and persons relying on those materials shall do so at their own risk. The disclosure of such materials and the information contained therein in accordance with this Order is not and shall not be public disclosure in any respect. Nothing in this paragraph affects any rights or causes of action that any person may have in relation to the prior disclosure of any of the contents of the Data Room, insofar as such rights or causes of action are independent from and not related to the provision of materials and information in accordance with this Order.

MEDIATION SCHEDULE

10. THIS COURT ORDER THAT, the schedule for the Mediation shall be as follows:

- (a) the Mediation shall be conducted on September 4th and 5th, and if a third day is required, on September 10th, 2012 (the “**Mediation Dates**”);
- (b) additional Mediation dates shall only be added, and any adjournments of any mediation dates shall only be accepted, with the prior written consent of all Mediation Parties;
- (c) the Mediation shall be conducted at a location to be determined by the Mediator (as defined below); and
- (d) the Applicant, the Plaintiffs and the Third Party Defendants shall deliver their respective written position statements to each other and to the other Mediation Parties on or before August 27, 2012.

APPOINTMENT OF THE MEDIATOR

11. THIS COURT ORDERS that the Honourable Justice Newbould shall be appointed mediator (the “**Mediator**”).

12. THIS COURT ORDERS that, prior to the commencement of the Mediation, the Mediator shall have the right to communicate with this Court and the Monitor from time to time as deemed necessary or advisable by the Mediator in their sole discretion.

TERMINATION OF THE MEDIATION

13. THIS COURT ORDERS that the Mediation process shall be terminated under any of the following circumstances:

- (a) by declaration by the Mediator that a settlement has been reached;
- (b) by declaration by the Mediator that further efforts at mediation are no longer considered worthwhile;

- (c) for any other reason determined by the Mediator;
- (d) mutual agreement by the Mediation Parties; or
- (e) further Order of this Court,

provided that, the Mediation shall in any event terminate on September 10, 2012, unless extended with the prior written consent of all Mediation Parties.

NO IMPACT ON OTHER PROCEEDINGS

14. THIS COURT ORDERS that all offers, promises, conduct statements, whether written or oral, made in the course of the Mediation are inadmissible in any arbitration or court proceeding. No person shall subpoena or require the Mediator to testify, produce records, notes or work product in any other existing or future proceedings, and no video or audio recording will be made of the Mediation. Evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable as a result of its use in the Mediation. In the event that the Mediation Parties (or any group of them) do reach a settlement, the terms of that settlement will be admissible in any court or other proceeding required to enforce it, unless the Mediation Parties agree otherwise. Information disclosed to the Mediator by any Mediation Party at a private caucus during the Mediation shall remain confidential unless such Mediation Party authorizes disclosure.

15. THIS COURT ORDERS that nothing in this Order nor the participation of any party in the Mediation shall provide such party with rights within these proceedings than such party may otherwise have.

16. THIS COURT ORDERS that, subject to any applicable stay of proceedings, nothing in this Order shall prevent the Applicant, the Monitor or any other party of standing from otherwise pursuing the resolution of claims under the Claims Procedure Order granted by this Court on May 14, 2012, or any other matter in these CCAA proceedings, including without limitation, the filing and advancement of the Meetings Order and a Plan.

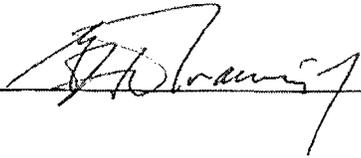
CONFIDENTIALITY

17. THIS COURT ORDERS that any mediation briefs or other documents filed by the Mediation Parties shall be used only in the context of the Mediation and for no other purpose and shall be kept confidential by all such parties irrespective of whether such Mediation Parties sign a confidentiality agreement.

18. THIS COURT ORDERS that any mediation briefs or other documents filed by the Mediation Parties that contain information obtained from the Data Room may not be shared with or otherwise disclosed to any person or entity that has not signed a confidentiality agreement, other than the Applicant, the incumbent directors of the Applicant, the Monitor and Mediator.

MISCELLANEOUS

19. THIS COURT ORDERS that the terms of this Order may only be varied by further Order of this Court, which may be sought on an ex parte basis on consent of the Mediation Parties.



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FILED BY / DÉPOSÉ À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO:
JUL 25 2012

PER/PAR:

NB

**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)

**ORDER
(Mediation)**

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Barristers and Solicitors
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TORONTO, Ontario
M5X 1G5

Derrick Tay / Clifton Prophet / Jennifer Stam
LSUC Nos.: 21152A / 34345K / 46735J

Telephone: (416) 862-7525
Facsimile: (416) 862-7661

Lawyers for FTI Consulting Canada Inc.,
in its capacity as Monitor of the Applicant

TAB 11

CONFIDENTIALITY, NON-DISCLOSURE AND NON-USE AGREEMENT

THIS AGREEMENT is made this _____ day of _____, 2012

BETWEEN:

Sino-Forest Corporation, on its own behalf and on behalf of its affiliates
(collectively, "**Sino-Forest**")

- and -

(the "**Recipient**")

RECITALS

- A. In connection with the claim or claims filed by or on behalf of the Recipient in Sino-Forest's proceedings pursuant to the Companies' Creditors Arrangement Act (the "**CCAA Proceedings**"), including any potential settlement, mediation or determination in respect thereof within the context of the CCAA Proceedings (the "**Claims**"), Sino-Forest is prepared to furnish the Recipient with certain information that is non-public, confidential and/or proprietary in nature.
- B. As a condition to Sino-Forest furnishing such information to the Recipient, Sino-Forest requires the Recipient to agree to the terms and conditions contained herein.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by each of Sino-Forest and the Recipient (collectively, the "**Parties**"), the Parties hereby agree as follows:

DEFINITIONS

1. In this Agreement, but subject to section 2, the term "**Information**" means all information in whatever form (including, without limitation, written, oral and electronic information) that has been or is hereafter furnished to, or that has or hereafter comes into the knowledge or possession of the Recipient and/or the Recipient's partners, directors, officers, employees, agents, representatives, including the Recipient's lawyers, accountants, consultants and financial or other advisors (collectively with the Recipient, the "**Recipient Representatives**"), whether disclosed by Sino-Forest directly or on its behalf through Sino-Forest's affiliates or any of their respective associates, directors, officers, employees, agents or representatives, including Sino-Forest's lawyers, accountants, consultants and financial or other advisors (collectively, "**Sino-Forest Representatives**"), concerning the business, affairs, operations, results of operations,

contracts, liabilities, properties, prospects, financial condition or assets of Sino-Forest (including, without limitation, its affiliates and associates) and/or any potential arrangement, restructuring, transaction or series of transactions (any of the foregoing, a "**Transaction**") concerning Sino-Forest or its affiliates, and all analyses, compilations, data, studies or other documents or records (whether in writing or stored in computerized, electronic, disc, tape, flash drive or any other form) prepared by any Recipient Representative insofar as such analyses, compilations, data, studies or other documents or records contain or are based upon any such information.

2. The definition of "Information" shall not include information which:
 - (a) is or becomes within the public domain through no fault of or action by the Recipient Representatives;
 - (b) was rightfully in the possession of the Recipient prior to the date of this agreement without any duty or obligation of confidentiality or becomes rightfully and freely available to the Recipient, without any duty or obligation of confidentiality, from a person other than Sino-Forest or any Sino-Forest Representative, provided that such person had a legal right to disclose such information to the Recipient free of any obligation of confidentiality of any kind directly or indirectly to Sino-Forest or any Sino-Forest Representative; or
 - (c) was or is independently developed by or on behalf of the Recipient without any use of the Information.
3. In this Agreement, the terms "affiliate" and "associate" have the meanings ascribed thereto under the *Securities Act* (Ontario) and the term "person" means any individual, corporation, partnership, joint venture, association, trust, unincorporated organization, governmental authority or any agency or instrumentality thereof or any other entity.

PERMITTED USE

4. The Recipient acknowledges and agrees that the Recipient Representatives will receive the Information solely in connection with the CCAA Proceedings and the Claims filed by them or on their behalf in the CCAA Proceedings (the "**Permitted Use**"). The Recipient Representatives shall accept and hold such Information in strict confidence in accordance with the terms and provisions contained herein. The Information shall not be used in connection with any litigation, administrative or other action or any other proceeding against Sino-Forest or its affiliates, associates, or current or former directors, officers, employees, agents or representatives.
5. Nothing in this Agreement constitutes a waiver or restriction of any rights at law to separately compel production or disclosure of any information as part of any legal proceeding or the use of such information so separately compelled or disclosed as permitted by the rules of civil procedure or applicable law.

6. The Recipient represents and warrants to Sino Forest that it has the capacity and authority to enter into this Agreement.

CONFIDENTIALITY

7. Except as expressly permitted herein, the Information shall be kept confidential and the Recipient Representatives shall not:
- (a) disclose any of the Information to any other person in any manner whatsoever anywhere in the world, including, without limitation, in the People's Republic of China, Hong Kong, Canada, the British Virgin Islands, the Cayman Islands, Barbados or the United States of America;
 - (b) permit any other person to have access to any of such Information; or
 - (c) use or permit any person to use any of such Information for any purpose other than the Permitted Use,

unless in each such case (i) Sino-Forest has provided prior written consent for any such disclosure, access or use, or (ii) such person has executed with Sino-Forest a confidentiality agreement acceptable to Sino-Forest in respect thereof.

8. Except as otherwise expressly provided for herein, the Recipient may transmit the Information to, and only to, Recipient Representatives, but only to the extent that the Recipient Representatives need to know such Information, for the sole purpose of the Permitted Use and only to the extent that any agents, representatives or advisors of the Recipient to which such Information is transmitted have either executed a form of confidentiality agreement acceptable to Sino-Forest or have agreed in writing to Sino-Forest to be bound by this Agreement and to be responsible for any breach of their obligations thereunder or hereunder (which such agreement may be evidenced by executing this Agreement as a Recipient Representative). With respect to any of the Recipient Representatives who have not executed their own confidentiality agreements directly with Sino-Forest, the Recipient shall notify such Recipient Representatives in writing of the obligation to protect the confidentiality of the Information and the other obligations hereunder, and shall require such Recipient Representatives to use the same degree of care as is used with their own confidential information, which shall not be less than reasonable care. The Recipient shall be responsible for any breach of the obligations hereunder by it or by any of the Recipient Representatives who have not executed their own confidentiality agreements directly with Sino-Forest.
9. During the term of this Agreement as provided by section 16, and except as otherwise expressly provided herein, the Recipient covenants and agrees with Sino-Forest that the Recipient shall not directly or indirectly, either alone or in conjunction with any person, whether as principal, agent, shareholder, officer, director, consultant, manager, owner, partner, limited partner, joint venturer, employee, trustee or in any other capacity whatsoever, and except as is agreed to in writing by Sino-Forest:
- (a) use the Information for any purpose other than the Permitted Use; or

- (b) make any public announcement or disclosure of or with respect to the Information.
10. The Recipient acknowledges and agrees that access by it or any Recipient Representative to the Information may provide the Recipient Representatives with material information concerning Sino-Forest which has not been publicly disclosed. Accordingly, the Recipient Representatives may be subject to applicable securities or other laws that would restrict their ability to disclose the Information to other persons or trade in any of Sino-Forest's securities. The Recipient acknowledges and agree that it is aware of such laws.

STORAGE AND RETURN

11. The Recipient Representatives shall store all Information in a proper and secure manner. Upon termination of this Agreement, the Recipient Representatives shall, promptly upon written request from Sino-Forest, return or destroy all of the Information. Such return or destruction, however, does not abrogate or diminish the continuing obligations of the Recipient Representatives under this Agreement.

NO OBLIGATION TO PROVIDE INFORMATION

12. It is understood and agreed that this Agreement does not obligate Sino-Forest to provide any Information to any of the Recipient Representatives.

ABSENCE OF REPRESENTATIONS OR WARRANTIES

13. The Recipient acknowledges and agrees that:
- (a) neither Sino-Forest nor the Sino-Forest Representatives are making any representation or warranty, express or implied, as to the accuracy or completeness of any Information disclosed to any of the Recipient Representatives and that Sino-Forest on behalf of itself and the Sino-Forest Representatives, expressly disclaims any liability to the any of the Recipient Representatives resulting from any reliance upon or use of any of the Information by any of the Recipient Representatives, which disclaimer is hereby accepted by the Recipient on its own behalf and on behalf of each and every Recipient Representative;
 - (b) the Information may include certain assumptions, statements, estimates and projections with respect to the anticipated future performance of Sino-Forest's business or Sino-Forest or with respect to particular aspects of Sino-Forest's business or Sino-Forest;
 - (c) neither Sino-Forest nor the Sino-Forest Representatives make any representation or warranty as to the accuracy or reasonableness of such assumptions, statements, estimates or projections;
 - (d) neither Sino-Forest nor the Sino-Forest Representatives will have any liability to any of the Recipient Representatives in any way pertaining to the Information,

including without limitation any reliance upon or use of any of the Information by or on behalf of any of the Recipient Representatives; and

- (e) Sino-Forest has executed this Agreement on its own behalf and on behalf of the Sino-Forest Representatives, including, without limitation, Sino-Forest's affiliates, wherever incorporated, and that all such Sino-Forest Representatives shall be entitled to enforce this agreement either directly or through Sino-Forest acting as their agent and attorney,

provided, for greater certainty that nothing in this section 13 shall affect any rights or causes of action that any person may have in relation to information disclosed prior to the date of this Agreement, insofar as such rights or causes of action are independent from and not related to the provision of materials and information pursuant to this Agreement.

INJUNCTIVE RELIEF

- 14. The Recipient further acknowledges and agrees that:
 - (a) a breach of this Agreement may result in material, direct and consequential damages to Sino-Forest;
 - (b) Sino-Forest would not have an adequate remedy at law and would be harmed irreparably in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached;
 - (c) Sino-Forest will be entitled, without proof of actual damages, to injunctive or other equitable relief to prevent any breach or further breach of this Agreement and to enforce specifically the terms and provisions hereof, all in addition to any other remedy to which Sino-Forest may be entitled at law; and
 - (d) in the event of a breach of this Agreement, the Recipient hereby irrevocably consents to the grant of any such equitable relief.

NOTICES

- 15. Any demand, notice or other communication to be given in connection with this Agreement must be given in writing by personal delivery and electronic mail, or by transmittal by electronic mail and fax addressed to the recipient as follows:

- (a) if to Sino-Forest:

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

Attention: Mr. Judson Martin, Chief Executive Officer
Fax: +852 2877 0062
Email: judson-martin@sinoforest.com

with a copy to:

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

Attention: Robert W. Staley and Kevin J. Zych
Fax: (416) 863 1716

Email: staleyr@bennettjones.com / zychk@bennettjones.com

(b) if to the Recipient:

Name:

Address :

Fax:

Email:

With a copy to:

or to such other address or fax number or individual as may be designated by notice given by one party to the other. Any communication given by personal delivery will be conclusively deemed to have been given on the day of actual delivery to the recipient and any party required to be copied and, if given by email or fax, on the day of transmittal if transmitted prior to 5:00 p.m. (Toronto time) on a business day, or the next business day if transmitted after 5:00 p.m. Service upon Bennett Jones LLP shall not constitute service or notice of any document to Sino-Forest.

TERM AND TERMINATION

16. This Agreement shall become effective as of the date first written above. This Agreement shall terminate upon the earliest of: (i) the date that is ten years after the effective date of this Agreement; (ii) the public disclosure by Sino-Forest of all material non-public information received by the Recipient Representatives; (iii) upon the date of an order of a court of competent jurisdiction terminating this Agreement; or (iv) as may be otherwise mutually agreed in writing by the Parties.
17. Except as otherwise specifically approved by Sino-Forest, during the period commencing on the date of this Agreement and terminating only in the event of the issuance of an order of a court of competent jurisdiction or as otherwise mutually agreed to in writing by the Parties, none of the Recipient Representatives shall, directly or indirectly make or

participate in any solicitation of proxies from Sino-Forest's security holders based upon any Information disclosed to any of the Recipient Representatives.

NO WAIVER

18. No failure or delay by Sino-Forest in exercising any right, power or privilege under this Agreement, or any single or partial exercise thereof, shall operate as a waiver or preclude any other or future exercise of any right, power or privilege hereunder.

NON-ASSIGNMENT AND ENUREMENT

19. The Recipient may not assign this Agreement or any of their rights or obligations hereunder. Subject to the foregoing, this Agreement shall benefit and be binding upon the Parties and their respective successors.

ENTIRE AGREEMENT

20. This Agreement contains the entire understanding of the Parties with respect to the subject matter contained herein and supersedes all prior agreements and understandings between the Parties with respect to such subject matter. This Agreement may be amended only by written instrument duly executed by the Parties.

GOVERNING LAW

21. This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

SUBMISSION TO JURISDICTION / JURY TRIAL WAIVER

22. Each Party irrevocably submits to the non-exclusive jurisdiction of the courts of competent jurisdiction in the Province of Ontario in respect of any action or proceeding relating in any way to the Parties' obligations under this Agreement (but not otherwise) (an "Agreement Action"). Each Party consents to an Agreement Action being tried in Toronto and, in particular, being placed on the Commercial List of the Ontario Superior Court of Justice. The Parties shall not raise any objection to the venue of an Agreement Action in any such court, including the objection that the Agreement Action has been brought in an inconvenient forum. A final judgement or order in an Agreement Action may be enforced in other jurisdictions (including, without limitation, in the People's Republic of China, Hong Kong, the British Virgin Islands, the Cayman Islands, Barbados and the United States of America and any province, state or territory of any of the foregoing) by suit on the judgment or in any other manner specified by law and shall not be re-litigated on the merits. The Parties waive any right to trial by jury in an Agreement Action, whether sounding in contract, tort or otherwise. Any Party may file a copy of this paragraph with any such court as written evidence of the knowing, voluntary and bargained for agreement between the Parties irrevocably to waive trial by jury in respect of an Agreement Action, and that any such Agreement Action shall instead be tried by a judge or judges sitting without a jury.

MAINTENANCE OF PRIVILEGE

23. The Recipient acknowledges that certain of the Information to which the Recipient Representatives may be given access pursuant to this Agreement is information to which privilege may attach (collectively, "**Privileged Information**"). The Recipient acknowledges and agrees that access to any Privileged Information is being provided solely for the purposes set out in this Agreement and that such access is not intended and should not be interpreted as a waiver of any privilege in respect of Privileged Information or of any right to assert or claim privilege in respect of Privileged Information. To the extent that there is any waiver of privilege, it is intended to be a limited waiver in favour of the Recipient, solely for the purposes and on the terms set out in this Agreement and will not constitute a waiver of any other type of privilege or for any other purpose. The Recipient shall, at the request and at the expense of Sino-Forest, cooperate in any claim by Sino-Forest to assert privilege in respect of Privileged Information.

RESTRICTIONS ON COMMUNICATIONS

24. The Recipient acknowledges and agrees that Bennett Jones LLP ("**Bennett**") and FTI Consulting Canada Inc., as the Court Appointed Monitor of Sino-Forest Corporation (the "**Monitor**") shall co-ordinate the Recipient Representatives' access to Information and the Recipient agrees that (i) requests for any additional Information, and (ii) discussions or questions regarding access to Information and data room procedures shall, in each case, be directed by the Recipient Representatives exclusively to both Bennett and the Monitor. The Recipient agrees that, except as set out above in this section 24 or otherwise agreed to in writing by Sino-Forest, no Recipient Representative shall contact, meet with, request Information from or communicate with any Sino-Forest Representatives with a view to discussing in any manner the Information.

COUNTERPARTS

25. This Agreement may be executed and delivered in any number of counterparts and by facsimile or PDF, each of which shall be deemed to be an original, and all such respective counterparts shall together constitute one and the same instrument.

The remainder of this page is intentionally left blank and the execution page follows.

IN WITNESS WHEREOF the Parties have mutually agreed to all of the terms and conditions herein as of the date first set out above.

SINO-FOREST CORPORATION, on its own behalf and on behalf of its affiliates

By: _____
Name:
Title:

NAME OF RECIPIENT:

By: _____
Name:
Title:

AGREEMENT OF RECIPIENT REPRESENTATIVE TO BE BOUND:

The undersigned acknowledges and agrees that it is a Recipient Representative and, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the undersigned, the undersigned agrees to be bound by all terms and conditions of this Agreement

NAME OF RECIPIENT REPRESENTATIVE:

By: _____
Name:
Title:

TAB 12

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P.002

CITATION: Sino-Forest Corporation (Re), 2012 ONSC 4377
COURT FILE NO.: CV-12-9667-00CL
DATE: 20120727

SUPERIOR COURT OF JUSTICE – ONTARIO

(COMMERCIAL LIST)

RE: 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, Applicant

BEFORE: MORAWETZ J.

COUNSEL: Robert W. Stalcy and Jonathan Bell, for the Applicant

Jennifer Stam, for the Monitor

Kenneth Dekker, for BDO Limited

Peter Griffin and Peter Osborne, for Ernst & Young LLP

Benjamin Zarnett, Robert Chadwick and Brendan O'Neill, for the Ad Hoc Committee of Noteholders

James Grout, for the Ontario Securities Commission

Emily Cole and Joseph Marin, for Allen Chan

Simon Bieber, for David Horsley

David Bish, John Fabello and Adam Slavens, for the Underwriters Named in the Class Action

Max Starnino and Kirk Baert, for the Ontario Plaintiffs

Larry Lowenstein, for the Board of Directors

HEARD: June 26, 2012

ENDORSEMENT

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Overview

[1] Sino-Forest Corporation ("SFC" or the "Applicant") seeks an order directing that claims against SFC, which result from the ownership, purchase or sale of an equity interest in SFC, are "equity claims" as defined in section 2 of the *Companies' Creditors Arrangement Act* ("CCAA") including, without limitation: (i) the claims by or on behalf of current or former shareholders asserted in the proceedings listed in Schedule "A" (collectively, the "Shareholder Claims"); and (ii) any indemnification claims against SFC related to or arising from the Shareholder Claims, including, without limitation, those by or on behalf of any of the other defendants to the proceedings listed in Schedule "A" (the "Related Indemnity Claims").

[2] SFC takes the position that the Shareholder Claims are "equity claims" as defined in the CCAA as they are claims in respect of a monetary loss resulting from the ownership, purchase or sale of an equity interest in SFC and, therefore, come within the definition. SFC also takes the position that the Related Indemnity Claims are "equity claims" as defined in the CCAA as they are claims for contribution or indemnity in respect of a claim that is an equity claim and, therefore, also come within the definition.

[3] On March 30, 2012, the court granted the Initial Order providing for the CCAA stay against SFC and certain of its subsidiaries. FTI Consulting Canada Inc. was appointed as Monitor.

[4] On the same day, the Sales Process Order was granted, approving Sales Process procedures and authorizing and directing SFC, the Monitor and Houlihan Lokey to carry out the Sales Process.

[5] On May 14, 2012, the court issued a Claims Procedure Order, which established June 20, 2012 as the Claims Bar Date.

[6] The stay of proceedings has since been extended to September 28, 2012.

[7] Since the outset of the proceedings, SFC has taken the position that it is important for these proceedings to be completed as soon as possible in order to, among other things, (i) enable the business operated in the Peoples Republic of China ("PRC") to be separated from SFC and put under new ownership; (ii) enable the restructured business to participate in the Q4 sales season in the PRC market; and (iii) maintain the confidence of stakeholders in the PRC (including local and national governmental bodies, PRC lenders and other stakeholders) that the business in the PRC can be successfully separated from SFC and operate in the ordinary course in the near future.

[8] SFC has negotiated a Support Agreement with the Ad Hoc Committee of Noteholders and intends to file a plan of compromise or arrangement (the "Plan") under the CCAA by no later than August 27, 2012, based on the deadline set out in the Support Agreement and what they submit is the commercial reality that SFC must complete its restructuring as soon as possible.

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[9] Noteholders holding in excess of \$1.296 billion, or approximately 72% of the approximately \$1.8 billion of SFC's noteholders' debt, have executed written support agreements to support the SFC CCAA Plan as of March 30, 2012.

Shareholder Claims Asserted Against SFC

(i) Ontario

[10] By Fresh as Amended Statement of Claim dated April 26, 2012 (the "Ontario Statement of Claim"), the Trustees of the Labourers' Pension Fund of Central and Eastern Canada and other plaintiffs asserted various claims in a class proceeding (the "Ontario Class Proceedings") against SFC, certain of its current and former officers and directors, Ernst & Young LLP ("E&Y"), BDO Limited ("BDO"), Poyry (Beijing) Consulting Company Limited ("Poyry") and SFC's underwriters (collectively, the "Underwriters").

[11] Section 1(m) of the Ontario Statement of Claim defines "class" and "class members" as:

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 securities include those acquired over the counter, and all persons and entities who acquired Sino's Securities during the Class Period who are resident of Canada or were resident of Canada at the time of acquisition and who acquired Sino's Securities outside of Canada, except the Excluded Persons.

[12] The term "Securities" is defined as "Sino's common shares, notes and other securities, as defined in the OSA". The term "Class Period" is defined as the period from and including March 19, 2007 up to and including June 2, 2011.

[13] The Ontario Class Proceedings seek damages in the amount of approximately \$9.2 billion against SFC and the other defendants.

[14] The thrust of the complaint in the Ontario Class Proceedings is that the class members are alleged to have purchased securities at "inflated prices during the Class Period" and that absent the alleged misconduct, sales of such securities "would have occurred at prices that reflected the true value" of the securities. It is further alleged that "the price of Sino's Securities was directly affected during the Class Period by the issuance of the Impugned Documents".

(ii) Quebec

[15] By action filed in Quebec on June 9, 2011, Guining Liu commenced an action (the "Quebec Class Proceedings") against SFC, certain of its current and former officers and directors, E&Y and Poyry. The Quebec Class Proceedings do not name BDO or the Underwriters as defendants. The Quebec Class Proceedings also do not specify the quantum of damages sought, but rather reference "damages in an amount equal to the losses that it and the other members of the group suffered as a result of purchasing or acquiring securities of Sino at inflated prices during the Class Period".

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[16] The complaints in the Quebec Class Proceedings centre on the effect of alleged misrepresentations on the share price. The duty allegedly owed to the class members is said to be based in "law and other provisions of the *Securities Act*", to ensure the prompt dissemination of truthful, complete and accurate statements regarding SFC's business and affairs and to correct any previously-issued materially inaccurate statements.

(iii) Saskatchewan

[17] By Statement of Claim dated December 1, 2011 (the "Saskatchewan Statement of Claim"), Mr. Allan Haigh commenced an action (the "Saskatchewan Class Proceedings") against SFC, Allen Chan and David Horsley.

[18] The Saskatchewan Statement of Claim does not specify the quantum of damages sought, but instead states in more general terms that the plaintiff seeks "aggravated and compensatory damages against the defendants in an amount to be determined at trial".

[19] The Saskatchewan Class Proceedings focus on the effect of the alleged wrongful acts upon the trading price of SFC's securities:

The price of Sino's securities was directly affected during the Class Period by the issuance of the Impugned Documents. The defendants were aware at all material times that the effect of Sino's disclosure documents upon the price of its Sino's [sic] securities.

(iv) New York

[20] By Verified Class Action Complaint dated January 27, 2012, (the "New York Complaint"), Mr. David Leopard and IMF Finance SA commenced a class proceeding against SFC, Mr. Allen Chan, Mr. David Horsley, Mr. Kai Kit Poon, a subset of the Underwriters, E&Y, and Ernst & Young Global Limited (the "New York Class Proceedings").

[21] SFC contends that the New York Class Proceedings focus on the effect of the alleged wrongful acts upon the trading price of SFC's securities.

[22] The plaintiffs in the various class actions have named parties other than SFC as defendants, notably, the Underwriters and the auditors, E&Y, and BDO, as summarized in the table below. The positions of those parties are detailed later in these reasons.

	Ontario	Quebec	Saskatchewan	New York
E&Y LLP	X	X	-	X
E&Y Global	-	-	-	X
BDO	X	-	-	-

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Poyry	X	X	-	-
Underwriters	11	-	-	2

Legal Framework

[23] Even before the 2009 amendments to the CCAA dealing with equity claims, courts recognized that there is a fundamental difference between shareholder equity claims as they relate to an insolvent entity versus creditor claims. Essentially, shareholders cannot reasonably expect to maintain a financial interest in an insolvent company where creditor claims are not being paid in full. Simply put, shareholders have no economic interest in an insolvent enterprise: *Blue Range Resource Corp. (Re)*, (2004) 4 W.W.R. 738 (Alta. Q.B.) [*Blue Range Resources*]; *Stelco Inc. (Re)*, (2006) CanLII 1773 (Ont. S.C.J.) [*Stelco*]; *Royal Bank of Canada v. Central Capital Corp.* (1996), 27 O.R. (3d) 494 (C.A.).

[24] The basis for the differentiation flows from the fundamentally different nature of debt and equity investments. Shareholders have unlimited upside potential when purchasing shares. Creditors have no corresponding upside potential: *Nelson Financial Group Limited (Re)*, 2010 ONSC 6229 [*Nelson Financial*].

[25] As a result, courts subordinated equity claims and denied such claims a vote in plans of arrangement: *Blue Range Resource, supra*; *Stelco, supra*; *EarthFirst Canada Inc. (Re)* (2009), 56 C.B.R. (5th) 102 (Alta. Q.B.) [*EarthFirst Canada*]; and *Nelson Financial, supra*.

[26] In 2009, significant amendments were made to the CCAA. Specific amendments were made with the intention of clarifying that equity claims are subordinated to other claims.

[27] The 2009 amendments define an “equity claim” and an “equity interest”. Section 2 of the CCAA includes the following definitions:

“Equity Claim” means a claim that is in respect of an equity interest, including a claim for, among others, (...)

(d) a monetary loss resulting from the ownership, purchase or sale of an equity interest or from the rescission, or, in Quebec, the annulment, of a purchase or sale of an equity interest, or

(e) contribution or indemnity in respect of a claim referred to in any of paragraphs (a) to (d);

“Equity Interest” means

(a) in the case of a company other than an income trust, a share in the company – or a warrant or option or another right to acquire a share in the company – other than one that is derived from a convertible debt,

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[28] Section 6(8) of the CCAA prohibits a distribution to equity claimants prior to payment in full of all non-equity claims.

[29] Section 22(1) of the CCAA provides that equity claimants are prohibited from voting on a plan unless the court orders otherwise.

Position of Ernst & Young

[30] E&Y opposes the relief sought, at least as against E&Y, since the E&Y proof of claim evidence demonstrates in its view that E&Y's claim:

- (a) is not an equity claim;
- (b) does not derive from or depend upon an equity claim (in whole or in part);
- (c) represents discreet and independent causes of action as against SFC and its directors and officers arising from E&Y's direct contractual relationship with such parties (or certain of such parties) and/or the tortious conduct of SFC and/or its directors and officers for which they are in law responsible to E&Y; and
- (d) can succeed independently of whether or not the claims of the plaintiffs in the class actions succeed.

[31] In its factum, counsel to E&Y acknowledges that during the periods relevant to the Class Action Proceedings, E&Y was retained as SFC's auditor and acted as such from 2007 until it resigned on April 5, 2012.

[32] On June 2, 2011, Muddy Waters LLC ("Muddy Waters") issued a report which purported to reveal fraud at SFC. In the wake of that report, SFC's share price plummeted and Muddy Waters profited from its short position.

[33] E&Y was served with a multitude of class action claims in numerous jurisdictions.

[34] The plaintiffs in the Ontario Class Proceedings claim damages in the aggregate, as against all defendants, of \$9.2 billion on behalf of resident and non-resident shareholders and noteholders. The causes of action alleged are both statutory, under the *Securities Act (Ontario)* and at common law, in negligence and negligent misrepresentation.

[35] In its factum, counsel to E&Y acknowledges that the central claim in the class actions is that SFC made a series of misrepresentations in respect of its timber assets. The claims against E&Y and the other third party defendants are that they failed to detect these misrepresentations and note in particular that E&Y's audit did not comply with Canadian generally accepted accounting standards. Similar claims are advanced in Quebec and the U.S.

[36] Counsel to E&Y notes that on May 14, 2012 the court granted a Claims Procedure Order which, among other things, requires proofs of claim to be filed no later than June 20, 2012. E&Y takes issue with the fact that this motion was then brought notwithstanding that proofs of claim and D&O proofs of claim had not yet been filed.

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[37] E&Y has filed with the Monitor, in accordance with the Claims Procedure Order, a proof of claim against SFC and a proof of claim against the directors and officers of SFC.

[38] E&Y takes the position that it has contractual claims of indemnification against SFC and its subsidiaries and has statutory and common law claims of contribution and/or indemnity against SFC and its subsidiaries for all relevant years. E&Y contends that it has stand-alone claims for breach of contract and negligent and/or fraudulent misrepresentation against the company and its directors and officers.

[39] Counsel submits that E&Y's claims against Sino-Forest and the SFC subsidiaries are:

- (a) creditor claims;
- (b) derived from E&Y retainers by and/or on behalf of Sino-Forest and the SFC subsidiaries and E&Y's relationship with such parties, all of which are wholly independent and conceptually different from the claims advanced by the class action plaintiffs;
- (c) claims that include the cost of defending and responding to various proceedings, both pre- and post-filing; and
- (d) not equity claims in the sense contemplated by the CCAA. E&Y's submission is that equity holders of Sino-Forest have not advanced, and could not advance, any claims against SFC's subsidiaries.

[40] Counsel further contends that E&Y's claim is distinct from any and all potential and actual claims by the plaintiffs in the class actions against Sino-Forest and that E&Y's claim for contribution and/or indemnity is not based on the claims against Sino-Forest advanced in the class actions but rather only in part on those claims, as any success of the plaintiffs in the class actions against E&Y would not necessarily lead to success against Sino-Forest, and vice versa. Counsel contends that E&Y has a distinct claim against Sino-Forest independent of that of the plaintiffs in the class actions. The success of E&Y's claims against Sino-Forest and the SFC subsidiaries, and the success of the claims advanced by the class action plaintiffs, are not co-dependent. Consequently, counsel contends that E&Y's claim is that of an unsecured creditor.

[41] From a policy standpoint, counsel to E&Y contends that the nature of the relationship between a shareholder, who may be in a position to assert an equity claim (in addition to other claims) is fundamentally different from the relationship existing between a corporation and its auditors.

Position of BDO Limited

[42] BDO was auditor of Sino-Forest Corporation between 2005 and 2007, when it was replaced by E&Y.

[43] BDO has a filed a proof of claim against Sino-Forest pursuant to the Claims Procedure Order.

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[44] BDO's claim against Sino-Forest is primarily for breach of contract.

[45] BDO takes the position that its indemnity claims, similar to those advanced by E&Y and the Underwriters, are not equity claims within the meaning of s. 2 of the CCAA.

[46] BDO adopts the submissions of E&Y which, for the purposes of this endorsement, are not repeated.

Position of the Underwriters

[47] The Underwriters take the position that the court should not decide the equity claims motion at this time because it is premature or, alternatively, if the court decides the equity claims motion, the equity claims order should not be granted because the Related Indemnity Claims are not "equity claims" as defined in s. 2 of the CCAA.

[48] The Underwriters are among the defendants named in some of the class actions. In connection with the offerings, certain Underwriters entered into agreements with Sino-Forest and certain of its subsidiaries providing that Sino-Forest and, with respect to certain offerings, the Sino-Forest subsidiary companies, agree to indemnify and hold harmless the Underwriters in connection with an array of matters that could arise from the offerings.

[49] The Underwriters raise the following issues:

- (i) Should this court decide the equity claims motion at this time?
- (ii) If this court decides the equity claims motion at this time, should the equity claims order be granted?

[50] On the first issue, counsel to the Underwriters takes the position that the issue is not yet ripe for determination.

[51] Counsel submits that, by seeking the equity claims order at this time, Sino-Forest is attempting to pre-empt the Claims Procedure Order, which already provides a process for the determination of claims. Until such time as the claims procedure in respect of the Related Indemnity Claims is completed, and those claims are determined pursuant to that process, counsel contends the subject of the equity claims motion raises a merely hypothetical question as the court is being asked to determine the proper interpretation of s. 2 of the CCAA before it has the benefit of an actual claim in dispute before it.

[52] Counsel further contends that by asking the court to render judgment on the proper interpretation of s. 2 of the CCAA in the hypothetical, Sino-Forest has put the court in a position where its judgment will not be made in the context of particular facts or with a full and complete evidentiary record.

[53] Even if the court determines that it can decide this motion at this time, the Underwriters submit that the relief requested should not be granted.

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Position of the Applicant

[54] The Applicant submits that the amendments to the CCAA relating to equity claims closely parallel existing U.S. law on the subject and that Canadian courts have looked to U.S. courts for guidance on the issue of equity claims as the subordination of equity claims has long been codified there: see e.g. *Blue Range Resources, supra*, and *Nelson Financial, supra*.

[55] The Applicant takes the position that based on the plain language of the CCAA, the Shareholder Claims are "equity claims" as defined in s. 2 as they are claims in respect of a "monetary loss resulting from the ownership, purchase or sale of an equity interest".

[56] The Applicant also submits the following:

- (a) the Ontario, Quebec, Saskatchewan and New York Class Actions (collectively, the "Class Actions") all advance claims on behalf of shareholders.
- (b) the Class Actions also allege wrongful conduct that affected the trading price of the shares, in that the alleged misrepresentation "artificially inflated" the share price; and
- (c) the Class Actions seek damages relating to the trading price of SFC shares and, as such, allege a "monetary loss" that resulted from the ownership, purchase or sale of shares, as defined in s. 2 of the CCAA.

[57] Counsel further submits that, as the Shareholder Claims are "equity claims", they are expressly subordinated to creditor claims and are prohibited from voting on the plan of arrangement.

[58] Counsel to the Applicant also submits that the definition of "equity claims" in s. 2 of the CCAA expressly includes indemnity claims that relate to other equity claims. As such, the Related Indemnity Claims are equity claims within the meaning of s. 2.

[59] Counsel further submits that there is no distinction in the CCAA between the source of any claim for contribution or indemnity; whether by statute, common law, contractual or otherwise. Further, and to the contrary, counsel submits that the legal characterization of a contribution or indemnity claim depends solely on the characterization of the primary claim upon which contribution or indemnity is sought.

[60] Counsel points out that in *Return on Innovation Capital v. Gandi Innovations Limited*, 2011 ONSC 5018, leave to appeal denied, 2012 ONCA 10 [*Return on Innovation*] this court characterized the contractual indemnification claims of directors and officers in respect of an equity claim as "equity claims".

[61] Counsel also submits that guidance on the treatment of underwriter and auditor indemnification claims can be obtained from the U.S. experience. In the U.S., courts have held that the indemnification claims of underwriters for liability or defence costs constitute equity claims that are subordinated to the claims of general creditors. Counsel submits that insofar as

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the primary source of liability is characterized as an equity claim, so too is any claim for contribution and indemnity based on that equity claim.

[62] In this case, counsel contends, the Related Indemnity Claims are clearly claims for "contribution and indemnity" based on the Shareholder Claims.

Position of the Ad Hoc Noteholders

[63] Counsel to the Ad Hoc Noteholders submits that the Shareholder Claims are "equity claims" as they are claims in respect of an equity interest and are claims for "a monetary loss resulting from the ownership, purchase or sale of an equity interest" per subsection (d) of the definition of "equity claims" in the CCAA.

[64] Counsel further submits that the Related Indemnity Claims are also "equity claims" as they fall within the "clear and unambiguous" language used in the definition of "equity claim" in the CCAA. Subsection (e) of the definition refers expressly and without qualification to claims for "contribution or indemnity" in respect of claims such as the Shareholder Claims.

[65] Counsel further submits that had the legislature intended to qualify the reference to "contribution or indemnity" in order to exempt the claims of certain parties, it could have done so, but it did not.

[66] Counsel also submits that, if the plain language of subsection (e) is not upheld, shareholders of SFC could potentially create claims to receive indirectly what they could not receive directly (*i.e.*, payment in respect of equity claims through the Related Indemnity Claims) – a result that could not have been intended by the legislature as it would be inconsistent with the purposes of the CCAA.

[67] Counsel to the Ad Hoc Noteholders also submits that, before the CCAA amendments in 2009 (the "CCAA Amendments"), courts subordinated claims on the basis of:

- (a) the general expectations of creditors and shareholders with respect to priority and assumption of risks; and
- (b) the equitable principles and considerations set out in certain U.S. cases: see e.g. *Blue Range Resources, supra*.

[68] Counsel further submits that, before the CCAA Amendments took effect, courts had expanded the types of claims characterized as equity claims; first to claims for damages of defrauded shareholders and then to contractual indemnity claims of shareholders; see *Blue Range Resources, supra* and *EarthFirst Canada, supra*.

[69] Counsel for the Ad Hoc Noteholders also submits that indemnity claims of underwriters have been treated as equity claims in the United States, pursuant to section 510(b) of the U.S. Bankruptcy Code. This submission is detailed at paragraphs 20-25 of their factum which reads as follows:

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20. The desire to more closely align the Canadian approach to equity claims with the U.S. approach was among the considerations that gave rise to the codification of the treatment of equity claims. Canadian courts have also looked to the U.S. law for guidance on the issue of equity claims where codification of the subordination of equity claims has been long-standing.

Janis Sarra at p. 209, Ad Hoc Committee's Book of Authorities, Tab 10.

Report of the Standing Senate Committee on Banking, Trade and Commerce, "Debtors and Creditors Sharing the Burden: A Review of the *Bankruptcy and Insolvency Act* and the *Companies' Creditors Arrangement Act*" (2003) at 158, [...]

Blue Range [Resources] at paras. 41-57 [...]

21. Pursuant to § 510(b) of the *U.S. Bankruptcy Code*, all creditors must be paid in full before shareholders are entitled to receive any distribution. § 510(b) of the *U.S. Bankruptcy Code* and the relevant portion of § 502, which is referenced in § 510(b), provide as follows:

§ 510. Subordination

(b) For the purpose of distribution under this title, a claim arising from rescission of a purchase or sale of a security of the debtor or of an affiliate of the debtor, for damages arising from the purchase or sale of such a security, or for reimbursement or contribution allowed under 502 on account of such a claim, shall be subordinated to all claims or interests that are senior to or equal the claim or interest represented by such security, except that if such security is common stock, such claim has the same priority as common stock.

§ 502. Allowance of claims or interests

(e) (1) Notwithstanding subsections (a), (b) and (c) of this section and paragraph (2) of this subsection, the court shall disallow any claim for reimbursement or contribution of an entity that is liable with the debtor on or has secured the claim of a creditor, to the extent that

...

(B) such claim for reimbursement or contribution is contingent as of the time of allowance or disallowance of such claim for reimbursement or contribution; or

...

(2) A claim for reimbursement or contribution of such an entity that becomes fixed after the commencement of the case shall be determined,

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and shall be allowed under subsection (a), (b), or (c) of this section, or disallowed under subsection (d) of this section, the same as if such claim had become fixed before the date of the filing of the petition.

22. U.S. appellate courts have interpreted the statutory language in § 510(b) broadly to subordinate the claims of shareholders that have a nexus or causal relationship to the purchase or sale of securities, including damages arising from alleged illegality in the sale or purchase of securities or from corporate misconduct whether predicated on pre or post-issuance conduct.

Re Telegroup Inc. (2002), 281 F. 3d 133 (3rd Cir. U.S. Court of Appeals) [...]

American Broadcasting Systems Inc. v. Nugent, U.S. Court of Appeals for the Ninth Circuit, Case Number 98-17133 (24 January 2001) [...]

23. Further, U.S. courts have held that indemnification claims of underwriters against the corporation for liability or defence costs when shareholders or former shareholders have sued underwriters constitute equity claims in the insolvency of the corporation that are subordinated to the claims of general creditors based on: (a) the plain language of § 510(b), which references claims for "reimbursement or contribution" and (b) risk allocation as between general creditors and those parties that play a role in the purchase and sale of securities that give rise to the shareholder claims (i.e., directors, officers and underwriters).

In re Mid-American Waste Sys., 228 B.R. 816, 1999 Bankr. LEXIS 27 (Bankr. D. Del. 1999) [*Mid-American*] [...]

In re Jacom Computer Servs., 280 B.R. 570, 2002 Bankr. LEXIS 758 (Bankr. S.D.N.Y. 2002) [...]

24. In *Mid-American*, the Court stated the following with respect to the "plain language" of § 510(b), its origins and the inclusion of "reimbursement or contribution" claims in that section:

... I find that the plain language of § 510(b), its legislative history, and applicable case law clearly show that § 510(b) intends to subordinate the indemnification claims of officers, directors, and underwriters for both liability and expenses incurred in connection with the pursuit of claims for rescission or damages by purchasers or sellers of the debtor's securities. The meaning of amended § 510(b), specifically the language "for reimbursement or contribution . . . on account of [a claim arising from rescission or damages arising from the purchase or sale of a security]," can be discerned by a plain reading of its language.

... it is readily apparent that the rationale for section 510(b) is not limited to preventing shareholder claimants from improving their position vis-a-

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vis general creditors; Congress also made the decision to subordinate based on risk allocation. Consequently, when Congress amended § 510(b) to add reimbursement and contribution claims, it was not radically departing from an equityholder claimant treatment provision, as NatWest suggests; it simply added to the subordination treatment new classes of persons and entities involved with the securities transactions giving rise to the rescission and damage claims. The 1984 amendment to § 510(b) is a logical extension of one of the rationales for the original section — because Congress intended the holders of securities law claims to be subordinated, why not also subordinate claims of other parties (e.g., officers and directors and underwriters) who play a role in the purchase and sale transactions which give rise to the securities law claims? As I view it, in 1984 Congress made a legislative judgment that claims emanating from tainted securities law transactions should not have the same priority as the claims of general creditors of the estate. [emphasis added]

[...]

25. Further, the U.S. courts have held that the degree of culpability of the respective parties is a non-issue in the disallowance of claims for indemnification of underwriters; the equities are meant to benefit the debtor's direct creditors, not secondarily liable creditors with contingent claims.

In re Drexel Burnham Lambert Group, 148 B.R. 982, 1992 Bankr. LEXIS 2023 (Bankr. S.D.N.Y. 1992) [...]

[70] Counsel submits that there is no principled basis for treating indemnification claims of auditors differently than those of underwriters.

Analysis

Is it Premature to Determine the Issue?

[71] The class action litigation was commenced prior to the CCAA Proceedings. It is clear that the claims of shareholders as set out in the class action claims against SFC are "equity claims" within the meaning of the CCAA.

[72] In my view, this issue is not premature for determination, as is submitted by the Underwriters.

[73] The Class Action Proceedings preceded the CCAA Proceedings. It has been clear since the outset of the CCAA Proceedings that this issue — namely, whether the claims of E&Y, BDO and the Underwriters as against SFC, would be considered "equity claims" — would have to be determined.

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[74] It has also been clear from the outset of the CCAA Proceedings, that a Sales Process would be undertaken and the expected proceeds arising from the Sales Process would generate proceeds insufficient to satisfy the claims of creditors.

[75] The Claims Procedure is in place but, it seems to me that the issue that has been placed before the court on this motion can be determined independently of the Claims Procedure. I do not accept that any party can be said to be prejudiced if this threshold issue is determined at this time. The threshold issue does not depend upon a determination of quantification of any claim. Rather, its effect will be to establish whether the claims of E&Y, BDO and the Underwriters will be subordinated pursuant to the provisions of the CCAA. This is independent from a determination as to the validity of any claim and the quantification thereof.

Should the Equity Claims Order be Granted?

[76] I am in agreement with the submission of counsel for the Ad Hoc Noteholders to the effect that the characterization of claims for indemnity turns on the characterization of the underlying primary claims.

[77] In my view, the claims advanced in the Shareholder Claims are clearly equity claims. The Shareholder Claims underlie the Related Indemnity Claims.

[78] In my view, the CCAA Amendments have codified the treatment of claims addressed in pre-amendment cases and have further broadened the scope of equity claims.

[79] The plain language in the definition of "equity claim" does not focus on the identity of the claimant. Rather, it focuses on the nature of the claim. In this case, it seems clear that the Shareholder Claims led to the Related Indemnity Claims. Put another way, the inescapable conclusion is that the Related Indemnity Claims are being used to recover an equity investment.

[80] The plain language of the CCAA dictates the outcome, namely, that the Shareholder Claims and the Related Indemnity Claims constitute "equity claims" within the meaning of the CCAA. This conclusion is consistent with the trend towards an expansive interpretation of the definition of "equity claims" to achieve the purpose of the CCAA.

[81] In *Return on Innovation*, Newbould J. characterized the contractual indemnification claims of directors and officers as "equity claims". The Court of Appeal denied leave to appeal. The analysis in *Return on Innovation* leads to the conclusion that the Related Indemnity Claims are also equity claims under the CCAA.

[82] It would be totally inconsistent to arrive at a conclusion that would enable either the auditors or the Underwriters, through a claim for indemnification, to be treated as creditors when the underlying actions of the shareholders cannot achieve the same status. To hold otherwise would indeed provide an indirect remedy where a direct remedy is not available.

[83] Further, on the issue of whether the claims of E&Y, BDO and the Underwriters fall within the definition of equity claims, there are, in my view, two aspects of these claims and it is necessary to keep them conceptually separate.

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[84] The first and most significant aspect of the claims of E&Y, BDO and the Underwriters constitutes an "equity claim" within the meaning of the CCAA. Simply put, but for the Class Action Proceedings, it is inconceivable that claims of this magnitude would have been launched by E&Y, BDO and the Underwriters as against SFC. The class action plaintiffs have launched their actions against SFC, the auditors and the Underwriters. In turn, E&Y, BDO and the Underwriters have launched actions against SFC and its subsidiaries. The claims of the shareholders are clearly "equity claims" and a plain reading of s. 2(1)(e) of the CCAA leads to the same conclusion with respect to the claims of E&Y, BDO and the Underwriters. To hold otherwise, would, as stated above, lead to a result that is inconsistent with the principles of the CCAA. It would potentially put the shareholders in a position to achieve creditor status through their claim against E&Y, BDO and the Underwriters even though a direct claim against SFC would rank as an "equity claim".

[85] I also recognize that the legal construction of the claims of the auditors and the Underwriters as against SFC is different than the claims of the shareholders against SFC. However, that distinction is not, in my view, reflected in the language of the CCAA which makes no distinction based on the status of the party but rather focuses on the substance of the claim.

[86] Critical to my analysis of this issue is the statutory language and the fact that the CCAA Amendments came into force after the cases relied upon by the Underwriters and the auditors.

[87] It has been argued that the amendments did nothing more than codify pre-existing common law. In many respects, I accept this submission. However, I am unable to accept this submission when considering s. 2(1) of the CCAA, which provides clear and specific language directing that "equity claim" means a claim that is in respect of an equity interest, including a claim for, among other things, "(e) contribution or indemnity in respect of a claim referred to in any of paragraphs (a) to (d)".

[88] Given that a shareholder claim falls within s. 2(1)(d), the plain words of subsections (d) and (e) lead to the conclusions that I have set out above.

[89] I fail to see how the very clear words of subsection (e) can be seen to be a codification of existing law. To arrive at the conclusion put forth by E&Y, BDO and the Underwriters would require me to ignore the specific words that Parliament has recently enacted.

[90] I cannot agree with the position put forth by the Underwriters or by the auditors on this point. The plain wording of the statute has persuaded me that it does not matter whether an indemnity claim is seeking no more than allocation of fault and contribution at common law, or whether there is a free-standing contribution and indemnity claim based on contracts.

[91] However, that is not to say that the full amount of the claim by the auditors and Underwriters can be characterized, at this time, as an "equity claim".

[92] The second aspect to the claims of the auditors and underwriters can be illustrated by the following hypothetical: if the claim of the shareholders does not succeed against the class action defendants, E&Y, BDO and the Underwriters will not be liable to the class action plaintiffs. However, these parties may be in a position to demonstrate that they do have a claim against

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SFC for the costs of defending those actions, which claim does not arise as a result of "contribution or indemnity in respect of an equity claim".

[93] It could very well be that each of E&Y, BDO and the Underwriters have expended significant amounts in defending the claims brought by the class action plaintiffs which, in turn, could give rise to contractual claims as against SFC. If there is no successful equity claim brought by the class action plaintiffs, it is arguable that any claim of E&Y, BDO and the Underwriters may legitimately be characterized as a claim for contribution or indemnity but not necessarily in respect of an equity claim. If so, there is no principled basis for subordinating this portion of the claim. At this point in time, the quantification of such a claim cannot be determined. This must be determined in accordance with the Claims Procedure.

[94] However, it must be recognized that, by far the most significant part of the claim, is an "equity claim".

[95] In arriving at this determination, I have taken into account the arguments set forth by E&Y, BDO and the Underwriters. My conclusions recognize the separate aspects of the Related Indemnity Claims as submitted by counsel to the Underwriters at paragraph 40 of their factum which reads:

...it must be recognized that there are, in fact, at least two different kinds of Related Indemnity Claims:

- (a) indemnity claims against SFC in respect of Shareholder Claims against the auditors and the Underwriters; and
- (b) indemnity claims against SFC in respect of the defence costs of the auditors and the Underwriters in connection with defending themselves against Shareholder Claims.

Disposition

[96] In the result, an order shall issue that the claims against SFC resulting from the ownership, purchase or sale of equity interests in SFC, including, without limitation, the claims by or on behalf of current or former shareholders asserted in the proceedings listed in Schedule "A" are "equity claims" as defined in s. 2 of the CCAA, being claims in respect of monetary losses resulting from the ownership, purchase or sale of an equity interest. It is noted that counsel for the class action plaintiffs did not contest this issue.

[97] In addition, an order shall also issue that any indemnification claim against SFC related to or arising from the Shareholders Claims, including, without limitation, by or on behalf of any of the other defendants to the proceedings listed in Schedule "A" are "equity claims" under the CCAA, being claims for contribution or indemnity in respect of a claim that is an equity claim. However, I feel it is premature to determine whether this order extends to the aspect of the Related Indemnity Claims that corresponds to the defence costs of the Underwriters and the auditors in connection with defending themselves against the Shareholder Claims.

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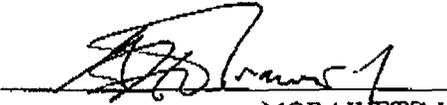
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[98] A direction shall also issue that these orders are made without prejudice to SFC's rights to apply for a similar order with respect to (i) any claims in the statement of claim that are in respect of securities other than shares and (ii) any indemnification claims against SFC related thereto.



MORAWETZ J.

Date: July 27, 2012

SCHEDULE "A" – SHAREHOLDER CLAIMS

1. *Trustees of the Labourers' Pension Fund of Central and Eastern Canada et al. v. Sino-Forest Corporation et al.* (Ontario Superior Court of Justice, Court File No. CV-11-431153-00CP)
2. *Guining Liu v. Sino-Forest Corporation et al.* (Quebec Superior Court, Court File No.: 200-06-000132-111)
3. *Allan Haigh v. Sino-Forest Corporation et al.* (Saskatchewan Court of Queen's Bench, Court File No. 2288 of 2011)
4. *David Leopard et al. v. Allen T.Y. Chan et al.* (District court of the Southern District of New York, Court File No. 650258/2012)

TAB 13

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 AND
ARRANGEMENT OF SINO-FOREST
CORPORATION**

APPLICANT

PLAN OF COMPROMISE AND REORGANIZATION

**pursuant to the *Companies' Creditors Arrangement Act*
and the *Canada Business Corporations Act*
concerning, affecting and involving**

SINO-FOREST CORPORATION

August 27, 2012

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PLAN OF COMPROMISE AND REORGANIZATION

WHEREAS Sino-Forest Corporation (“SFC”) is insolvent;

AND WHEREAS, on March 30, 2012 (the “**Filing Date**”), the Honourable Justice Morawetz of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) granted an initial Order in respect of SFC (as such Order may be amended, restated or varied from time to time, the “**Initial Order**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) and the *Canada Business Corporation Act*, R.S.C. 1985, c. C-44, as amended (the “**CBCA**”);

NOW THEREFORE, SFC hereby proposes this plan of compromise and reorganization pursuant to the CCAA and CBCA.

**ARTICLE 1
INTERPRETATION**

1.1 Definitions

In the Plan, unless otherwise stated or unless the subject matter or context otherwise requires:

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

“**2014 Note Indenture**” means the indenture dated as of July 27, 2009, by and between SFC, the entities listed as subsidiary guarantors therein, and Law Debenture Trust Company of New York, as trustee, as amended, modified or supplemented.

“**2016 Note Indenture**” means the indenture dated as of December 17, 2009, by and between SFC, the entities listed as subsidiary guarantors therein, and The Bank of New York Mellon, as trustee, as amended, modified or supplemented.

“**2017 Note Indenture**” means the indenture dated as of October 21, 2010, by and between SFC, the entities listed as subsidiary guarantors therein, and Law Debenture Trust Company of New York, as trustee, as amended, modified or supplemented.

“**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.

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

“**Administration Charge**” has the meaning ascribed thereto in the Initial Order.

“**Administration Charge Reserve**” means the cash reserve to be established by SFC on the Plan Implementation Date in an amount acceptable to the Persons secured by the Administration Charge (having regard to, among other things, any retainers held by Persons secured by the Administration Charge), which cash reserve: (i) shall be maintained and administered by the Monitor, in trust, for the purpose of paying any amounts secured by the Administration Charge; and (ii) upon the termination of the Administration Charge pursuant to the Plan, shall stand in place of the Administration Charge as security for the payment of any amounts secured by the Administration Charge.

“**Affected Claim**” means any Claim, D&O Claim or D&O Indemnity Claim that is not: an Unaffected Claim; a Section 5.1(2) D&O Claim; a Continuing Other D&O Claim; a Non-Released D&O Claim; or a Subsidiary Intercompany Claim, and “**Affected Claim**” includes any Class Action Indemnity Claim. For greater certainty, all of the following are Affected Claims: Affected Creditor Claims; Equity Claims; Noteholder Class Action Claims (other than the Continuing Noteholder Class Action Claims); and Class Action Indemnity Claims.

“**Affected Creditor**” means a Person with an Affected Creditor Claim, but only with respect to and to the extent of such Affected Creditor Claim.

“**Affected Creditor Claim**” means any Ordinary Affected Creditor Claim or Noteholder Claim.

“**Affected Creditors Class**” has the meaning ascribed thereto in section 3.2(a) hereof.

“**Affected Creditors Equity Sub-Pool**” means an amount of Newco Shares representing 92.5% of the Newco Equity Pool.

“**Applicable Law**” means any applicable 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.

“**Auditors**” means the former auditors of SFC that are named as defendants to the Class Actions Claims, including for greater certainty Ernst & Young LLP and BDO Limited.

“**BIA**” means the *Bankruptcy and Insolvency Act*, R. S. C. 1985, c. B-3.

“**Business Day**” means a day, other than Saturday, Sunday or a statutory holiday, on which banks are generally open for business in Toronto, Ontario.

“**Canadian Tax Act**” means the *Income Tax Act* (Canada) and the *Income Tax Regulations*, in each case as amended from time to time.

“**CBCA**” has the meaning ascribed thereto in the recitals.

“**CCAA**” has the meaning ascribed thereto in the recitals.

“**CCAA Proceeding**” means the proceeding commenced by SFC under the CCAA on the Filing Date in the Ontario Superior Court of Justice (Commercial List) under court file number CV-12-9667-00CL.

“**Charges**” means the Administration Charge and the Directors’ Charge.

“**Claim**” means any right or claim of any Person that may be asserted or made against SFC, in whole or in part, whether or not asserted or made, in connection with any indebtedness, liability or obligation of any kind whatsoever, and any interest accrued thereon or costs payable in respect thereof, including by reason of the commission of a tort (intentional or unintentional), by reason of any breach of contract or other agreement (oral or written), by reason of any breach of duty (including any legal, statutory, equitable or fiduciary duty) or by reason of any right of ownership of or title to property or assets or right to a trust or deemed trust (statutory, express, implied, resulting, constructive or otherwise), and whether or not any indebtedness, liability or obligation is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present or future, known or unknown, by guarantee, surety or otherwise, and whether or not any right or claim is executory or anticipatory in nature, including any right or ability of any Person (including any Directors or Officers of SFC or any of the Subsidiaries) to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future, which indebtedness, liability or obligation, and any interest accrued thereon or costs payable in respect thereof (A) is based in whole or in part on facts prior to the Filing Date, (B) relates to a time period prior to the Filing Date, or (C) is a right or claim of any kind that would be a claim provable against SFC in bankruptcy within the meaning of the BIA had SFC become bankrupt on the Filing Date, or is an Equity Claim, a Noteholder Class Action Claim against SFC, a Class Action Indemnity Claim against SFC, a Restructuring Claim or a Lien Claim, provided, however, that “Claim” shall not include a D&O Claim or a D&O Indemnity Claim.

“**Claims Bar Date**” has the meaning ascribed thereto in the Claims Procedure Order.

“**Claims Procedure**” means the procedure established for determining the amount and status of Claims, D&O Claims and D&O Indemnity Claims pursuant to the Claims Procedure Order.

“**Claims Procedure Order**” means the Order under the CCAA of the Honourable Justice Morawetz dated May 14, 2012, establishing, among other things, a claims procedure in respect of SFC and calling for claims in respect of the Subsidiaries, as such Order may be amended, restated or varied from time to time.

“**Class Action Claims**” means, collectively, any rights or claims of any kind advanced or which may subsequently be advanced in the Class Actions or in any other similar proceeding, whether a

class action proceeding or otherwise, and for greater certainty includes any Noteholder Class Action Claims.

“Class Actions” means, collectively, the following proceedings: (i) *Trustees of the Labourers’ Pension Fund of Central and Eastern Canada et al v. Sino-Forest Corporation et al.* (Ontario Superior Court of Justice, Court File No. CV-11-431153-00CP); (ii) *Guining Liu v. Sino-Forest Corporation et al.* (Quebec Superior Court, Court File No. 200-06-000132-111); (iii) *Allan Haigh v. Sino-Forest Corporation et al.* (Saskatchewan Court of Queen’s Bench, Court File No. 2288 of 2011); and (iv) *David Leopard et al. v. Allen T.Y. Chan et al.* (District Court of the Southern District of New York, Court File No. 650258/2012).

“Class Action Court” means, with respect to the Class Action Claims, the court of competent jurisdiction that is responsible for administering the applicable Class Action Claim.

“Class Action Indemnity Claim” means any right or claim of any Person that may be asserted or made in whole or in part against SFC and/or any Subsidiary for indemnity, contribution, reimbursement or otherwise from or in connection with any Class Action Claim asserted against such Person. For greater certainty, Class Action Indemnity Claims are distinct from and do not include Class Action Claims.

“Consent Date” means May 15, 2012.

“Continuing Noteholder Class Action Claim” means any Noteholder Class Action Claim that is: (i) a Section 5.1(2) D&O Claim; (ii) a Non-Released D&O Claim; (iii) a Continuing D&O Claim; (iv) a Noteholder Class Action Claim against one or more Third Party Defendants that is not an Indemnified Noteholder Class Action Claim; (v) the portion of an Indemnified Noteholder Class Action Claim that is permitted to continue against the Third Party Defendants, subject to the Indemnified Noteholder Class Action Limit, pursuant to section 4.4(b)(i) hereof.

“Continuing Other D&O Claims” has the meaning ascribed thereto in section 4.9(b) hereof.

“Court” has the meaning ascribed thereto in the recitals.

“D&O Claim” means (i) any right or claim of any Person that may be asserted or made in whole or in part against one or more Directors or Officers of SFC that relates to a Claim for which such Directors or Officers are by law liable to pay in their capacity as Directors or Officers of SFC, or (ii) any right or claim of any Person that may be asserted or made in whole or in part against one or more Directors or Officers of SFC, in that capacity, whether or not asserted or made, in connection with any indebtedness, liability or obligation of any kind whatsoever, and any interest accrued thereon or costs payable in respect thereof, including by reason of the commission of a tort (intentional or unintentional), by reason of any breach of contract or other agreement (oral or written), by reason of any breach of duty (including any legal, statutory, equitable or fiduciary duty and including, for greater certainty, any monetary administrative or other monetary penalty or claim for costs asserted against any Officer or Director of SFC by any Government Entity) or by reason of any right of ownership of or title to property or assets or right to a trust or deemed trust (statutory, express, implied, resulting, constructive or otherwise), and whether or not any indebtedness, liability or obligation, and any interest accrued thereon or costs payable in respect thereof, is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured,

disputed, undisputed, legal, equitable, secured, unsecured, present or future, known or unknown, by guarantee, surety or otherwise, and whether or not any right or claim is executory or anticipatory in nature, including any right or ability of any Person to advance a claim for contribution or indemnity from any such Directors or Officers of SFC or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future, which indebtedness, liability or obligation, and any interest accrued thereon or costs payable in respect thereof (A) is based in whole or in part on facts prior to the Filing Date, or (B) relates to a time period prior to the Filing Date.

“D&O Indemnity Claim” means any existing or future right of any Director or Officer of SFC against SFC that arose or arises as a result of any Person filing a D&O Proof of Claim (as defined in the Claims Procedure Order) in respect of such Director or Officer of SFC for which such Director or Officer of SFC is entitled to be indemnified by SFC.

“Defence Costs” has the meaning ascribed thereto in section 4.8 hereof.

“Director” means, with respect to SFC or any Subsidiary, anyone who is or was, or may be deemed to be or have been, whether by statute, operation of law or otherwise, a director or *de facto* director of such SFC Company.

“Directors’ Charge” has the meaning ascribed thereto in the Initial Order.

“Directors’ Charge Reserve” means the cash reserve to be established by SFC on the Plan Implementation Date in an amount acceptable to SFC, the Monitor, Osler Hoskin & Harcourt LLP and the Initial Consenting Noteholders, which cash reserve: (i) shall be maintained by the Monitor, in trust, for the purpose of paying any amounts secured by the Directors’ Charge; and (ii) upon the termination of the Directors’ Charge pursuant to the Plan, shall stand in place of the Directors’ Charge as security for the payment of any amounts secured by the Directors’ Charge.

“Direct Registration Account” means, if applicable, a direct registration account administered by the Transfer Agent in which those Persons entitled to receive Newco Shares and/or Newco Notes pursuant to the Plan will hold such Newco Shares and/or Newco Notes in registered form.

“Direct Registration Transaction Advice” means, if applicable, a statement delivered by the Monitor, the Trustees, the Transfer Agent or any such Person’s agent to any Person entitled to receive Newco Shares or Newco Notes pursuant to the Plan on the Initial Distribution Date and each subsequent Distribution Date, as applicable, indicating the number of Newco Shares and/or Newco Notes registered in the name of or as directed by the applicable Person in a Direct Registration Account.

“Direct Subsidiaries” means, collectively, Sino-Panel Holdings Limited, Sino-Global Holdings Inc., Sino-Panel Corporation, Sino-Capital Global Inc., Sino-Forest International (Barbados) Corporation, Sino-Forest Resources Inc. Sino-Wood Partners, Limited.

“Distribution Date” means the date or dates from time to time set in accordance with the provisions of the Plan to effect distributions in respect of the Proven Claims, excluding the Initial Distribution Date.

“**Distribution Record Date**” means the Plan Implementation Date, or such other date as SFC, the Monitor and the Initial Consenting Noteholders may agree.

“**DTC**” means The Depository Trust Company, or any successor thereof.

“**Early Consent Equity Sub-Pool**” means an amount of Newco Shares representing 7.5% of the Newco Equity Pool.

“**Early Consent Noteholder**” means any Noteholder that:

- (a) (i) as confirmed by the Monitor on June 12, 2012, executed the (A) RSA, (B) a support agreement with SFC and the Direct Subsidiaries in the form of the RSA or (C) a joinder agreement in the form attached as Schedule C to the RSA; (ii) provided evidence satisfactory to the Monitor in accordance with section 2(a) of the RSA of the Notes held by such Noteholder as at the Consent Date (the “**Early Consent Notes**”), as such list of Noteholders and Notes held has been verified and is maintained by the Monitor on a confidential basis; and (iii) continues to hold such Early Consent Notes as at the Distribution Record Date; or
- (b) (i) has acquired Early Consent Notes; (ii) has signed the necessary transfer and joinder documentation as required by the RSA and has otherwise acquired such Early Consent Notes in compliance with the RSA; and (iii) continues to hold such Early Consent Notes as at the Distribution Record Date.

“**Effective Time**” means 12:01 a.m. (Toronto time) on the Plan Implementation Date or such other time on such date as SFC, the Monitor and the Initial Consenting Noteholders may agree.

“**Employee Priority Claims**” means the following Claims of employees and former employees of SFC:

- (a) Claims equal to the amounts that such employees and former employees would have been qualified to receive under paragraph 136(1)(d) of the BIA if SFC had become bankrupt on the Filing Date; and
- (b) Claims for wages, salaries, commissions or compensation for services rendered by them after the Filing Date and on or before the Plan Implementation Date.

“**Encumbrance**” means any security interest (whether contractual, statutory, or otherwise), hypothec, mortgage, trust or deemed trust (whether contractual, statutory, or otherwise), lien, execution, levy, charge, demand, action, liability or other claim, action, demand or liability of any kind whatsoever, whether proprietary, financial or monetary, and whether or not it has attached or been perfected, registered or filed and whether secured, unsecured or otherwise, including: (i) any of the Charges; and (ii) any charge, security interest or claim evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry system.

“Equity Cancellation Date” means the date that is the first Business Day 31 days after the Plan Implementation Date, or such other date after the Plan Implementation Date as may be agreed to by SFC, the Monitor and the Initial Consenting Noteholders.

“Equity Claim” means a Claim that meets the definition of “equity claim” in section 2(1) of the CCAA and, for greater certainty, includes any of the following:

- (a) any claim against SFC resulting from the ownership, purchase or sale of an equity interest in SFC, including the claims by or on behalf of current or former shareholders asserted in the Class Actions;
- (b) any indemnification claim against SFC related to or arising from the claims described in sub-paragraph (a), including any such indemnification claims against SFC by or on behalf of any and all of the Third Party Defendants (other than for Defence Costs, unless any such claims for Defence Costs have been determined to be Equity Claims subsequent to the date of the Equity Claims Order); and
- (c) any other claim that has been determined to be an Equity Claim pursuant to an Order of the Court.

“Equity Claimant” means any Person having an Equity Claim, but only with respect to and to the extent of such Equity Claim.

“Equity Claimant Class” has the meaning ascribed thereto in section 3.2(b).

“Equity Claims Order” means the Order under the CCAA of the Honourable Justice Morawetz dated July 27, 2012, in respect of Shareholder Claims and Related Indemnity Claims against SFC, as such terms are defined therein.

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

“Excluded SFC Assets” means (i) the rights of SFC to be transferred to the Litigation Trust in accordance with section 6.3(n) hereof; (ii) any entitlement to insurance proceeds in respect of insured Claims and/or Section 5.1(2) D&O Claims; (iii) any secured property of SFC that is to be returned in satisfaction of a Lien Claim pursuant to section 4.2(c)(i) hereof; (iv) any input tax credits or other refunds received by SFC after the Effective Time; and (v) cash in the aggregate amount of (and for the purpose of): (A) the Litigation Funding Amount; (B) the Unaffected Claims Reserve; (C) the Administration Charge Reserve; (D) the Directors’ Charge Reserve; (E) the Expense Reimbursement; and (F) any amounts in respect of Lien Claims to be paid in accordance with section 4.2(c)(ii) hereof.

“Existing Shares” means all existing shares in the equity of SFC issued and outstanding immediately prior to the Effective Time and all warrants, options or other rights to acquire such shares, whether or not exercised as at the Effective Time.

“Expense Reimbursement” means the aggregate amount of the reasonable and documented fees and expenses of the Noteholder Advisors, pursuant to their respective engagement letters with SFC, and other advisors as may be agreed to by SFC and the Initial Consenting Noteholders,

including an estimated amount for any such fees and expenses expected to be incurred in connection with the implementation of the Plan.

“**Filing Date**” has the meaning ascribed thereto in the recitals.

“**Fractional Interests**” has the meaning given in section 5.12 hereof.

“**FTI HK**” means FTI Consulting (Hong Kong) Limited.

“**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.

“**Government Priority Claims**” means all Claims of Governmental Entities in respect of amounts that were outstanding as of the Plan Implementation Date and that are of a kind that could be subject to a demand under:

- (a) subsections 224(1.2) of the Canadian Tax Act;
- (b) any provision of the *Canada Pension Plan* or the *Employment Insurance Act* (Canada) that refers to subsection 224(1.2) of the Canadian Tax Act and provides for the collection of a contribution, as defined in the *Canada Pension Plan*, or employee’s premium or employer’s premium as defined in the *Employment Insurance Act* (Canada), or a premium under Part VII.1 of that Act, and of any related interest, penalties or other amounts; or
- (c) any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the Canadian Tax Act, or that refers to that subsection, to the extent that it provides for the collection of a sum, and of any related interest, penalties or other amounts, where the sum:
 - (i) has been withheld or deducted by a person from a payment to another person and is in respect of a tax similar in nature to the income tax imposed on individuals under the Canadian Tax Act; or
 - (ii) is of the same nature as a contribution under the *Canada Pension Plan* if the province is a “province providing a comprehensive pension plan” as defined in subsection 3(1) of the *Canada Pension Plan* and the provincial legislation establishes a “provincial pension plan” as defined in that subsection.

“**Greenheart**” means Greenheart Group Limited.

“Indemnified Noteholder Class Action Claims” has the meaning ascribed thereto in section 4.4(b)(i) hereof.

“Indemnified Noteholder Class Action Limit” means an amount agreed to by SFC, the Monitor, the Initial Consenting Noteholders and counsel to the Ontario Class Action Plaintiffs, or such other amount as is determined by the Court.

“Initial Consenting Noteholders” means the Noteholders that executed the RSA on March 30, 2012.

“Initial Distribution Date” means a date no more than ten (10) Business Days after the Plan Implementation Date or such other date as SFC, the Monitor and the Initial Consenting Noteholders may agree.

“Initial Newco Shareholder” means the Monitor or such other Person as may be agreed by SFC, the Monitor and the Initial Consenting Noteholders.

“Initial Order” has the meaning ascribed thereto in the recitals.

“Insurance Policies” means, collectively, the following insurance policies, as well as any other insurance policy pursuant to which SFC or any Director or Officer is insured: ACE INA Insurance Policy Number DO024464; Chubb Insurance Company of Canada Policy Number 8209-4449; Lloyds of London, England Policy Number XTFF0420; Lloyds of London, England Policy Number XTFF0373; and Travelers Guarantee Company of Canada Policy Number 10181108, and **“Insurance Policy”** means any one of the Insurance Policies.

“Insured Claim” means all or that portion of any Claim for which SFC is insured and all or that portion of any D&O Claim for which the applicable Director or Officer is insured, in each case pursuant to any of the Insurance Policies.

“Intellectual Property” means: (i) patents, and applications for patents, 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 SFC 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.

“Letter of Instruction” means a form, to be completed by each Ordinary Affected Creditor and each Early Consent Noteholder, and that is to be delivered to the Monitor in accordance with section 5.1 hereof, which form shall set out:

- (a) the registration details for the Newco Shares and, if applicable, Newco Notes to be distributed to such Ordinary Affected Creditor or Early Consent Noteholder in accordance with the Plan; and
- (b) the address to which such Ordinary Affected Creditor’s or Early Consent Noteholder’s Direct Registration Transaction Advice or its Newco Share Certificates and Newco Note Certificates, as applicable, are to be delivered.

“Lien Claim” means any Proven Claim of a Person indicated as a secured creditor in Schedule “B” to the Initial Order (other than the Trustees) that is secured by a lien or encumbrance on any property of SFC, which lien is valid, perfected and enforceable pursuant to Applicable Law, provided that the Charges and any Claims in respect of Notes shall not constitute “Lien Claims”.

“Lien Claimant” means a Person having a Lien Claim, other than any Noteholder or Trustee in respect of any Noteholder Claim.

“Litigation Funding Amount” means a cash amount to be contributed by SFC to the Litigation Trustee for purposes of funding the Litigation Trust on the Plan Implementation Date in accordance with section 6.3(n) hereof.

“Litigation Trust” means the trust to be established on the Plan Implementation Date at the time specified in section 6.3(o) in accordance with the Litigation Trust Agreement pursuant to the laws of a jurisdiction that is acceptable to SFC and the Initial Consenting Noteholders, which trust will acquire the Litigation Trust Claims and the Litigation Funding Amount in accordance with the Plan.

“Litigation Trust Agreement” means the trust agreement dated as of the Plan Implementation Date, between SFC and the Litigation Trustee, establishing the Litigation Trust.

“Litigation Trust Claims” means any and all claims, actions, causes of action, demands, suits, rights, entitlements, litigation, arbitration, proceeding, hearing or complaint, whether known or unknown, reduced to judgment or not reduced to judgment, liquidated or unliquidated, contingent or non-contingent, matured or unmatured, disputed or undisputed, secured or unsecured, assertable directly or derivatively, in law, equity or otherwise, based in whole or in part upon any act or omission or other event occurring before or after the Filing Date that have been or may be asserted by or on behalf of: (i) SFC against any and all third parties; or (ii) the Trustees, the Noteholders or any representative of the Noteholders against any and all Persons in connection with the Notes issued by SFC; provided, however, that in no event shall the Litigation Trust Claims include any claim, right or cause of action against any Person that is released pursuant to sections 7.1 or 7.2 hereof. For greater certainty, the Litigation Trust Claims do not include any rights or claims advanced or that may subsequently be advanced in the Class Actions.

“Litigation Trust Interests” means the beneficial interests in the Litigation Trust to be created on the Plan Implementation Date.

“Litigation Trustee” means a Person to be determined by SFC and the Initial Consenting Noteholders prior to the Effective Time, with the consent of the Monitor, to serve as trustee of the Litigation Trust pursuant to and in accordance with the terms thereof.

“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 SFC 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 SFC 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 Applicable 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 SFC Companies (taken as a whole), (B) any change in the forestry industry generally, which does not have a Material disproportionate effect on the SFC Companies (taken as a whole) (relative to other industry participants operating primarily in the PRC), (C) actions and omissions of any of the SFC Companies required pursuant to the RSA or this Plan or taken with the prior written consent of the Initial Consenting Noteholders, (D) the effects of compliance with the RSA or this Plan, including on the operating performance of the SFC Companies, (E) the negotiation, execution, delivery, performance, consummation, potential consummation or public announcement of the RSA or this Plan or the transactions contemplated thereby or hereby, (F) any change in U.S. or Canadian interest rates or currency exchange rates unless such change has a Material disproportionate effect on the SFC 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 SFC Companies (taken as a whole).

“Meeting” means the meeting of Affected Creditors, and any adjournment or extension thereof, that is called and conducted in accordance with the Meeting Order for the purpose of considering and voting on the Plan.

“Meeting Order” means the Order that, among other things, sets the date for the Meeting and establishes the procedures for voting on the Plan, as such Order may be amended, restated or varied from time to time.

“Monitor” means FTI Consulting Canada Inc., in its capacity as Court-appointed Monitor of SFC in the CCAA Proceeding.

“Monitor’s Post-Implementation Reserve” means the cash reserve to be established by SFC on the Plan Implementation Date in an amount acceptable to SFC, the Monitor, and the Initial Consenting Noteholders, which cash reserve shall be maintained and administered by the Monitor for the purpose of administering SFC, as necessary, from and after the Plan Implementation Date.

“Named Directors and Officers” means Andrew Agnew, William E. Ardell, James Bowland, Leslie Chan, Michael Cheng, Lawrence Hon, David J. Horsley, James M.E. Hyde, Richard M. Kimel, R. John (Jack) Lawrence, Jay A. Lefton, Edmund Mak, Tom Maradin, Judson Martin, Simon Murray, James F. O’Donnell, Kai Kit Poon, William P. Rosenfeld, Peter Donghong Wang, Garry West and Kee Y. Wong, in their respective capacities as Directors or Officers.

“Newco” means the new corporation to be incorporated pursuant to section 6.2 hereof under the laws of the Cayman Islands or such other jurisdiction as is acceptable to SFC and the Initial Consenting Noteholders.

“Newco Equity Pool” means all of the Newco Shares to be issued by Newco on the Plan Implementation Date pursuant to section 6.3(i) hereof.

“Newco Note Certificate” means a certificate evidencing Newco Notes.

“Newco Notes” means the new notes to be issued by Newco on the Plan Implementation Date pursuant to Section 6.3(i), on such terms and conditions as are satisfactory to the Initial Consenting Noteholders and SFC, acting reasonably.

“Newco Promissory Note 1”, **“Newco Promissory Note 2”**, **“Newco Promissory Note 3”** and **“Newco Promissory Notes”** have the meanings ascribed thereto in sections 6.3(j), 6.3(k), 6.3(m) and 6.3(p) hereof, respectively.

“Newco Share Certificate” means a certificate evidencing Newco Shares.

“Newco Shares” means common shares in the capital of Newco.

“Non-Released D&O Claims” has the meaning ascribed thereto in section 4.9(f) hereof.

“Noteholder Advisors” means Goodmans LLP, Hogan Lovells and Conyers, Dill & Pearman LLP in their capacity as legal advisors to the Initial Consenting Noteholders, and Moelis & Company LLC and Moelis and Company Asia Limited, in their capacity as the financial advisors to the Initial Consenting Noteholders.

“Noteholder Claim” means any Claim by a Noteholder (or a Trustee or other representative on the Noteholder’s behalf) in respect of or in relation to the Notes owned or held by such Noteholder, including all principal and Accrued Interest payable to such Noteholder pursuant to such Notes or the Note Indentures, but for greater certainty does not include any Noteholder Class Action Claim.

“Noteholder Class Action Claim” means any Class Action Claim, or any part thereof, against SFC, any of the Subsidiaries, any of the Directors and Officers of SFC or the Subsidiaries, any of

the Auditors, any of the Underwriters and/or any other defendant to the Class Action Claims that relates to the purchase, sale or ownership of Notes, but for greater certainty does not include a Noteholder Claim.

“Noteholder Class Action Claimant” means any Person having or asserting a Noteholder Class Action Claim.

“Noteholder Class Action Representative” means an individual to be appointed by counsel to the Ontario Class Action Plaintiffs.

“Noteholders” means, collectively, the beneficial owners of Notes as of the Distribution Record Date, and **“Noteholder”** means any one of the Noteholders.

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

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

“Officer” means, with respect to SFC or any Subsidiary, anyone who is or was, or may be deemed to be or have been, whether by statute, operation of law or otherwise, an officer or *de facto* officer of such SFC Company.

“Ontario Class Action Plaintiffs” means the plaintiffs in the Ontario class action case styled as *Trustees of the Labourers’ Pension Fund of Central and Eastern Canada et al v. Sino-Forest Corporation et al.* (Ontario Superior Court of Justice, Court File No. CV-11-431153-00CP).

“Order” means any order of the Court made in connection with the CCAA Proceeding or this Plan.

“Ordinary Affected Creditor” means a Person with an Ordinary Affected Creditor Claim.

“Ordinary Affected Creditor Claim” means a Claim that is not: an Unaffected Claim; a Noteholder Claim; an Equity Claim; a Subsidiary Intercompany Claim; a Noteholder Class Action Claim; or a Class Action Indemnity Claim (other than a Class Action Indemnity Claim by any of the Third Party Defendants in respect of the Indemnified Noteholder Class Action Claims).

“Other Directors and/or Officers” means any Directors and/or Officers other than the Named Directors and Officers.

“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 this Plan of Compromise and Reorganization filed by SFC pursuant to the CCAA and the CBCA, as such Plan may be amended, supplemented or restated from time to time in accordance with the terms hereof or an Order.

“**Plan Implementation Date**” means the Business Day on which this Plan becomes effective, which shall be the Business Day on which the Monitor has filed with the Court the certificate contemplated in section 9.2 hereof, or such other date as SFC, the Monitor and the Initial Consenting Noteholders may agree.

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

“**Proof of Claim**” means the “Proof of Claim” referred to in the Claims Procedure Order, substantially in the form attached to the Claims Procedure Order.

“**Pro-Rata**” means:

- (a) with respect to any Noteholder in relation to all Noteholders, the proportion of (i) the principal amount of Notes beneficially owned by such Noteholder as of the Distribution Record Date plus the Accrued Interest owing on such Notes as of the Filing Date, in relation to (ii) the aggregate principal amount of all Notes outstanding as of the Distribution Record Date plus the aggregate of all Accrued Interest owing on all Notes as of the Filing Date;
- (b) with respect to any Early Consent Noteholder in relation to all Early Consent Noteholders, the proportion of the principal amount of Early Consent Notes beneficially owned by such Early Consent Noteholder as of the Distribution Record Date in relation to the aggregate principal amount of Early Consent Notes held by all Early Consent Noteholders as of the Distribution Record Date; and
- (c) with respect to any Affected Creditor in relation to all Affected Creditors, the proportion of such Affected Creditor’s Affected Creditor Claim as at any relevant time in relation to the aggregate of all Proven Claims and Unresolved Claims of Affected Creditors as at that time.

“**Proven Claim**” means an Affected Creditor Claim to the extent that such Affected Creditor Claim is finally determined and valued in accordance with the provisions of the Claims Procedure Order, the Meeting Order or any other Order, as applicable.

“**Released Claims**” means all of the rights, claims and liabilities of any kind released pursuant to sections 7.1 and 7.2 hereof.

“**Released Parties**” means, collectively, those Persons released pursuant to sections 7.1 and 7.2 hereof, but only to the extent so released, and each such Person is referred to individually as a “**Released Party**”.

“**Required Majority**” means a majority in number of Affected Creditors with Proven Claims, and two-thirds in value of the Proven Claims held by such Affected Creditors, in each case who vote (in person or by proxy) on the Plan at the Meeting.

“Restructuring Claim” means any right or claim of any Person that may be asserted or made in whole or in part against SFC, whether or not asserted or made, in connection with any indebtedness, liability or obligation of any kind arising out of the restructuring, termination, repudiation or disclaimer of any lease, contract, or other agreement or obligation on or after the Filing Date and whether such restructuring, termination, repudiation or disclaimer took place or takes place before or after the date of the Claims Procedure Order.

“Restructuring Transaction” means the transactions contemplated by this Plan.

“RSA” means the Restructuring Support Agreement executed as of March 30, 2012 by SFC, the Direct Subsidiaries and the Initial Consenting Noteholders, and subsequently executed or otherwise agreed to by the Early Consent Noteholders, as such Restructuring Support Agreement may be amended, restated and varied from time to time in accordance with its terms.

“Sanction Date” means the date that the Sanction Order is granted by the Court.

“Sanction Order” means the Order of the Court sanctioning and approving this Plan.

“Section 5.1(2) D&O Claim” means any D&O Claim that is not permitted to be compromised pursuant to section 5.1(2) of the CCAA, but only to the extent not so permitted, provided that any D&O Claim that qualifies as a Non-Released D&O Claim or a Continuing Other D&O Claim shall not constitute a Section 5.1(2) D&O Claim.

“SFC” has the meaning ascribed thereto in the recitals.

“SFC Advisors” means Bennett Jones LLP, Appleby Global Group, King & Wood Mallesons and Linklaters LLP, in their respective capacities as legal advisors to SFC, Houlihan Lokey Howard & Zukin Capital, Inc., in its capacity as financial advisor to SFC, and Indufor Asia Pacific Limited and Stewart Murray (Singapore) Pte. Ltd, in their capacities as forestry advisors to SFC.

“SFC Assets” means all of SFC’s right, title and interest in and to all of SFC’s properties, assets and rights of every kind and description (including all restricted and unrestricted cash, contracts, real property, receivables or other debts owed to SFC, Intellectual Property, SFC’s corporate name and all related marks, all of SFC’s ownership interests in the Subsidiaries (including all of the shares of the Direct Subsidiaries and any other Subsidiaries that are directly owned by SFC immediately prior to the Effective Time), all of SFC’s ownership interest in Greenheart and its subsidiaries, and all SFC Intercompany Claims), other than the Excluded SFC Assets.

“SFC Business” means the business operated by the SFC Companies.

“SFC Continuing Shareholder” means the Litigation Trustee or such other Person as may be agreed to by the Monitor and the Initial Consenting Noteholders.

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

“**SFC Intercompany Claim**” means any amount owing to SFC by any Subsidiary or Greenheart and any claim by SFC against any Subsidiary or Greenheart.

“**Subsidiaries**” means all direct and indirect subsidiaries of SFC, other than Greenheart and its direct and indirect subsidiaries, and “**Subsidiary**” means any one of the Subsidiaries.

“**Subsidiary Intercompany Claim**” means any Claim by any Subsidiary or Greenheart against SFC.

“**Tax**” or “**Taxes**” means any and all federal, provincial, municipal, local and foreign taxes, assessments, reassessments and other governmental charges, duties, impositions and liabilities including for greater certainty taxes based upon or measured by reference to income, gross receipts, profits, capital, transfer, land transfer, sales, goods and services, harmonized sales, use, value-added, excise, withholding, business, franchising, property, development, occupancy, employer health, payroll, employment, health, social services, education and social security taxes, all surtaxes, all customs duties and import and export taxes, all licence, franchise and registration fees and all employment insurance, health insurance and government pension plan premiums or contributions, together with all interest, penalties, fines and additions with respect to such amounts.

“**Taxing Authorities**” means any one of Her Majesty the Queen, Her Majesty the Queen in right of Canada, Her Majesty the Queen in right of any province or territory of Canada, the Canada Revenue Agency, any similar revenue or taxing authority of Canada and each and every province or territory of Canada and any political subdivision thereof, any similar revenue or taxing authority of the United States, the PRC, Hong Kong or other foreign state and any political subdivision thereof, and any Canadian, United States, Hong Kong, PRC or other government, regulatory authority, government department, agency, commission, bureau, minister, court, tribunal or body or regulation-making entity exercising taxing authority or power, and “**Taxing Authority**” means any one of the Taxing Authorities.

“**Third Party Defendants**” means any defendants to the Class Action Claims (present or future) other than SFC, the Subsidiaries or the Named Directors and Officers.

“**Transfer Agent**” means such other transfer agent as Newco may appoint, with the consent of the Monitor and the Initial Consenting Noteholders.

“**Trustees**” means, collectively, The Bank of New York Mellon in its capacity as trustee for the 2013 Notes and the 2016 Notes, and Law Debenture Trust Company of New York in its capacity as trustee for the 2014 Notes and the 2017 Notes, and “**Trustee**” means either one of them.

“**Unaffected Claim**” means any:

- (a) Claim secured by any of the Charges (provided that, following the discharge of the Charges on the Plan Implementation Date, such Claims shall be paid from and limited to recovery as against the Administration Charge Reserve or the Directors’ Charge Reserve, as applicable, in accordance with section 4.2(b) hereof);

- (b) Government Priority Claim;
- (c) Employee Priority Claim;
- (d) Lien Claim;
- (e) any other Claim of any employee, former employee, Director or Officer of SFC in respect of wages, vacation pay, bonuses, termination pay, severance pay or other remuneration payable to such Person by SFC;
- (f) rights or claims by the Trustees for reasonable outstanding fees and expenses, including reasonable legal fees and expenses, incurred by the Trustees before or after the Plan Implementation Date in connection with the performance of their respective duties under the Note Indentures or this Plan; and
- (g) any trade payables that were incurred by SFC (i) after the Filing Date but before the Plan Implementation Date; and (ii) in compliance with the Initial Order or other Order issued in the CCAA Proceeding.

“**Unaffected Claims Reserve**” means the cash reserve to be established by SFC on the Plan Implementation Date and maintained by the Monitor, in escrow, for the purpose of paying certain Unaffected Claims in accordance with section 4.2 hereof.

“**Unaffected Creditor**” means a Person who has an Unaffected Claim, but only in respect of and to the extent of such Unaffected Claim.

“**Undeliverable Distribution**” has the meaning ascribed thereto in section 5.4.

“**Underwriters**” means any underwriters of SFC that are named as defendants in the Class Action Claims, including for greater certainty Credit Suisse Securities (Canada), Inc., TD Securities Inc., Dundee Securities Corporation, RBC Dominion Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., Canaccord Financial Ltd., Maison Placements Canada Inc., Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated (successor by merger to Banc of America Securities LLC).

“**Unresolved Claim**” means an Affected Creditor Claim in respect of which a Proof of Claim has been filed in a proper and timely manner in accordance with the Claims Procedure Order but that, as at any applicable time, has not been finally (i) determined to be a Proven Claim or (ii) disallowed in accordance with the Claims Procedure Order, the Meeting Order or any other Order.

“**Unresolved Claims Escrow Agent**” means the Monitor or such other Person as may be agreed by SFC, the Monitor and the Initial Consenting Noteholders.

“**Unresolved Claims Reserve**” means the reserve of Newco Shares, Newco Notes and Litigation Trust Interests, if any, to be established pursuant to sections 6.3(i)(ii) and 6.3(q) hereof in respect of Unresolved Claims as at the Plan Implementation Date, which reserve shall be held and

maintained by the Unresolved Claims Escrow Agent, in escrow, for distribution in accordance with the Plan.

“**Website**” means the website maintained by the Monitor in respect of the CCAA Proceeding pursuant to the Initial Order at the following web address: <http://cfcanada.fticonsulting.com/sfc>.

1.2 Certain Rules of Interpretation

For the purposes of the Plan:

- (a) any reference in the Plan to an Order, agreement, contract, instrument, indenture, release, exhibit or other document means such Order, agreement, contract, instrument, indenture, release, exhibit or other document as it may have been or may be validly amended, modified or supplemented;
- (b) the division of the Plan into “articles” and “sections” and the insertion of a table of contents are for convenience of reference only and do not affect the construction or interpretation of the Plan, nor are the descriptive headings of “articles” and “sections” intended as complete or accurate descriptions of the content thereof;
- (c) 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;
- (d) the words “includes” and “including” and similar terms of inclusion shall not, unless expressly modified by the words “only” or “solely”, be construed as terms of limitation, but rather shall mean “includes but is not limited to” and “including but not limited to”, so that references to included matters shall be regarded as illustrative without being either characterizing or exhaustive;
- (e) unless otherwise specified, all references to time herein and in any document issued pursuant hereto mean local time in Toronto, Ontario and any reference to an event occurring on a Business Day shall mean prior to 5:00 p.m. (Toronto time) on such Business Day;
- (f) unless otherwise specified, time periods within or following which any payment is to be made or act is to be done shall be calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next succeeding Business Day if the last day of the period is not a Business Day;
- (g) unless otherwise provided, any reference to a statute or other enactment of parliament or a legislature includes all regulations made thereunder, all amendments to or re-enactments of such statute or regulations in force from time to time, and, if applicable, any statute or regulation that supplements or supersedes such statute or regulation; and

- (h) references to a specified “article” or “section” shall, unless something in the subject matter or context is inconsistent therewith, be construed as references to that specified article or section of the Plan, whereas the terms “the Plan”, “hereof”, “herein”, “hereto”, “hereunder” and similar expressions shall be deemed to refer generally to the Plan and not to any particular “article”, “section” or other portion of the Plan and include any documents supplemental hereto.

1.3 Currency

For the purposes of this Plan, all amounts shall be denominated in Canadian dollars and all payments and distributions to be made in cash shall be made in Canadian dollars. Any Claims or other amounts denominated in a foreign currency shall be converted to Canadian dollars at the Reuters closing rate on the Filing Date.

1.4 Successors and Assigns

The Plan shall be binding upon and shall enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and assigns of any Person named or referred to in the Plan.

1.5 Governing Law

The Plan shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein. All questions as to the interpretation of or application of the Plan and all proceedings taken in connection with the Plan and its provisions shall be subject to the jurisdiction of the Court.

ARTICLE 2 PURPOSE AND EFFECT OF THE PLAN

2.1 Purpose

The purpose of the Plan is:

- (a) to effect a full, final and irrevocable compromise, release, discharge, cancellation and bar of all Affected Claims;
- (b) to effect the distribution of the consideration provided for herein in respect of Proven Claims;
- (c) to transfer ownership of the SFC Business to Newco, free and clear of all claims against SFC and certain related claims against the Subsidiaries, so as to enable the SFC Business to continue on a viable, going concern basis; and
- (d) to allow Affected Creditors and Noteholder Class Action Claimants to benefit from contingent value that may be derived from litigation claims to be advanced by the Litigation Trustee.

The Plan is put forward in the expectation that the Persons with an economic interest in SFC, when considered as a whole, will derive a greater benefit from the implementation of the Plan and the continuation of the SFC Business as a going concern than would result from a bankruptcy or liquidation of SFC.

2.2 Claims Affected

The Plan provides for, among other things, the full, final and irrevocable compromise, release, discharge, cancellation and bar of Affected Claims and effectuates the restructuring of SFC. The Plan will become effective at the Effective Time on the Plan Implementation Date and shall be binding on and enure to the benefit of SFC, the Subsidiaries, Newco, any Person having an Affected Claim, the Directors and Officers of SFC and all other Persons named or referred to in, or subject to, the Plan, as and to the extent provided for in the Plan.

2.3 Unaffected Claims against SFC Not Affected

Any amounts properly owing by SFC in respect of Unaffected Claims will be satisfied in accordance with section 4.2 hereof. Consistent with the foregoing, all liabilities of the Released Parties in respect of Unaffected Claims (other than the obligation of SFC to satisfy such Unaffected Claims in accordance with section 4.2 hereof) will be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred pursuant to sections 7.1(a) and 7.2 hereof. Nothing in the Plan shall affect SFC's rights and defences, both legal and equitable, with respect to any Unaffected Claims, including all rights with respect to legal and equitable defences or entitlements to set-offs or recoupments against such Unaffected Claims.

2.4 Insurance

- (a) Nothing in this Plan shall prejudice, compromise, release, discharge, cancel, bar or otherwise affect any right, entitlement or claim of any Person against SFC or any Director or Officer, or any insurer, in respect of an Insurance Policy or the proceeds thereof.
- (b) Nothing in this Plan shall prejudice, compromise, release or otherwise affect any right or defence of any such insurer in respect of any such Insurance Policy, provided that any right or entitlement of any insurer to seek indemnification from SFC, any Subsidiary or any Director or Officer (if such a right or entitlement should be found to exist at all) shall be subject to the terms of the Claims Procedure Order, including paragraphs 17 and 18 thereof, and shall be treated as a Released Claim that is fully, finally, irrevocably and forever released, discharged, cancelled and barred as provided for in this Plan.
- (c) Notwithstanding anything herein (including section 2.4(b) and the releases and injunctions set forth in sections 7.1, 7.2 and 7.3 hereof), but subject to section 2.4(d) hereof, all Insured Claims shall be deemed to remain outstanding and are not released following the Plan Implementation Date, but recovery as against SFC and the Named Directors and Officers is limited only to proceeds of Insurance Policies that are available to pay such Insured Claims, either by way of judgment or settlement. SFC and the Directors or Officers shall make all reasonable efforts

to meet all obligations under the Insurance Policies, and shall not cause any delay in payment by any insurer in respect of an Insured Claim, through a request made under section XVI (B) of ACE INA Insurance Policy Number DO024464, or otherwise. In the event that: (i) there is a judgment or a settlement in respect of an Insured Claim (but limited to a settlement reached with the consent of the insurer(s) or a settlement reached without the consent of the insurer(s) in circumstances where the plaintiff(s) and the defendant(s) to the Insured Claim agree that an insurer has unreasonably withheld consent to such settlement (the latter being a “**Without Consent Settlement**”)); and (ii) the portion of such settlement or judgment that constitutes an Insured Claim is not paid out of the available insurance proceeds by the date that payment is required under such settlement or, in the event that there is no settlement but a judgment is obtained, within 30 days of that judgment becoming final, then all of the applicable insureds’ rights to enforce the terms and require payment for such Insured Claims under the applicable Insurance Policy (including, in the case of a Without Consent Settlement, any rights against the applicable insurer(s) arising from the allegation that such insurer(s) unreasonably withheld consent to the settlement) (any such rights being the “**Insured Rights**”) shall be assigned, absolutely, to the applicable plaintiffs (including the representative plaintiffs in the Class Actions and/or the Litigation Trustee, as the case may be) (the “**Assignee Plaintiffs**”). In such case, the Assignee Plaintiffs shall be entitled to enforce the Insured Rights to pursue all rights, claims or entitlement to proceeds of the Insurance Policies payable for such Insured Claims against the applicable insurer (an “**Insurance Action**”). For greater certainty, the Insured Rights described in this section 2.4(c) do not include any rights of an insured under an Insurance Policy to require payment by the applicable insurer of proceeds for any amounts other than the amount of the judgment or settlement in respect of the applicable Insured Claim, and an insured’s entitlements to insurance proceeds in respect of any defence costs incurred by such insured in defending an Insured Claim shall not be assigned as part of any assignment of Insured Rights pursuant to this section 2.4(c). Court approval of this Plan pursuant to the Sanction Order constitutes notice of such assignment for the purposes of the *Conveyancing and Law of Property Act*, R.S.O. 1990, c. C.34, as amended, or as otherwise required by law, and such assignment is operative automatically after the date payment is required under a settlement, or if there is no settlement then upon the expiry of 30 days after a final judgment (in the event that the portion of such settlement or final judgment that constitutes an Insured Claim is not paid out of the available insurance proceeds of the Insurance Policies) and no further notice to the insurer(s) shall be required. For the sole purposes of any Insurance Action, the Assignee Plaintiffs shall be automatically appointed as the true and lawful attorney-in-fact of SFC and any Directors or Officers, as applicable (the “**Assignor Defendants**”), solely in respect to the Insured Rights and the Assignee Plaintiffs and shall be authorized to act in the Assignor Defendants’ name, place and stead, to demand, sue for, compromise and recover any amounts payable in respect of the Insured Rights. The attorney granted in respect of any Insurance Action pursuant to this section 2.4 shall continue after the Plan Implementation Date and shall not be released,

discharged, cancelled or barred pursuant to this Plan. Any insurer that is alleged to owe proceeds of an Insurance Policy for an Insured Claim shall be barred from raising as a defence to such Insurance Action any argument that the applicable Insured Claim has been fully, finally, irrevocably or forever compromised, released, discharged, cancelled or barred pursuant to the Plan or the Sanction Order.

- (d) Notwithstanding anything in this section 2.4, from and after the Plan Implementation Date, any Person having an Insured Claim shall, as against SFC and the Named Directors and Officers, be irrevocably limited to recovery solely from the proceeds of Insurance Policies paid or payable on behalf of SFC or its Directors or Officers, and Persons with any Insured Claims shall have no right to, and shall not, directly or indirectly, make any claim or seek any recoveries from SFC, any of the Named Directors and Officers, any of the Subsidiaries or Newco, other than enforcing such Person's rights to be paid from the proceeds of an Insurance Policy by the applicable insurer(s), and this section 2.4(d) may be relied upon and raised or pled by SFC, Newco, any Subsidiary and any Named Director and Officer in defence or estoppel of or to enjoin any claim, action or proceeding brought in contravention of this section.

2.5 Claims Procedure Order

For greater certainty, nothing in this Plan revives or restores any right or claim of any kind that is barred or extinguished pursuant to the terms of the Claims Procedure Order, provided that nothing in this Plan, the Claims Procedure Order or any other Order compromises, releases, discharges, cancels or bars any claim against any Person for fraud or criminal conduct, regardless of whether or not any such claim has been asserted to date.

ARTICLE 3 CLASSIFICATION, VOTING AND RELATED MATTERS

3.1 Claims Procedure

The procedure for determining the validity and quantum of the Affected Claims shall be governed by the Claims Procedure Order, the Meeting Order, the CCAA, the Plan and any other Order, as applicable. SFC, the Monitor and any other creditor in respect of its own Claim, shall have the right to seek the assistance of the Court in valuing any Claim, whether for voting or distribution purposes, if required, and to ascertain the result of any vote on the Plan.

3.2 Classification

- (a) The Affected Creditors shall constitute a single class, the "**Affected Creditors Class**", for the purposes of considering and voting on the Plan.
- (b) The Equity Claimants shall constitute a single class, separate from the Affected Creditors Class, but shall not, and shall have no right to, attend the Meeting or vote on the Plan in such capacity.

3.3 Unaffected Creditors

No Unaffected Creditor, in respect of an Unaffected Claim, shall:

- (a) be entitled to vote on the Plan;
- (b) be entitled to attend the Meeting; or
- (c) receive any entitlements under this Plan in respect of such Unaffected Creditor's Unaffected Claims (other than its right to have its Unaffected Claim addressed in accordance with section 4.2 hereof).

3.4 Creditors' Meeting

The Meeting shall be held in accordance with the Plan, the Meeting Order and any further Order of the Court. The only Persons entitled to attend and vote on the Plan at the Meeting are those specified in the Meeting Order.

3.5 Approval by Creditors

In order to be approved, the Plan must receive the affirmative vote of the Required Majority of the Affected Creditors Class.

ARTICLE 4 DISTRIBUTIONS, PAYMENTS AND TREATMENT OF CLAIMS

4.1 Affected Creditors

All Affected Creditor Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred on the Plan Implementation Date. Each Affected Creditor that has a Proven Claim shall be entitled to receive the following in accordance with the Plan:

- (a) such Affected Creditor's Pro-Rata number of the Newco Shares to be issued by Newco from the Affected Creditors Equity Sub-Pool in accordance with the Plan;
- (b) such Affected Creditor's Pro-Rata amount of the Newco Notes to be issued by Newco in accordance with the Plan; and
- (c) such Affected Creditor's Pro-Rata share of the Litigation Trust Interests to be allocated to the Affected Creditors in accordance with 4.11 hereof and the terms of the Litigation Trust.

From and after the Plan Implementation Date, each Affected Creditor, in such capacity, shall have no rights as against SFC in respect of its Affected Creditor Claim.

4.2 Unaffected Creditors

Each Unaffected Claim that is finally determined as such, as to status and amount, and that is finally determined to be valid and enforceable against SFC, in each case in accordance with the Claims Procedure Order or other Order:

- (a) subject to sections 4.2(b) and 4.4(c) hereof, shall be paid in full from the Unaffected Claims Reserve and limited to recovery against the Unaffected Claims Reserve, and Persons with Unaffected Claims shall have no right to, and shall not, make any claim or seek any recoveries from any Person in respect of Unaffected Claims, other than enforcing such Person's right against SFC to be paid from the Unaffected Claims Reserve;
- (b) in the case of Claims secured by the Administration Charge or the Directors' Charge, shall, if billed or invoiced prior to the Plan Implementation Date, be paid prior to the Effective Time and, if billed or invoiced to SFC after the Plan Implementation Date, be paid in the ordinary course from the Administration Charge Reserve (in the case of claims secured by the Administration Charge) or the Directors' Charge Reserve (in the case of claims secured by the Directors' Charge), and all Claims secured by the Administration Charge shall be limited to recovery against the Administration Charge Reserve and all Claims secured by the Directors' Charge shall be limited to recovery against the Directors' Charge Reserve, and Persons with Claims secured by the Administration Charge or the Directors' Charge shall have no right to, and shall not, make any claim or seek any recoveries from any Person in respect of such Claims, other than enforcing such Person's right against the Administration Charge Reserve or the Directors' Charge Reserve, respectively; and
- (c) in the case of Lien Claims:
 - (i) at the election of the Initial Consenting Noteholders, and with the consent of the Monitor, SFC shall satisfy such Lien Claim by the return of the applicable property of SFC that is secured as collateral for such Lien Claim, and the applicable Lien Claimant shall be limited to its recovery against such secured property in respect of such Lien Claim.
 - (ii) if the Initial Consenting Noteholders do not elect to satisfy such Lien Claim by the return of the applicable secured property: (A) SFC shall repay the Lien Claim in full in cash on the Plan Implementation Date; and (B) the security held by the applicable Lien Claimant over the property of SFC shall be fully, finally, irrevocably and forever released, discharged, cancelled and barred; and
 - (iii) upon the satisfaction of a Lien Claim in accordance with sections 4.2(b) and 4.4(c) hereof, such Lien Claims shall be fully, finally, irrevocably and forever released, discharged, cancelled and barred.

4.3 Early Consent Noteholders

As additional consideration for the compromise, release, discharge, cancellation and bar of the Affected Creditor Claims in respect of its Notes, each Early Consent Noteholder shall receive (in addition to the consideration it is entitled to receive in accordance with section 4.1 hereof) its Pro-Rata number of the Newco Shares to be issued by Newco from the Early Consent Equity Sub-Pool in accordance with the Plan.

4.4 Noteholder Class Action Claimants

- (a) All Noteholder Class Action Claims against SFC, the Subsidiaries or the Named Directors or Officers (other than any Noteholder Class Action Claims against the Named Directors or Officers that are Section 5.1(2) D&O Claims or Non-Released D&O Claims) shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred without consideration as against all said Persons on the Plan Implementation Date. Subject to section 4.4(c) hereof, Noteholder Class Action Claimants shall not receive any consideration or distributions under the Plan in respect of their Noteholder Class Action Claims. Noteholder Class Action Claimants shall not be entitled to attend or to vote on the Plan at the Meeting in respect of their Noteholder Class Action Claims.
- (b) Notwithstanding anything to the contrary in section 4.4(a), Noteholder Class Action Claims as against the Third Party Defendants (x) are not compromised, discharged, released, cancelled or barred, (y) shall be permitted to continue as against the Third Party Defendants and (z) shall not be limited or restricted by this Plan in any manner as to quantum or otherwise (including any collection or recovery for such Noteholder Class Action Claims that relates to any liability of the Third Party Defendants for any alleged liability of SFC), provided that:
 - (i) in accordance with the releases set forth in section 7.2(e) hereof, the collective aggregate amount of all rights and claims asserted or that may be asserted against the Third Party Defendants in respect of any such Noteholder Class Action Claims for which any such Persons in each case have a valid and enforceable Class Action Indemnity Claim against SFC (the “**Indemnified Noteholder Class Action Claims**”) shall not exceed, in the aggregate, the Indemnified Noteholder Class Action Limit, and in accordance with section 7.3 hereof, all Persons shall be permanently and forever barred, estopped, stayed and enjoined, on and after the Effective Time, from seeking to enforce any liability in respect of the Indemnified Noteholder Class Action Claims that exceeds the Indemnified Noteholder Class Action Limit; and
 - (ii) subject to section 4.4(d), any Class Action Indemnity Claims against SFC by the Third Party Defendants in respect of the Indemnified Noteholder Class Action Claims shall be treated as Affected Creditor Claims against SFC, but only to the extent that any such Class Action Indemnity Claims

that are determined to be properly indemnified by SFC, enforceable against SFC and are not barred or extinguished by the Claims Procedure Order, and further provided that the aggregate liability of SFC in respect of all such Class Action Indemnity Claims shall be limited to the lesser of: (A) the actual aggregate liability of the Third Party Defendants pursuant to any final judgment, settlement or other binding resolution in respect of the Indemnified Noteholder Class Action Claims (inclusive of any defence costs incurred by the Third Party Defendants in their defence of the Indemnified Noteholder Class Action Claims to the extent that SFC owes a valid and enforceable indemnification obligation to any such Persons in respect of such defence costs); and (B) the Indemnified Noteholder Class Action Limit.

- (c) Each Noteholder Class Action Claimant shall be entitled to receive its share of the Litigation Trust Interests to be allocated to Noteholder Class Action Claimants in accordance with the terms of the Litigation Trust and section 4.11 hereof, as such Noteholder Class Action Claimant's share is determined by the applicable Class Action Court.
- (d) Nothing in this Plan impairs, affects or limits in any way the ability of SFC, the Monitor or the Initial Consenting Noteholders to seek an Order that Class Action Indemnity Claims in respect of Noteholder Class Action Claims should receive the same treatment as is afforded to Class Action Indemnity Claims in respect of Equity Claims under the terms of this Plan.

4.5 Equity Claimants

All Equity Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred on the Plan Implementation Date. Equity Claimants shall not receive any consideration or distributions under the Plan and shall not be entitled to vote on the Plan at the Meeting.

4.6 Claims of the Trustees and Noteholders

For purposes of this Plan, all claims filed by the Trustees in respect of the Noteholder Claims (other than any claims filed by the Trustees in respect of their fees and expenses) shall be treated as provided in section 4.1 and the Trustees and the Noteholders shall have no other entitlements in respect of the guarantees and share pledges that have been provided by the Subsidiaries, or any of them, all of which shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred on the Plan Implementation Date as against the Subsidiaries pursuant to section 7.1 and 7.2.

4.7 Claims of the Third Party Defendants

For purposes of this Plan, all claims filed by the Third Party Defendants against SFC and/or any of its Subsidiaries shall be treated as follows:

- (a) all such claims against the Subsidiaries shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred on the Plan Implementation Date in accordance with section 7.1 and 7.2 hereof;
- (b) all such claims against SFC that are Class Action Indemnity Claims in respect of Indemnified Noteholder Class Action Claims shall be treated as set out in section 4.4(b)(ii) hereof;
- (c) all such claims against SFC for indemnification of Defence Costs shall be treated in accordance with section 4.8 hereof; and
- (d) all other claims shall be treated as Equity Claims.

4.8 Defence Costs

All Claims against SFC for indemnification of defence costs incurred by any Person in connection with defending against Shareholder Claims (as defined in the Equity Claims Order), Noteholder Class Action Claims or any other claims of any kind relating to SFC or the Subsidiaries (“**Defence Costs**”) shall be treated as follows:

- (a) as Equity Claims to the extent they are determined to be Equity Claims under any Order; and
- (b) as Affected Creditor Claims to the extent that they are not determined to be Equity Claims under any Order, provided that:
 - (i) if such Defence Costs were incurred in respect of a claim against the applicable Person that has been successfully defended and the Claim for such Defence Costs is otherwise valid and enforceable against SFC, the Claim for such Defence Costs shall be treated as a Proven Claim, provided that if such Claim for Defence Costs is a Class Action Indemnity Claim of a Third Party Defendant against SFC in respect of any Indemnified Noteholder Class Action Claim, such Claim for Defence Costs shall be treated in the manner set forth in section 4.4(b)(ii) hereof;
 - (ii) if such Defence Costs were incurred in respect of a claim against the applicable Person that has not been successfully defended or such Defence Costs are determined not to be valid and enforceable against SFC, the Claim for such Defence Costs shall be disallowed and no consideration will be payable in respect thereof under the Plan; and
 - (iii) until any such Claim for Defence Costs is determined to be either a Claim within section 4.8(b)(i) or a Claim within section 4.8(b)(ii), such Claim shall be treated as an Unresolved Claim,

provided that nothing in this Plan impairs, affects or limits in any way the ability of SFC, the Monitor or the Initial Consenting Noteholders to seek an Order that Claims against SFC for

indemnification of any Defence Costs should receive the same treatment as is afforded to Equity Claims under the terms of this Plan.

4.9 D&O Claims

- (a) All D&O Claims against the Named Directors and Officers (other than Section 5.1(2) D&O Claims and Non-Released D&O Claims) shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred without consideration on the Plan Implementation Date.
- (b) All D&O Claims against the Other Directors and Officers shall not be compromised, released, discharged, cancelled or barred by this Plan and shall be permitted to continue as against the applicable Other Directors and/or Officers (the “**Continuing Other D&O Claims**”), provided that any Indemnified Noteholder Class Action Claims against the Other Directors and/or Officers shall be limited as described in section 4.4(b)(i) hereof.
- (c) All D&O Indemnity Claims and any other rights or claims for indemnification held by the Named Directors and Officers shall be deemed to have no value and shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred without consideration on the Plan Implementation Date, except that any such D&O Indemnity Claims for Defence Costs shall be treated in accordance with section 4.8 hereof and any claims for indemnification held by the Named Directors and Officers properly the subject of the Directors' Charge, if any, shall be limited to the Directors' Charge Reserve.
- (d) All D&O Indemnity Claims and any other rights or claims for indemnification held by the Other Directors and/or Officers shall be deemed to have no value and shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred without consideration on the Plan Implementation Date, except that: (i) any such D&O Indemnity Claims for Defence Costs shall be treated in accordance with section 4.8 hereof; and (ii) any Class Action Indemnity Claim of an Other Director and/or Officer against SFC in respect of the Indemnified Noteholder Class Action Claims shall be treated in the manner set forth in section 4.4(b)(ii) hereof.
- (e) All Section 5.1(2) D&O Claims shall not be compromised, released, discharged, cancelled or barred by this Plan, provided that any Section 5.1(2) D&O Claims against the Named Directors and Officers shall be limited to recovery from any insurance proceeds payable in respect of such Section 5.1(2) D&O Claims pursuant to the Insurance Policies, and Persons with any such Section 5.1(2) D&O Claims against the Named Directors and Officers shall have no right to, and shall not, make any claim or seek any recoveries from any Person (including SFC, any of the Subsidiaries or Newco), other than enforcing such Persons' rights to be paid from the proceeds of an Insurance Policy by the applicable insurer(s).

- (f) All D&O Claims against the Directors and Officers of SFC or the Subsidiaries for fraud or criminal conduct shall not be compromised, discharged, released, cancelled or barred by this Plan and shall be permitted to continue as against all applicable Directors and Officers (“**Non-Released D&O Claims**”).
- (g) Notwithstanding anything to the contrary herein, from and after the Plan Implementation Date, a Person may commence an action for a Non-Released D&O Claim only if such Person has first obtained (i) the consent of the Monitor or (ii) leave of the Court on notice to the applicable Directors and Officers, SFC, the Monitor, the Initial Consenting Noteholders and any applicable insurers.

4.10 Intercompany Claims

All SFC Intercompany Claims shall be deemed to be assigned by SFC to Newco on the Plan Implementation Date pursuant to section 6.3(k) hereof. Newco shall assume the obligations of SFC to the applicable Subsidiaries and Greenheart in respect of all Subsidiary Intercompany Claims on the Plan Implementation Date pursuant to 6.3(k) hereof. Notwithstanding anything to the contrary herein, Newco shall be liable to the applicable Subsidiaries and Greenheart for the Subsidiary Intercompany Claims from and after the Plan Implementation Date, and the applicable Subsidiaries and Greenheart shall be liable to Newco for the SFC Intercompany Claims from and after the Plan Implementation Date. For greater certainty, nothing in this Plan affects any rights or claims as between any of the Subsidiaries, Greenheart and Greenheart’s direct and indirect subsidiaries.

4.11 Entitlement to Litigation Trust Interests

- (a) The Litigation Trust Interests to be created in accordance with this Plan and the Litigation Trust shall be allocated as follows:
 - (i) the Affected Creditors shall be collectively entitled to 75% of such Litigation Trust Interests; and
 - (ii) the Noteholder Class Action Claimants shall be collectively entitled to 25% of such Litigation Trust Interests,

which allocations shall occur at the times and in the manner set forth in section 6.3 hereof and shall be recorded by the Litigation Trustee in its registry of Litigation Trust Interests.

- (b) Notwithstanding anything to the contrary in section 4.11(a) hereof, if any of the Noteholder Class Action Claims against any of the Third Party Defendants are finally resolved (whether by final judgment, settlement or any other binding means of resolution) within two years of the Plan Implementation Date, then the Litigation Trust Interests to which the applicable Noteholder Class Action Claimants would otherwise have been entitled in respect of such Noteholder Class Action Claims pursuant to section 4.11(a)(ii) hereof (based on the amount of such resolved Noteholder Class Action Claims in proportion to all Noteholder Class

Action Claims in existence as of the Claims Bar Date) shall be fully, finally, irrevocably and forever cancelled.

4.12 Multiple Affected Claims

On the Plan Implementation Date, any and all liabilities for and guarantees and indemnities of the payment or performance of any Affected Claim, Unaffected Claim, Section 5.1(2) D&O Claim, Continuing Other D&O Claim or Non-Released D&O Claim by any of the Subsidiaries, and any purported liability for the payment or performance of such Affected Claim, Unaffected Claim, Section 5.1(2) D&O Claim, Continuing Other D&O Claim or Non-Released D&O Claim by Newco, will be deemed eliminated and cancelled, and no Person shall have any rights whatsoever to pursue or enforce any such liabilities for or guarantees or indemnities of the payment or performance of any such Affected Claim, Unaffected Claim, Section 5.1(2) D&O Claim, Continuing Other D&O Claim or Non-Released D&O Claim against any Subsidiary or Newco.

4.13 Interest

Subject to section 10.4 hereof, interest shall not accrue or be paid on Affected Claims on or after the Filing Date, and no holder of an Affected Claim shall be entitled to interest accruing on or after the Filing Date.

4.14 Existing Shares

Holders of Existing Shares and Equity Interests shall not receive any consideration or distributions under the Plan in respect thereof and shall not be entitled to vote on the Plan at the Meeting. Unless otherwise agreed between the Monitor, SFC and the Initial Consenting Noteholders, all Existing Shares and Equity Interests shall be fully, finally and irrevocably cancelled in accordance with and at the time specified in section 6.4 hereof.

ARTICLE 5 DISTRIBUTION MECHANICS

5.1 Letters of Instruction

In order to issue: Newco Shares and Newco Notes to Ordinary Affected Creditors and (ii) Newco Shares to Early Consent Noteholders, the following steps will be taken:

- (a) with respect to Ordinary Affected Creditors with Proven Claims or Unresolved Claims:
 - (i) on the next Business Day following the Distribution Record Date, the Monitor shall send blank Letters of Instruction by prepaid first class mail, courier, email or facsimile to each such Ordinary Affected Creditor to the address of each such Ordinary Affected Creditor (as specified in the applicable Proof of Claim) as of the Distribution Record Date, or as evidenced by any assignment or transfer in accordance with section 5.10;

- (ii) each such Ordinary Affected Creditor shall deliver to the Monitor a duly completed and executed Letter of Instruction that must be received by the Monitor on or before the date that is seven (7) Business Days after the Distribution Record Date or such other date as the Monitor may determine; and
 - (iii) any such Ordinary Affected Creditor that does not return a Letter of Instruction to the Monitor in accordance with section 5.1(a)(ii) shall be deemed to have requested that such Ordinary Affected Creditor's Newco Shares and Newco Notes be registered or distributed, as applicable, in accordance with the information set out in such Ordinary Affected Creditor's Proof of Claim; and
- (b) with respect to Early Consent Noteholders:
- (i) on the next Business Day following the Distribution Record Date the Monitor shall send blank Letters of Instruction by prepaid first class mail, courier, email or facsimile to each Early Consent Noteholder to the address of each such Early Consent Noteholder as confirmed by the Monitor on or before the Distribution Record Date;
 - (ii) each Early Consent Noteholder shall deliver to the Monitor a duly completed and executed Letter of Instruction that must be received by the Monitor on or before the date that is seven (7) Business Days after the Distribution Record Date or such other date as the Monitor may determine; and
 - (iii) any such Early Consent Noteholder that does not return a Letter of Instruction to the Monitor in accordance with section 5.1(b)(ii) shall be deemed to have requested that such Early Consent Noteholder's Newco Shares be distributed or registered, as applicable, in accordance with the information as confirmed by the Monitor on or before the Distribution Record Date.

5.2 Distribution Mechanics with respect to Newco Shares and Newco Notes

- (a) To effect distributions of Newco Shares and Newco Notes, the Monitor shall deliver a direction at least two (2) Business Days prior to the Initial Distribution Date to Newco or its agent, as applicable, directing Newco or its agent, as applicable, to issue on such Initial Distribution Date or subsequent Distribution Date:
 - (i) in respect of the Ordinary Affected Creditors with Proven Claims:
 - (A) the number of Newco Shares that each such Ordinary Affected Creditor is entitled to receive in accordance with section 4.1(a) hereof; and

- (B) the amount of Newco Notes that each such Ordinary Affected Creditor is entitled to receive in accordance with section 4.1(b) hereof,

all of which Newco Shares and Newco Notes shall be issued to such Ordinary Affected Creditors and distributed in accordance with this Article 5;

- (ii) in respect of the Ordinary Affected Creditors with Unresolved Claims:

- (A) the number of Newco Shares that each such Ordinary Affected Creditor would have been entitled to receive in accordance with section 4.1(a) hereof had such Ordinary Affected Creditor's Unresolved Claim been a Proven Claim on the Plan Implementation Date; and

- (B) the amount of Newco Notes that each such Ordinary Affected Creditor would have been entitled to receive in accordance with section 4.1(b) hereof had such Ordinary Affected Creditor's Unresolved Claim been a Proven Claim on the Plan Implementation Date,

all of which Newco Shares and Newco Notes shall be issued in the name of the Unresolved Claims Escrow Agent for the benefit of the Persons entitled thereto under the Plan, which Newco Shares and Newco Notes shall comprise part of the Unresolved Claims Reserve and shall be held in escrow by the Unresolved Claims Escrow Agent until released and distributed in accordance with this Article 5;

- (iii) in respect of the Noteholders:

- (A) the number of Newco Shares that the Trustees are collectively required to receive such that, upon distribution to the Noteholders by the Trustees, each individual Noteholder receives the number of Newco Shares to which it is entitled in accordance with section 4.1(a) hereof; and

- (B) the amount of Newco Notes that the Trustees are collectively required to receive such that, upon distribution to the Noteholders by the Trustees, each individual Noteholder receives the amount of Newco Notes to which it is entitled in accordance with section 4.1(b) hereof,

all of which Newco Shares and Newco Notes shall be issued to such Noteholders and distributed in accordance with this Article 5; and

- (iv) in respect of Early Consent Noteholders, the number of Newco Shares that each such Early Consent Noteholder is entitled to receive in accordance

with section 4.3 hereof, all of which Newco Shares shall be issued to such Early Consent Noteholders and distributed in accordance with this Article 5.

The direction delivered by the Monitor in respect of the applicable Ordinary Affected Creditors and Early Consent Noteholders shall: (A) indicate the registration and delivery details of each applicable Ordinary Affected Creditor and Early Consent Noteholder based on the information prescribed in section 5.1; and (B) specify the number of Newco Shares and, in the case of Ordinary Affected Creditors, the amount of Newco Notes to be issued to each such Person on the applicable Distribution Date. The direction delivered by the Monitor in respect of the Noteholders shall: (C) indicate that the registration and delivery details with respect to the number of Newco Shares and amount of Newco Notes to be distributed to each Noteholder will be the same as the registration and delivery details in effect with respect to the Notes held by each Noteholder as of the Distribution Record Date; and (D) specify the number of Newco Shares and the amount of Newco Notes to be issued to each of the Trustees for purposes of satisfying the entitlements of the Noteholders set forth in sections 4.1(a) and 4.1(b) hereof. The direction delivered by the Monitor in respect of the Newco Shares and Newco Notes to be issued in the name of the Unresolved Claims Escrow Agent, for the benefit of the Persons entitled thereto under the Plan, for purposes of the Unresolved Claims Reserve shall specify the number of Newco Shares and the amount of Newco Notes to be issued to the Unresolved Claims Escrow Agent for that purpose.

- (b) If the registers for the Newco Shares and/or Newco Notes are maintained by the Transfer Agent in a direct registration system (without certificates), the Monitor and/or Newco and/or the Unresolved Claims Escrow Agent, as applicable, shall, on the Initial Distribution Date or any subsequent Distribution Date, as applicable:
 - (i) instruct the Transfer Agent to record in the Direct Registration Account of each applicable Ordinary Affected Creditor and each Early Consent Noteholder the number of Newco Shares and, in the case of Ordinary Affected Creditors, the amount of Newco Notes that are to be distributed to each such Person, and the Monitor and/or Newco and/or the Unresolved Claims Escrow Agent, as applicable, shall send or cause to be sent to each such Ordinary Affected Creditor and Early Consent Noteholder a Direct Registration Transaction Advice based on the delivery information as determined pursuant to section 5.1; and
 - (ii) with respect to the distribution of Newco Shares and/or Newco Notes to Noteholders:
 - (A) if the Newco Shares and/or Newco Notes are DTC eligible, the Monitor and/or Newco and/or the Unresolved Claims Escrow Agent, as applicable, shall instruct the Transfer Agent to register the applicable Newco Shares and/or Newco Notes in the name of

DTC (or its nominee) for the benefit of the Noteholders, and the Trustees shall distribute such Newco Shares and Newco Notes to the applicable Noteholders, in the applicable amounts, through the facilities of DTC in accordance with customary practices and procedures; and

- (B) if the Newco Shares and/or Newco Notes are not DTC eligible, the Monitor and/or Newco and/or the Unresolved Claims Escrow Agent, as applicable, shall instruct the Transfer Agent to register the applicable Newco Shares and/or Newco Notes in the Direct Registration Accounts of the applicable Noteholders pursuant to the registration instructions provided by the Trustees (which shall be provided by the Trustees promptly following the Monitor's and/or Newco's request therefor), and the Trustees shall: (A) provide the Transfer Agent with such registration instructions as are necessary to ensure that such Newco Shares and/or Newco Notes, in the applicable amounts, are registered in the Direct Registration Accounts of the applicable Noteholders; and (B) send or cause to be sent to each Noteholder a Direct Registration Transaction Advice based on the registration and delivery information as determined pursuant to section 5.1 in accordance with customary practices and procedures.
- (c) If the registers for the Newco Shares and/or Newco Notes are not maintained by the Transfer Agent in a direct registration system, Newco shall prepare and deliver to the Monitor and/or the Unresolved Claims Escrow Agent, as applicable, and the Monitor and/or the Unresolved Claims Escrow Agent, as applicable, shall promptly thereafter, on the Initial Distribution Date or any subsequent Distribution Date, as applicable:
 - (i) deliver to each Ordinary Affected Creditor and each Early Consent Noteholder Newco Share Certificates and, in the case of Ordinary Affected Creditors, Newco Note Certificates representing the applicable number of Newco Shares and the applicable amount of Newco Notes that are to be distributed to each such Person; and
 - (ii) with respect to the distribution of Newco Shares and/or Newco Notes to Noteholders:
 - (A) if the Newco Shares and/or Newco Notes are DTC eligible, the Monitor and/or Newco and/or the Unresolved Claims Escrow Agent, as applicable, shall distribute to DTC (or its nominee), for the benefit of the Noteholders, Newco Share Certificates and/or Newco Note Certificates representing the aggregate of all Newco Shares and Newco Notes to be distributed to the Noteholders on such Distribution Date, and the Trustees shall distribute such Newco Shares and Newco Notes to the applicable Noteholders, in

the applicable amounts, through the facilities of DTC in accordance with customary practices and procedures; and

- (B) if the Newco Shares and/or Newco Notes are not DTC eligible, the Monitor and/or Newco and/or the Unresolved Claims Escrow Agent, as applicable, shall distribute to the applicable Trustees, Newco Share Certificates and/or Newco Note Certificates representing the aggregate of all Newco Shares and/or Newco Notes to be distributed to the Noteholders on such Distribution Date, and the Trustees shall make delivery of such Newco Share Certificates and Newco Note Certificates, in the applicable amounts, directly to the applicable Noteholders in accordance with customary practices and procedures.

5.3 Allocation of Litigation Trust Interests

The Litigation Trustee shall administer the Litigation Trust Claims and the Litigation Funding Amount for the benefit of the Persons that are entitled to the Litigation Trust Interests and shall maintain a registry of such Persons as follows:

- (a) with respect to Affected Creditors:
 - (i) the Litigation Trustee shall maintain a record of the amount of Litigation Trust Interests that each Ordinary Affected Creditor is entitled to receive in accordance with sections 4.1(c) and 4.11(a) hereof,
 - (ii) the Litigation Trustee shall maintain: (i) a record of the aggregate amount of all Litigation Trust Interests to which the Noteholders are entitled in accordance with sections 4.1(c) and 4.11(a) hereof; and (ii) a record of the amount of Litigation Trust Interests to which each individual Noteholder is entitled in accordance with section 4.1(c) hereof; and
 - (iii) with respect to any Litigation Trust Interests to be allocated in respect of the Unresolved Claims Reserve, the Litigation Trustee shall record such Litigation Trust Interests in the name of the Unresolved Claims Escrow Agent, for the benefit of the Persons entitled thereto in accordance with this Plan, which shall be held by the Unresolved Claims Escrow Agent in escrow until released and distributed unless and until otherwise directed by the Monitor in accordance with this Plan;
- (b) with respect to the Noteholder Class Action Claimants, the Litigation Trustee shall maintain a record of the aggregate of all Litigation Trust Interests that the Noteholder Class Action Claimants are entitled to receive pursuant to sections 4.4(c) and 4.11(a) hereof, provided that such record shall be maintained in the name of the Noteholder Class Action Representative, to be allocated to individual Noteholder Class Action Claimants in any manner ordered by the applicable Class Action Court, and provided further that if any such Litigation Trust Interests are

cancelled in accordance with section 4.11(b) hereof, the Litigation Trustee shall record such cancellation in its registry of Litigation Trust Interests.

5.4 Treatment of Undeliverable Distributions

If any distribution under sections 5.2 is undeliverable (an “**Undeliverable Distribution**”), it shall be returned to the Monitor, or a designee of the Monitor, which shall hold such Undeliverable Distribution in escrow and administer it in accordance with this section 5.4. No further distributions in respect of an Undeliverable Distribution shall be made unless and until SFC and the Monitor are notified by the applicable Person of its current address, at which time all such distributions shall be made to such Person. All claims for Undeliverable Distributions must be made on or before the date that is six months following the final Distribution Date, after which date the right to receive distributions under this Plan in respect of such Undeliverable Distributions shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred, without any compensation therefore, notwithstanding any federal, state or provincial laws to the contrary, at which time any such Undeliverable Distributions held by the Monitor or its designee shall, be deemed to have been gifted by the owner of the Undeliverable Distribution gifted to Newco without consideration, and, in the case of Newco Shares, Newco Notes and Litigation Trust Interests, shall be cancelled by Newco and the Litigation Trustee, as applicable. Nothing contained in the Plan shall require SFC, the Monitor or any other Person to attempt to locate any owner of an Undeliverable Distribution. No interest is payable in respect of an Undeliverable Distribution. Any distribution under this Plan on account of the Notes shall be deemed made when delivered to the applicable Trustee for subsequent distribution to the applicable Noteholders in accordance with section 5.2.

5.5 Procedure for Distributions Regarding Unresolved Claims

- (a) An Affected Creditor that has asserted an Unresolved Claim will not be entitled to receive a distribution under the Plan in respect of such Unresolved Claim or any portion thereof unless and until such Unresolved Claim becomes a Proven Claim.
- (b) Distributions in respect of any Unresolved Claim in existence at the Plan Implementation Date will be held in escrow by the Unresolved Claims Escrow Agent in the Unresolved Claims Reserve until settlement or final determination of the Unresolved Claim in accordance with the Claims Procedure Order, the Meeting Order or this Plan, as applicable.
- (c) To the extent that Unresolved Claims become Proven Claims or are finally disallowed, the Unresolved Claims Escrow Agent shall release from escrow and deliver (or in the case of Litigation Trust Interests, cause to be registered) the following from the Unresolved Claims Reserve (on the next Distribution Date, as determined by the Monitor with the consent of SFC and the Initial Consenting Noteholders):
 - (i) in the case of Affected Creditors whose Unresolved Claims are ultimately determined, in whole or in part, to be Proven Claims, the Unresolved Claims Escrow Agent shall release from escrow and deliver to such

Affected Creditor that number of Newco Shares, Newco Notes and Litigation Trust Interests (and any income or proceeds therefrom) that such Affected Creditor is entitled to receive in respect of its Proven Claim pursuant to section 4.1 hereof;

- (ii) in the case of Affected Creditors whose Unresolved Claims are ultimately determined, in whole or in part, to be disallowed, the Unresolved Claims Escrow Agent shall release from escrow and deliver to all Affected Creditors with Proven Claims the number of Newco Shares, Newco Notes and Litigation Trust Interests (and any income or proceeds therefrom) that had been reserved in the Unresolved Claims Reserve for such Affected Creditor whose Unresolved Claims has been disallowed, Claims such that, following such delivery, all of the Affected Creditors with Proven Claims have received the amount of Newco Shares, Newco Notes and Litigation Trust Interests that they are entitled to receive pursuant to section 4.1 hereof.
- (d) As soon as practicable following the date that all Unresolved Claims have been finally resolved and any required distributions contemplated in section 5.5(c) have been made, the Unresolved Claims Escrow Agent shall distribute (or in the case of Litigation Trust Interests, cause to be registered) any Litigation Trust Interests, Newco Shares and Newco Notes (and any income or proceeds therefrom), as applicable, remaining in the Unresolved Claims Reserve to the Affected Creditors with Proven Claims such that after giving effect to such distributions each such Affected Creditor has received the amount of Litigation Trust Interests, Newco Shares and Newco Notes that it is entitled to receive pursuant to section 4.1 hereof.
- (e) During the time that Newco Shares, Newco Notes and/or Litigation Trust Interests are held in escrow in the Unresolved Claims Reserve, any income or proceeds received therefrom or accruing thereon shall be added to the Unresolved Claims Reserve by the Unresolved Claims Escrow Agent and no Person shall have any right to such income or proceeds until such Newco Shares, Newco Notes or Litigation Trust Interests, as applicable, are distributed (or in the case of Litigation Trust Interests, registered) in accordance with section 5.5(c) and 5.5(d) hereof, at which time the recipient thereof shall be entitled to any applicable income or proceeds therefrom.
- (f) If the Unresolved Claims Escrow Agent is the Monitor, the Monitor may, in its sole discretion, cause an affiliate of the Monitor to hold and administer the Unresolved Claims Reserve at any time and from time to time, provided that any actions taken by such affiliate of the Monitor shall be in accordance with the Plan and the Monitor shall remain responsible for all activities and actions of such affiliate with respect to its administration of the Unresolved Claims Reserve.

5.6 Tax Refunds

Any input tax credits or tax refunds received by SFC after the Effective Time shall be paid into the Monitor's Post-Implementation Reserve and shall be treated in the same manner as cash held in the Monitor's Post-Implementation Reserve. If any such tax credits or tax refunds become payable to SFC after the final payments from the Monitor's Post-Implementation Reserve have been made, such input tax credits and tax refunds shall be paid directly by, or on behalf of, SFC to Newco without consideration.

5.7 Final Distributions from Reserves

- (a) If there is any cash remaining in: (i) the Unaffected Claims Reserve on the date that all Unaffected Claims have been finally paid or otherwise discharged; (ii) the Administration Charge Reserve on the date that all Claims secured by the Administration Charge have been finally paid or otherwise discharged; and/ or (iii) the Directors' Charge Reserve on the date that all claims secured by the Directors' Charge have been finally paid or otherwise discharged, the Monitor shall, in each case, forthwith transfer all such remaining cash to the Monitor's Post-Implementation Reserve.
- (b) The Monitor will not terminate the Monitor's Post-Implementation Reserve prior to the termination of each of the Unaffected Claims Reserve, the Administration Charge Reserve and the Directors' Charge Reserve. The Monitor may, at any time, from time to time and at its sole discretion, release amounts from the Monitor's Post-Implementation Reserve to Newco. Once the Monitor has determined that the cash remaining in the Monitor's Post-Implementation Reserve is no longer necessary for administering SFC, the Monitor shall forthwith transfer any such remaining cash to Newco.

5.8 Other Payments and Distributions

All other payments and distributions to be made pursuant to this Plan shall be made in the manner described in this Plan, the Sanction Order or any other Order, as applicable.

5.9 Note Indentures to Remain in Effect Solely for Purpose of Distributions

Following completion of the steps in the sequence set forth in section 6.3, all debentures, indentures, notes (including the Notes), certificates, agreements, invoices and other instruments evidencing Affected Claims will not entitle any holder thereof to any compensation or participation other than as expressly provided for in the Plan and will be cancelled and will be null and void. Any and all obligations of SFC and the Subsidiaries under and with respect to the Notes, the Note Indentures and any guarantees or indemnities with respect to the Notes or the Note Indentures shall be terminated and cancelled on the Plan Implementation Date and shall not continue beyond the Plan Implementation Date. Notwithstanding the foregoing and anything to the contrary in the Plan, the Note Indentures shall remain in effect solely for the purpose of and only to the extent necessary to allow the Trustees to make distributions to Noteholders on the Initial Distribution Date and, as necessary, each subsequent Distribution Date thereafter, and to maintain all of the rights and protections afforded to the Trustees as against the Noteholders

under the applicable Note Indentures, including their lien rights with respect to any distributions under this Plan, until all distributions provided for hereunder have been made to the Noteholders.

5.10 Assignment of Claims for Distribution Purposes

(a) Assignment of Claims by Ordinary Affected Creditors

Subject to any restrictions contained in Applicable Laws, an Ordinary Affected Creditor may transfer or assign the whole of its Affected Claim after the Meeting provided that neither SFC nor Newco nor the Monitor nor the Unresolved Claims Escrow Agent shall be obliged to make distributions to any such transferee or assignee or otherwise deal with such transferee or assignee as an Ordinary Affected Creditor in respect thereof unless and until actual notice of the transfer or assignment, together with satisfactory evidence of such transfer or assignment and such other documentation as SFC and the Monitor may reasonably require, has been received by SFC and the Monitor on or before the Plan Implementation Date, or such other date as SFC and the Monitor may agree, failing which the original transferor shall have all applicable rights as the "Ordinary Affected Creditor" with respect to such Affected Claim as if no transfer of the Affected Claim had occurred. Thereafter, such transferee or assignee shall, for all purposes in accordance with this Plan, constitute an Ordinary Affected Creditor and shall be bound by any and all notices previously given to the transferor or assignor in respect of such Claim. For greater certainty, SFC shall not recognize partial transfers or assignments of Claims.

(b) Assignment of Notes

Only those Noteholders who have beneficial ownership of one or more Notes as at the Distribution Record Date shall be entitled to receive a distribution under this Plan on the Initial Distribution Date or any Distribution Date. Noteholders who have beneficial ownership of Notes shall not be restricted from transferring or assigning such Notes prior to or after the Distribution Record Date (unless the Distribution Record Date is the Plan Implementation Date), provided that if such transfer or assignment occurs after the Distribution Record Date, neither SFC nor Newco nor the Monitor nor the Unresolved Claims Escrow Agent shall have any obligation to make distributions to any such transferee or assignee of Notes in respect of the Claims associated therewith, or otherwise deal with such transferee or assignee as an Affected Creditor in respect thereof. Noteholders who assign or acquire Notes after the Distribution Record Date shall be wholly responsible for ensuring that Plan distributions in respect of the Claims associated with such Notes are in fact delivered to the assignee, and the Trustees shall have no liability in connection therewith.

5.11 Withholding Rights

SFC, Newco, the Monitor, the Litigation Trustee, the Unresolved Claims Escrow Agent and/or any other Person making a payment contemplated herein shall be entitled to deduct and withhold from any consideration payable to any Person such amounts as it is required to deduct and withhold with respect to such payment under the Canadian Tax Act, the United States Internal Revenue Code of 1986 or any provision of federal, provincial, territorial, state, local or foreign Tax laws, in each case, as amended. To the extent that amounts are so withheld or deducted, such withheld or deducted amounts shall be treated for all purposes hereof as having

been paid to the Person in respect of which such withholding was made, provided that such amounts are actually remitted to the appropriate Taxing Authority. To the extent that the amounts so required or permitted to be deducted or withheld from any payment to a Person exceed the cash portion of the consideration otherwise payable to that Person: (i) the payor is authorized to sell or otherwise dispose of such portion of the consideration as is necessary to provide sufficient funds to enable it to comply with such deduction or withholding requirement or entitlement, and the payor shall notify the applicable Person thereof and remit to such Person any unapplied balance of the net proceeds of such sale; or (ii) if such sale is not reasonably possible, the payor shall not be required to make such excess payment until the Person has directly satisfied any such withholding obligation and provides evidence thereof to the payor.

5.12 Fractional Interests

No fractional interests of Newco Shares or Newco Notes (“**Fractional Interests**”) will be issued under this Plan. Recipients of Newco Shares or Newco Notes will have their entitlements adjusted downwards to the nearest whole number of Newco Shares or Newco Notes, as applicable, to eliminate any such Fractional Interests and no compensation will be given for the Fractional Interest.

ARTICLE 6 RESTRUCTURING TRANSACTION

6.1 Corporate Actions

The adoption, execution, delivery, implementation and consummation of all matters contemplated under the Plan involving corporate action of SFC will occur and be effective as of the Plan Implementation Date, other than such matters occurring on the Equity Cancellation Date which will occur and be effective on such date, and in either case will be authorized and approved under the Plan and by the Court, where appropriate, as part of the Sanction Order, in all respects and for all purposes without any requirement of further action by shareholders, Directors or Officers of SFC. All necessary approvals to take actions shall be deemed to have been obtained from the directors or the shareholders of SFC, as applicable, including the deemed passing by any class of shareholders of any resolution or special resolution and no shareholders’ agreement or agreement between a shareholder and another Person limiting in any way the right to vote shares held by such shareholder or shareholders with respect to any of the steps contemplated by the Plan shall be deemed to be effective and shall have no force and effect, provided that, subject to sections 10.6 and 10.7 hereof, where any matter expressly requires the consent or approval of SFC, the Initial Consenting Noteholders or SFC’s board of directors pursuant to this Plan, such consent or approval shall not be deemed to be given unless actually given.

6.2 Incorporation of Newco

Newco shall be incorporated prior to the Plan Implementation Date. Newco shall be authorized to issue an unlimited number of Newco Shares and shall have no restrictions on the number of its shareholders. At the time that Newco is incorporated, Newco shall issue one Newco Share to the Initial Newco Shareholder, as the sole shareholder of Newco, and the Initial

Newco Shareholder shall be deemed to hold the Newco Share in escrow for the benefit of those Persons entitled to receive distributions of Newco Shares and Newco Notes under the Plan. For greater certainty, the Initial Newco Shareholder shall not hold such Newco Share as agent of or for the benefit of SFC, and SFC shall have no rights in relation to such Newco Share. Newco shall not carry on any business or issue any other Newco Shares or other securities until the Plan Implementation Date, and then only in accordance with section 6.3 hereof.

6.3 Plan Implementation Date Transactions

The following steps and compromises and releases to be effected shall occur, and be deemed to have occurred in the following manner and order (sequentially, each step occurring five minutes apart, except that within such order steps (a) to (g) (Cash Payments) shall occur simultaneously and steps (s) to (v) (Releases) shall occur simultaneously) without any further act or formality, on the Plan Implementation Date beginning at the Effective Time (or in such other manner or order or at such other time or times as SFC, the Monitor and the Initial Consenting Noteholders may agree):

Cash Payments and Satisfaction of Lien Claims

- (a) SFC shall pay required funds to the Monitor for the purpose of funding the Unaffected Claims Reserve, and the Monitor shall hold and administer such funds in trust for the purpose of paying the Unaffected Claims pursuant to the Plan.
- (b) SFC shall pay the required funds to the Monitor for the purpose of funding the Administration Charge Reserve, and the Monitor shall hold and administer such funds in trust for the purpose of paying Unaffected Claims secured by Administration Charge.
- (c) SFC shall pay the required funds to the Monitor for the purpose of funding the Directors' Charge Reserve, and the Monitor shall hold and administer such funds in trust for the purpose of paying the Unaffected Claims secured by the Directors' Charge.
- (d) SFC shall pay the required funds to the Monitor for the purpose of funding the Monitor's Post-Implementation Reserve, and the Monitor shall hold and administer such funds in trust for the purpose of administering SFC, as necessary, from and after the Plan Implementation Date.
- (e) SFC shall pay to the Noteholder Advisors each such Person's respective portion of the Expense Reimbursement.
- (f) SFC shall pay all fees and expenses owing to each of the SFC Advisors, Chandler Fraser Keating Limited and Spencer Stuart.
- (g) The Lien Claims shall be satisfied in accordance with section 4.2(c) hereof.

Transaction Steps

- (h) All accrued and unpaid interest owing on, or in respect of, or as part of, Affected Creditor Claims (including any Accrued Interest on the Notes and any interest accruing on the Notes or any Ordinary Affected Creditor Claim after the Filing Date) shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred for no consideration, and from and after the occurrence of this step, no Person shall have any entitlement to any such accrued and unpaid interest.
- (i) All of the Affected Creditors shall be deemed to assign, transfer and convey to Newco all of their Affected Creditor Claims, and from and after the occurrence of this step, Newco shall be the legal and beneficial owner of all Affected Creditor Claims. In consideration for the assignment, transfer and conveyance of the Affected Creditor Claims to Newco:
- (i) with respect to Affected Creditor Claims that are Proven Claims at the Effective Time:
- (A) Newco shall issue to each applicable Affected Creditor the number of Newco Shares that each such Affected Creditor is entitled to receive in accordance with section 4.1(a) hereof;
 - (B) Newco shall issue to each applicable Affected Creditor the amount of Newco Notes that each such Affected Creditor is entitled to receive in accordance with section 4.1(b) hereof;
 - (C) Newco shall issue to each of the Early Consent Noteholders the number of Newco Shares that each such Early Consent Noteholder is entitled to receive pursuant to section 4.3 hereof;
 - (D) such Affected Creditors shall be entitled to receive out of escrow the Litigation Trust Interests to be acquired by Newco in section 6.3(p) hereof, following the establishment of the Litigation Trust;
 - (E) such Affected Creditors shall be entitled to receive, at the time or times contemplated in sections 5.5(c) and 5.5(d) hereof, the Newco Shares, Newco Notes and Litigation Trust Interests that are subsequently distributed to (or in the case of Litigation Trust Interests registered for the benefit of) Affected Creditors with Proven Claims pursuant to sections 5.5(c) and 5.5(d) hereof (if any),
- and all such Newco Shares and Newco Notes shall be distributed in the manner described in section 5.2 hereof; and
- (ii) with respect to Affected Creditor Claims that are Unresolved Claims as at the Effective Time, Newco shall issue in the name of the Unresolved

Claims Escrow Agent, for the benefit of the Persons entitled thereto under the Plan, the Newco Shares and the Newco Notes that would have been distributed to the applicable Affected Creditors in respect of such Unresolved Claims if such Unresolved Claims had been Proven Claims at the Effective Time; such Newco Shares, Newco Notes and Litigation Trust Interests acquired by Newco in section 6.3(p) and assigned to and registered in the name of the Unresolved Claims Escrow Agent in accordance with section 6.3(q) shall comprise part of the Unresolved Claims Reserve and the Unresolved Claims Escrow Agent shall hold all such Newco Shares, Newco Notes and Litigation Trust Interests in escrow for the benefit of those Persons entitled to receive distributions thereof pursuant to the Plan.

- (j) SFC shall be deemed to assign, transfer and convey to Newco all shares and other equity interests in the capital of (i) the Direct Subsidiaries and (ii) any other Subsidiaries that are directly owned by SFC immediately prior to the Effective Time (all such shares and other equity interests being the “**Direct Subsidiary Shares**”) for a purchase price equal to the fair market value of the Direct Subsidiary Shares and, in consideration therefor, Newco shall be deemed to pay to SFC consideration equal to the fair market value of the Direct Subsidiary Shares, which consideration shall be comprised of a U.S. dollar denominated demand non-interest-bearing promissory note issued to SFC by Newco in an amount equal to the fair market value of the Direct Subsidiary Shares (the “**Newco Promissory Note 1**”). At the time of such assignment, transfer and conveyance, all prior rights that Newco had to acquire the Direct Subsidiary Shares, under the Plan or otherwise, shall cease to be outstanding.
- (k) If the Initial Consenting Noteholders and SFC agree, there will be a set-off of any SFC Intercompany Claim so agreed against a Subsidiary Intercompany Claim owing between SFC and the same Subsidiary. In such case, the amounts will be set-off in repayment of both claims to the extent of the lesser of the two amounts, and the excess (if any) shall continue as an SFC Intercompany Claim or a Subsidiary Intercompany Claim, as applicable.
- (l) SFC shall be deemed to assign, transfer and convey to Newco all SFC Intercompany Claims for a purchase price equal to the fair market value of such SFC Intercompany Claims and, in consideration therefor, Newco shall be deemed to pay SFC consideration equal to the fair market value of the SFC Intercompany Claims, which consideration shall be comprised of the following: (i) the assumption by Newco of all of SFC’s obligations to the Subsidiaries in respect of Subsidiary Intercompany Claims; and (ii) if the fair market value of the SFC Intercompany Claims exceeds the fair market value of the Subsidiary Intercompany Claims, Newco shall issue to SFC a U.S. dollar denominated demand non-interest-bearing promissory note in an amount equal to such excess (the “**Newco Promissory Note 2**”).

- (m) SFC shall be deemed to assign, transfer and convey to Newco all other SFC Assets excluding the Litigation Funding Amount, Newco Promissory Note 1 and Newco Promissory Note 2 (namely, all SFC Assets other than the Direct Subsidiary Shares and the SFC Intercompany Claims (which shall have already been transferred to Newco in accordance with sections 6.3(j) and 6.3(k) hereof), the Litigation Funding Amount, Newco Promissory Note 1 and Newco Promissory Note 2) for a purchase price equal to the fair market value of such other SFC Assets and, in consideration therefor, Newco shall be deemed to pay to SFC consideration equal to the fair market value of such other SFC Assets, which consideration shall be comprised of a U.S. dollar denominated demand non-interest-bearing promissory note issued to SFC by Newco in an amount equal to the fair market value of such other SFC Assets (the “**Newco Promissory Note 3**”).
- (n) SFC shall establish the Litigation Trust and shall contribute the Litigation Funding Amount to the Litigation Trustee for the benefit of the Litigation Trust. Immediately thereafter, SFC, the Subsidiaries and the Trustees (on behalf of the Noteholders) shall be deemed to convey, transfer and assign to the Litigation Trustee all of their respective rights, title and interest in and to the Litigation Trust Claims. The Litigation Funding Amount and Litigation Trust Claims shall be managed by the Litigation Trustee in accordance with the terms and conditions of the Litigation Trust Agreement.
- (o) The Litigation Trust shall be deemed to be effective from the time that it is established in section 6.3(n) hereof. Initially, all of the Litigation Trust Interests shall be held by SFC. Immediately thereafter, SFC shall assign, convey and transfer a portion of the Litigation Trust Interests to the Noteholder Class Action Claimants in accordance with the allocation set forth in section 4.11 hereof.
- (p) SFC shall settle and discharge the Affected Creditor Claims by assigning Newco Promissory Note 1, Newco Promissory Note 2 and Newco Promissory Note 3 (collectively, the “**Newco Promissory Notes**”) and the remaining Litigation Trust Interests held by SFC to Newco. Such assignment shall constitute payment, by set-off, of the full principal amount of the Newco Promissory Notes and of a portion of the Affected Creditor Claims equal to the aggregate principal amount of the Newco Promissory Notes and the fair market value of the Litigation Trust Interests so transferred (with such payment being allocated first to the Noteholder Claims and then to the Ordinary Affected Creditor Claims). As a consequence thereof:
- (i) Newco shall be deemed to discharge and release SFC of and from all of SFC’s obligations to Newco in respect of the Affected Creditor Claims, and all of Newco’s rights against SFC of any kind in respect of the Affected Creditor Claims shall thereupon be fully, finally, irrevocably and forever compromised, released, discharged and cancelled; and

- (ii) SFC shall be deemed to discharge and release Newco of and from all of Newco's obligations to SFC in respect of the Newco Promissory Notes, and the Newco Promissory Notes and all of SFC's rights against Newco in respect thereof shall thereupon be fully, finally, irrevocably and forever released, discharged and cancelled.
- (q) Newco shall cause a portion of the Litigation Trust Interests it acquired in section 6.3(p) hereof to be assigned to and registered in the name of the Affected Creditors with Proven Claims as contemplated in section 6.3(i), and with respect to any Affected Creditor Claims that are Unresolved Claims as at the Effective Time, the remaining Litigation Trust Interests held by Newco that would have been allocated to the applicable Affected Creditors in respect of such Unresolved Claims if such Unresolved Claims had been Proven Claims at the Effective Time shall be assigned and registered by the Litigation Trustee to the Unresolved Claims Escrow Agent and in the name of the Unresolved Claims Escrow Agent, in escrow for the benefit of Persons entitled thereto, and such Litigation Trust Interests shall comprise part of the Unresolved Claims Reserve. The Litigation Trustee shall record entitlements to the Litigation Trust Interests in the manner set forth in section 5.3.
- (r) Subject to section 5.9 hereof, all debentures, indentures, notes, certificates, agreements, invoices, guarantees, pledges and other instruments evidencing Affected Claims, including the Notes and the Note Indentures, will not entitle any holder thereof to any compensation or participation other than as expressly provided for in the Plan and shall be cancelled and will thereupon be null and void. The Trustees shall be directed by the Court and shall be deemed to have released, discharged and cancelled any guarantees, indemnities, Encumbrances or other obligations owing by or in respect of any Subsidiary relating to the Notes or the Note Indentures.

Releases

- (s) Newco shall be deemed to have no liability or obligation of any kind whatsoever for: any Claim (including, notwithstanding anything to the contrary herein, any Unaffected Claim); any Affected Claim (including any Affected Creditor Claim, Equity Claim, D&O Claim, D&O Indemnity Claim and Noteholder Class Action Claim); any Section 5.1(2) D&O Claim; any Continuing Other D&O Claim; any Non-Released D&O Claim; any Class Action Claim; any Class Action Indemnity Claim; any right or claim in connection with or liability for the Notes or the Note Indentures; any guarantees, indemnities, share pledges or Encumbrances relating to the Notes or the Note Indentures; any right or claim in connection with or liability for the Existing Shares or other Equity Interests or any other securities of SFC; any rights or claims of the Third Party Defendants relating to SFC or the Subsidiaries; any right or claim in connection with or liability for the RSA, the Plan, the CCAA Proceedings, the Restructuring Transaction, the Litigation Trust, the business and affairs of SFC and the Subsidiaries (whenever or however conducted), the administration and/or management of SFC and the Subsidiaries,

or any public filings, statements, disclosures or press releases relating to SFC; any right or claim in connection with or liability for any guaranty, indemnity or claim for contribution in respect of any of the foregoing; and any Encumbrance in respect of the foregoing, provided only that Newco shall assume SFC's obligations to the applicable Subsidiaries in respect of the Subsidiary Intercompany Claims pursuant to section 6.3(k) hereof.

- (t) Each of the Charges shall be discharged, released and cancelled.
- (u) The releases and injunctions referred to in Article 7 of the Plan shall become effective in accordance with the Plan.
- (v) Any contract defaults arising as a result of the CCAA Proceedings and/or the implementation of the Plan (including, notwithstanding anything to the contrary herein, any such contract defaults in respect of the Unaffected Claims) shall be deemed to be cured.

6.4 Cancellation of Existing Shares and Notes

Unless otherwise agreed between the Monitor, SFC and the Initial Consenting Noteholders, on the Equity Cancellation Date all Existing Shares and Equity Interests shall be fully, finally and irrevocably cancelled, and the following steps will be implemented pursuant to the Plan as a plan of reorganization under section 191 of the *CBCA*, to be effected by articles of reorganization to be filed by SFC, subject to the receipt of any required approvals from the Ontario Securities Commission with respect to the trades in securities contemplated by the following:

- (a) SFC will create a new class of common shares to be called Class A common shares that are equivalent to the current Existing Shares except that they carry two votes per share;
- (b) SFC will amend the share conditions of the Existing Shares to provide that they are cancellable for no consideration at such time as determined by the board of directors of SFC;
- (c) prior to the cancellation of the Existing Shares, SFC will issue for nominal consideration one Class A common share of SFC to the SFC Continuing Shareholder;
- (d) SFC will cancel the Existing Shares for no consideration on the Equity Cancellation Date; and
- (e) SFC will apply to Canadian securities regulatory authorities for SFC to cease to be a reporting issuer effective on the Equity Cancellation Date or as soon as possible thereafter.

6.5 Transfers and Vesting Free and Clear

- (a) All of the SFC Assets (including for greater certainty the Direct Subsidiary Shares, the SFC Intercompany Claims and all other SFC Assets assigned, transferred and conveyed to Newco pursuant to section 6.3) shall be deemed to vest absolutely in Newco, free and clear of and from any and all Charges, Claims (including, notwithstanding anything to the contrary herein, any Unaffected Claims), D&O Claims, D&O Indemnity Claims, Section 5.1(2) D&O Claims, Continuing Other D&O Claims, Non-Released D&O Claims, Affected Claims, Class Action Claims, Class Action Indemnity Claims, claims or rights of any kind in respect of the Notes or the Note Indentures, and any right or claim that is based in whole or in part on facts, underlying transactions, causes of action or events relating to the Restructuring Transaction, the CCAA Proceedings or any of the foregoing, and any guarantees or indemnities with respect to any of the foregoing. Any Encumbrances or claims affecting, attaching to or relating to the SFC Assets in respect of the foregoing shall be deemed to be irrevocably expunged and discharged as against the SFC Assets, and no such Encumbrances or claims shall be pursued or enforceable as against Newco. For greater certainty, with respect to the Subsidiaries, Greenheart and Greenheart's direct and indirect subsidiaries: (i) the vesting free and clear in Newco and the expunging and discharging that occurs by operation of this paragraph shall only apply to SFC's ownership interests in the Subsidiaries, Greenheart and Greenheart's subsidiaries; and (ii) except as provided for in the Plan (including this section 6.5(a) and sections 4.9(g), 6.3(k), 6.3(l), 7.1 and 7.2 hereof) and the Sanction Order, the assets, liabilities, business and property of the Subsidiaries, Greenheart and Greenheart's direct and indirect subsidiaries shall remain unaffected by the Restructuring Transaction.
- (b) Any issuance, assignment, transfer or conveyance of any securities, interests, rights or claims pursuant to the Plan, including the Newco Shares, the Newco Notes and the Affected Creditor Claims, will be free and clear of and from any and all Charges, Claims (including, notwithstanding anything to the contrary herein, any Unaffected Claims), D&O Claims, D&O Indemnity Claims, Affected Claims, Section 5.1(2) D&O Claims; Continuing Other D&O Claims, Non-Released D&O Claims; Class Action Claims, Class Action Indemnity Claims, claims or rights of any kind in respect of the Notes or the Note Indentures, and any right or claim that is based in whole or in part on facts, underlying transactions, causes of action or events relating to the Restructuring Transaction, the CCAA Proceedings or any of the foregoing, and any guarantees or indemnities with respect to any of the foregoing. For greater certainty, with respect to the Subsidiaries, Greenheart and Greenheart's direct and indirect subsidiaries: (i) the vesting free and clear in Newco that occurs by operation of this paragraph shall only apply to SFC's direct and indirect ownership interests in the Subsidiaries, Greenheart and Greenheart's direct and indirect subsidiaries; and (ii) except as provided for in the Plan (including section 6.5(a) and sections 4.9(g), 6.3(j), 6.3(k), 7.1 and 7.2 hereof) and the Sanction Order, the assets, liabilities, business and property of the Subsidiaries, Greenheart and Greenheart's

direct and indirect subsidiaries shall remain unaffected by the Restructuring Transaction.

ARTICLE 7 RELEASES

7.1 General Plan Releases

- (a) Subject to section 7.1(b) hereof, on the Plan Implementation Date, SFC, the Subsidiaries, Newco, the Named Directors and Officers of SFC and/or any of the Subsidiaries, the directors and officers of Newco, the Noteholders, members of the *ad hoc* committee of Noteholders, the Trustees, the Monitor, FTI HK, counsel for the Directors of SFC, counsel for the Monitor, counsel for the Trustees, the SFC Advisors, the Noteholder Advisors, and each and every present and former affiliate, subsidiary, director, officer, member (including members of any committee or governance council), partner or employee of any of the foregoing, shall be fully, finally, irrevocably and forever released and discharged from any and all demands, claims, actions, causes of action, counterclaims, suits, debts, sums of money, accounts, covenants, damages, judgments, orders, including for injunctive relief or specific performance and compliance orders, expenses, executions, Encumbrances and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any Person may be entitled to assert (including any and all Affected Claims, Unaffected Claims, Section 5.1(2) D&O Claims, Continuing Other D&O Claims, Non-Released D&O Claims, Class Action Claims, Class Action Indemnity Claims and any guarantees, indemnities, claims for contribution or Encumbrances with respect thereto), whether known or unknown, matured or unmatured, direct, indirect or derivative, foreseen or unforeseen, existing or hereafter arising, based in whole or in part on any act, omission, transaction, duty, responsibility, indebtedness, liability, obligation, dealing or other occurrence existing or taking place on or prior to the Plan Implementation Date (or, with respect to actions taken pursuant to the Plan after the Plan Implementation Date, the date of such actions) that are in any way relating to, for, arising out of or in connection with any: Affected Claims; Unaffected Claims; Section 5.1(2) D&O Claims; Continuing Other D&O Claims; Non-Released D&O Claims; Class Action Claims; Class Action Indemnity Claims; the Notes or the Note Indentures; any guarantees, indemnities, claims for contribution, share pledges or Encumbrances related to the Notes or the Note Indentures; the Existing Shares; the RSA; the Plan; the CCAA Proceedings; the Litigation Trust; the business and affairs of SFC and the Subsidiaries (whenever or however conducted); the administration and/or management of SFC and the Subsidiaries; or any public filings, statements, disclosures or press releases relating to SFC; or the Subsidiaries, and any and all claims arising out of such actions or omissions shall be fully, finally, irrevocably and forever waived, compromised, released, discharged, cancelled and barred to the fullest extent permitted by Applicable Law.

- (b) Notwithstanding anything to the contrary in section 7.1(a) or section 7.2 hereof, nothing in this Plan shall waive, compromise, release, discharge, cancel or bar any of the following:
- (i) SFC of its obligations under the Plan and the Sanction Order;
 - (ii) SFC from or in respect of any Unaffected Claims (provided that recourse against SFC in respect of Unaffected Claims shall be limited in the manner set out in section 4.2 hereof);
 - (iii) any Directors or Officers of SFC or the Subsidiaries from any Non-Released D&O Claims or any Section 5.1(2) D&O Claims, provided that recourse against the Named Directors or Officers of SFC in respect of any Section 5.1(2) D&O Claims shall be limited in the manner set out in section 4.9(e) hereof;
 - (iv) any Other Directors and/or Officers from any Continuing Other D&O Claims, provided that recourse against the Other Directors and/or Officers in respect of the Indemnified Noteholder Class Action Claims shall be limited in the manner set out in section 4.4(b)(i) hereof;
 - (v) the Third Party Defendants from any claim, liability or obligation of whatever nature for or in connection with the Class Action Claims, provided that the maximum aggregate liability of the Third Party Defendants collectively in respect of the Indemnified Noteholder Class Action Claims shall be limited to the Indemnified Noteholder Class Action Limit pursuant to section 4.4(b)(i) hereof and the releases set out in section 7.2(e) hereof and the injunctions set out in section 7.3 hereof;
 - (vi) Newco from any liability to the applicable Subsidiaries in respect of the Subsidiary Intercompany Claims assumed by Newco pursuant to section 6.3(k) hereof;
 - (vii) the Subsidiaries from any liability to Newco in respect of the SFC Intercompany Claims conveyed to Newco pursuant to section 6.3(k) hereof;
 - (viii) SFC of or from any investigations by or non-monetary remedies of the Ontario Securities Commission, provided that, for greater certainty, all monetary rights, claims or remedies of the Ontario Securities Commission against SFC shall be treated as Affected Creditor Claims in the manner described in section 4.1 hereof and released pursuant to sections 7.1(a) and 7.2(b) hereof;
 - (ix) the Subsidiaries from their respective indemnification obligations (if any) to Directors or Officers of the Subsidiaries that relate to the ordinary course operations of the Subsidiaries and that have no connection with any of the matters listed in section 7.2(g) hereof;

- (x) SFC or the Directors and Officers in respect of any Insured Claims, provided that recovery for Insured Claims shall be irrevocably limited to recovery solely from the proceeds of Insurance Policies paid or payable on behalf of SFC or its Directors and Officers in the manner set forth in section 2.4 hereof;
- (xi) insurers from their obligations under insurance policies; and
- (xii) any Released Party for fraud or criminal conduct.

7.2 Specific Plan Releases

Without limiting the generality of section 7.1 hereof, and subject to 7.1(b) hereof, all of the following shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred on the Plan Implementation Date:

- (a) all Affected Claims, including all Affected Creditor Claims, Equity Claims, D&O Claims (other than Section 5.1(2) D&O Claims, Continuing Other D&O Claims and Non-Released D&O Claims), D&O Indemnity Claims (except as set forth in section 7.2(d)) and Noteholder Class Action Claims (other than the Continuing Noteholder Class Action Claims);
- (b) all Claims of the Ontario Securities Commission or any other Governmental Entity that have or could give rise to a monetary liability, including fines, awards, penalties, costs, claims for reimbursement or other claims having a monetary value;
- (c) all Class Action Claims (including the Noteholder Class Action Claims) against SFC; the Subsidiaries or the Named Directors or Officers of SFC or the Subsidiaries (other than Class Action Claims that are Section 5.1(2) D&O Claims or Non-Released D&O Claims);
- (d) all Class Action Indemnity Claims (including related D&O Indemnity Claims), other than any Class Action Indemnity Claim by the Third Party Defendants against SFC in respect of the Indemnified Noteholder Class Action Claims (including any D&O Indemnity Claim in that respect), which shall be limited to the Indemnified Noteholder Class Action Limit pursuant to the releases set out in section 7.2(f) hereof and the injunctions set out in section 7.3 hereof;
- (e) any portion or amount of or liability of the Third Party Defendants for the Indemnified Noteholder Class Action Claims (on a collective, aggregate basis in reference to all Indemnified Noteholder Class Action Claims together) that exceeds the Indemnified Noteholder Class Action Limit;
- (f) any portion or amount of, or liability of SFC for, any Class Action Indemnity Claims by the Third Party Defendants against SFC in respect of the Indemnified Noteholder Class Action Claims to the extent that such Class Action Indemnity Claims exceed the Indemnified Noteholder Class Action Limit; and

- (g) any and all claims or rights of any kind against the Subsidiaries or liabilities of the Subsidiaries for or in connection with: any Claim (including, notwithstanding anything to the contrary herein, any Unaffected Claim); any Affected Claim (including any Affected Creditor Claim, Equity Claim, D&O Claim, D&O Indemnity Claim and Noteholder Class Action Claim); any Section 5.1(2) D&O Claim; any Continuing Other D&O Claim; any Non-Released D&O Claim; any Class Action Claim; any Class Action Indemnity Claim; any right or claim in connection with or liability for the Notes or the Note Indentures; any guarantees, indemnities, share pledges or Encumbrances relating to the Notes or the Note Indentures; any right or claim in connection with or liability for the Existing Shares, Equity Interests or any other securities of SFC; any rights or claims of the Third Party Defendants relating to SFC or the Subsidiaries; any right or claim in connection with or liability for the RSA, the Plan, the CCAA Proceedings, the Restructuring Transaction, the Litigation Trust, the business and affairs of SFC and the Subsidiaries (whenever or however conducted), the administration and/or management of SFC and the Subsidiaries, or any public filings, statements, disclosures or press releases relating to SFC; any right or claim in connection with or liability for any indemnification obligation to Directors or Officers of SFC or the Subsidiaries pertaining to SFC, the Notes, the Note Indentures, the Existing Shares, the Equity Interests, any other securities of SFC or any other right, claim or liability for or in connection with the RSA, the Plan, the CCAA Proceedings, the Restructuring Transaction, the Litigation Trust, the business and affairs of SFC (whenever or however conducted), the administration and/or management of SFC, or any public filings, statements, disclosures or press releases relating to SFC; any right or claim in connection with or liability for any guaranty, indemnity or claim for contribution in respect of any of the foregoing; and any Encumbrance in respect of the foregoing.

7.3 Injunctions

All Persons are permanently and forever barred, estopped, stayed and enjoined, on and after the Effective Time, with respect to any and all Released Claims, from (i) commencing, conducting or continuing in any manner, directly or indirectly, any action, suits, demands or other proceedings of any nature or kind whatsoever (including, without limitation, any proceeding in a judicial, arbitral, administrative or other forum) against the Released Parties; (ii) enforcing, levying, attaching, collecting or otherwise recovering or enforcing by any manner or means, directly or indirectly, any judgment, award, decree or order against the Released Parties or their property; (iii) commencing, conducting or continuing in any manner, directly or indirectly, any action, suits or demands, including without limitation, by way of contribution or indemnity or other relief, in common law, or in equity, breach of trust or breach of fiduciary duty or under the provisions of any statute or regulation, or other proceedings of any nature or kind whatsoever (including, without limitation, any proceeding in a judicial, arbitral, administrative or other forum) against any Person who makes such a claim or might reasonably be expected to make such a claim, in any manner or forum, against one or more of the Released Parties; (iv) creating, perfecting, asserting or otherwise enforcing, directly or indirectly, any lien or encumbrance of any kind against the Released Parties or their property; or (v) taking any actions

to interfere with the implementation or consummation of this Plan; provided, however, that the foregoing shall not apply to the enforcement of any obligations under the Plan.

7.4 Timing of Releases and Injunctions

All releases and injunctions set forth in this Article 7 shall become effective on the Plan Implementation Date at the time or times and in the manner set forth in section 6.3 hereof.

7.5 Equity Class Action Claims Against the Third Party Defendants

Notwithstanding anything to the contrary in this Plan, any Class Action Claim against the Third Party Defendants that relates to the purchase, sale or ownership of Existing Shares or Equity Interests: (a) is unaffected by this Plan; (b) is not discharged, released, cancelled or barred pursuant to this Plan; (c) shall be permitted to continue as against the Third Party Defendants; (d) shall not be limited or restricted by this Plan in any manner as to quantum or otherwise (including any collection or recovery for any such Class Action Claim that relates to any liability of the Third Party Defendants for any alleged liability of SFC); and (e) does not constitute an Equity Claim or an Affected Claim under this Plan.

ARTICLE 8 COURT SANCTION

8.1 Application for Sanction Order

If the Plan is approved by the Required Majority, SFC shall apply for the Sanction Order on or before the date set for the hearing of the Sanction Order or such later date as the Court may set.

8.2 Sanction Order

The Sanction Order shall, among other things:

- (a) declare that: (i) the Plan has been approved by the Required Majority in conformity with the CCAA; (ii) the activities of SFC have been in reasonable compliance with the provisions of the CCAA and the Orders of the Court made in this CCAA Proceeding in all respects; (iii) the Court is satisfied that SFC has not done or purported to do anything that is not authorized by the CCAA; and (iv) the Plan and the transactions contemplated thereby are fair and reasonable;
- (b) declare that the Plan and all associated steps, compromises, releases, discharges, cancellations, transactions, arrangements and reorganizations effected thereby are approved, binding and effective as herein set out as of the Plan Implementation Date;
- (c) confirm the amount of each of the Unaffected Claims Reserve, the Administration Charge Reserve, the Directors' Charge Reserve and the Monitor's Post-Implementation Reserve;

- (d) declare that, on the Plan Implementation Date, all Affected Claims shall be fully, finally, irrevocably and forever compromised, released, discharged, cancelled and barred, subject only to the right of the applicable Persons to receive the distributions to which they are entitled pursuant to the Plan;
- (e) declare that, on the Plan Implementation Date, the ability of any Person to proceed against SFC or the Subsidiaries in respect of any Released Claims shall be forever discharged and restrained, and all proceedings with respect to, in connection with or relating to any such matter shall be permanently stayed;
- (f) declare that the steps to be taken, the matters that are deemed to occur and the compromises and releases to be effective on the Plan Implementation Date are deemed to occur and be effected in the sequential order contemplated by section 6.3, beginning at the Effective Time;
- (g) declare that, on the Plan Implementation Date, the SFC Assets vest absolutely in Newco in accordance with the terms of section 6.5(a) hereof;
- (h) provide that the Court has been informed that the Plan Sanction Order will be relied upon by SFC and Newco as an approval of the Plan for the purpose of relying on the exemption from the registration requirements of the United States Securities Act of 1933, as amended, pursuant to Section 3(a)(10) thereof for the issuance of the Newco Shares and Newco Notes and any other securities to be issued pursuant to the Plan;
- (i) declare that all obligations, agreements or leases to which (i) SFC remains a party on the Plan Implementation Date, or (ii) Newco becomes a party as a result of the conveyance of the SFC Assets to Newco on the Plan Implementation Date, shall be and remain in full force and effect, unamended, as at the Plan Implementation Date and no party to any such obligation or agreement shall on or following the Plan Implementation Date, accelerate, terminate, refuse to renew, rescind, refuse to perform or otherwise disclaim or resiliate its obligations thereunder, or enforce or exercise (or purport to enforce or exercise) any right or remedy under or in respect of any such obligation or agreement, by reason:
 - (i) of any event which occurred prior to, and not continuing after, the Plan Implementation Date, or which is or continues to be suspended or waived under the Plan, which would have entitled any other party thereto to enforce those rights or remedies;
 - (ii) that SFC sought or obtained relief or has taken steps as part of the Plan or under the CCAA;
 - (iii) of any default or event of default arising as a result of the financial condition or insolvency of SFC;

- (iv) of the completion of any of the transactions contemplated under the Plan, including the transfer, conveyance and assignment of the SFC Assets to Newco; or
- (v) of any compromises, settlements, restructurings, recapitalizations or reorganizations effected pursuant to the Plan;
- (j) stay the commencing, taking, applying for or issuing or continuing any and all steps or proceedings, including without limitation, administrative hearings and orders, declarations or assessments, commenced, taken or proceeded with or that may be commenced, taken or proceed with to advance any Released Claims;
- (k) authorize the Monitor to perform its functions and fulfil its obligations under the Plan to facilitate the implementation of the Plan;
- (l) direct and deem the Trustees to release, discharge and cancel any guarantees, indemnities, Encumbrances or other obligations owing by or in respect of any Subsidiary relating to the Notes or the Note Indentures;
- (m) declare that upon completion by the Monitor of its duties in respect of SFC pursuant to the CCAA and the Orders, the Monitor may file with the Court a certificate of Plan Implementation stating that all of its duties in respect of SFC pursuant to the CCAA and the Orders have been completed and thereupon, FTI Consulting Canada Inc. shall be deemed to be discharged from its duties as Monitor and released of all claims relating to its activities as Monitor; and
- (n) declare that, on the Plan Implementation Date, each of the Charges shall be discharged, released and cancelled, and that any obligations secured thereby shall satisfied pursuant to section 4.2(b) hereof, and that from and after the Plan Implementation Date: (i) the Administration Charge Reserve shall stand in place of the Administration Charge as security for the payment of any amounts secured by the Administration Charge and; (ii) the Directors' Charge Reserve shall stand in place of the Directors' Charge as security for the payment of any amounts secured by the Directors' Charge;
- (o) declare that SFC and the Monitor may apply to the Court for advice and direction in respect of any matters arising from or under the Plan;
- (p) order that releases and injunctions set forth in Article 7 of this Plan are effective on the Plan Implementation Date at the time or times and in the manner set forth in section 6.3 hereof; and
- (q) declare that section 95 to 101 of the BIA shall not apply to any of the transactions implemented pursuant to the Plan.

ARTICLE 9
CONDITIONS PRECEDENT AND IMPLEMENTATION

9.1 Conditions Precedent to Implementation of the Plan

The implementation of the Plan shall be conditional upon satisfaction or waiver of the following conditions prior to or at the Effective Time, each of which is for the benefit of SFC and the Initial Consenting Noteholders and may be waived only by SFC and the Initial Consenting Noteholders collectively; provided, however, that the conditions in sub-paragraphs (g), (h), (y), (ee), (ff), (jj), and (kk) shall only be for the benefit of the Initial Consenting Noteholders and, if not satisfied on or prior to the Effective Time, may be waived only by the Initial Consenting Noteholders; and provided further that such conditions shall not be enforceable by SFC if any failure to satisfy such conditions results from an action, error, omission by or within the control of SFC and such conditions shall not be enforceable by the Initial Consenting Noteholders if any failure to satisfy such conditions results from an action, error, omission by or within the control of the Initial Consenting Noteholders:

Plan Approval Matters

- (a) the Plan shall have been approved by the Required Majority and the Court, and in each case the Plan shall have been approved in a form consistent with the RSA or otherwise acceptable to SFC and the Initial Consenting Noteholders, each acting reasonably;
- (b) the Sanction Order shall have been made and shall be in full force and effect prior to October 12, 2012 (or such later date as may be consented to by SFC and the Initial Consenting Noteholders), and all applicable appeal periods in respect thereof shall have expired and any appeals therefrom shall have been disposed of by the applicable appellate court;
- (c) the Sanction Order shall be in a form consistent with the Plan or otherwise acceptable to SFC and the Initial Consenting Noteholders, each acting reasonably;
- (d) all filings under Applicable Laws that are required in connection with the Restructuring Transaction shall have been made and any regulatory consents or approvals that are required in connection with the Restructuring Transaction shall have been obtained and, in the case of waiting or suspensory periods, such waiting or suspensory periods shall have expired or been terminated; without limiting the generality of the foregoing, such filings and regulatory consents or approvals include:
 - (i) any required filings, consents and approvals of securities regulatory authorities in Canada;
 - (ii) a consultation with the Executive of the Hong Kong Securities and Futures Commission that is satisfactory to SFC, the Monitor and the Initial Consenting Noteholders confirming that implementation of the Restructuring Transaction will not result in an obligation arising for

- Newco, its shareholders or any Subsidiary to make a mandatory offer to acquire shares of Greenheart;
- (iii) the submission by SFC and each applicable Subsidiary of a Circular 698 tax filing with all appropriate tax authorities in the PRC within the requisite time prior to the Plan Implementation Date, such filings to be in form and substance satisfactory to the Initial Consenting Noteholders; and
 - (iv) if notification is necessary or desirable under the *Antimonopoly Law of People's Republic of China* and its implementation rules, the submission of all antitrust filings considered necessary or prudent by the Initial Consenting Noteholders and the acceptance and (to the extent required) approval thereof by the competent Chinese authority, each such filing to be in form and substance satisfactory to the Initial Consenting Noteholders;
- (e) there shall not be in effect any preliminary or final decision, order or decree by a Governmental Entity, no application shall have been made to any Governmental Entity, and no action or investigation shall have been announced, threatened or commenced by any Governmental Entity, in consequence of or in connection with the Restructuring Transaction that restrains, impedes or prohibits (or if granted could reasonably be expected to restrain, impede or prohibit) the Restructuring Transaction or any material part thereof or requires or purports to require a variation of the Restructuring Transaction, and SFC shall have provided the Initial Consenting Noteholders with a certificate signed by an officer of SFC, without personal liability on the part of such officer, certifying compliance with this Section 9.1(e) as of the Plan Implementation Date;

Newco Matters

- (f) the organization, incorporating documents, articles, by-laws and other constating documents of Newco (including any shareholders agreement, shareholder rights plan and classes of shares (voting and non-voting)) and any affiliated or related entities formed in connection with the Restructuring Transaction or the Plan, and all definitive legal documentation in connection with all of the foregoing, shall be acceptable to the Initial Consenting Noteholders and in form and in substance reasonably satisfactory to SFC;
- (g) the composition of the board of directors of Newco and the senior management and officers of Newco that will assume office, or that will continue in office, as applicable, on the Plan Implementation Date shall be acceptable to the Initial Consenting Noteholders;
- (h) the terms of employment of the senior management and officers of Newco shall be acceptable to the Initial Consenting Noteholders;
- (i) except as expressly set out in this Plan, Newco shall not have: (i) issued or authorized the issuance of any shares, notes, options, warrants or other securities

of any kind, (ii) become subject to any Encumbrance with respect to its assets or property; (iii) become liable to pay any indebtedness or liability of any kind (other than as expressly set out in section 6.3 hereof); or (iv) entered into any Material agreement;

- (j) any securities that are formed in connection with the Plan, including the Newco Shares and the Newco Notes, when issued and delivered pursuant to the Plan, shall be duly authorized, validly issued and fully paid and non-assessable and the issuance and distribution thereof shall be exempt from all prospectus and registration requirements of any applicable securities, corporate or other law, statute, order, decree, consent decree, judgment, rule, regulation, ordinance, notice, policy or other pronouncement having the effect of law applicable in the provinces of Canada;
- (k) Newco shall not be a reporting issuer (or equivalent) in any province of Canada or any other jurisdiction;
- (l) all of the steps, terms, transactions and documents relating to the conveyance of the SFC Assets to Newco in accordance with the Plan shall be in form and in substance acceptable to SFC and the Initial Consenting Noteholders;
- (m) all of the following shall be in form and in substance acceptable to the Initial Consenting Noteholders and reasonably satisfactory to SFC: (i) the Newco Shares; (ii) the Newco Notes (including the aggregate principal amount of the Newco Notes); (iii) any trust indenture or other document governing the terms of the Newco Notes; and (iv) the number of Newco Shares and Newco Notes to be issued in accordance with this Plan;

Plan Matters

- (n) the Indemnified Noteholder Class Action Limit shall be acceptable to SFC, the Monitor and the Initial Consenting Noteholders;
- (o) the aggregate amount of Proven Claims held by Ordinary Affected Creditors shall be acceptable to SFC, the Monitor and the Initial Consenting Noteholders;
- (p) the amount of each of the Unaffected Claims Reserve, the Administration Charge Reserve, the Directors' Charge Reserve and the Monitor's Post-Implementation Reserve shall, in each case, be acceptable to SFC, the Monitor and the Initial Consenting Noteholders;
- (q) the Litigation Funding Amount shall be acceptable to SFC, the Monitor and the Initial Consenting Noteholders;
- (r) the amount of each of the following shall be acceptable to SFC, the Monitor and the Initial Consenting Noteholders: (i) the aggregate amount of Lien Claims to be satisfied by the return to the applicable Lien Claimants of the applicable secured property in accordance with section 4.2(c)(i) hereof; and (ii) the aggregate amount

of Lien Claims to be repaid in cash on the Plan Implementation Date in accordance with section 4.2(c)(ii) hereof;

- (s) the aggregate amount of Unaffected Claims, and the aggregate amount of the Claims listed in each subparagraph of the definition of “Unaffected Claims” shall, in each case, be acceptable to SFC, the Monitor and the Initial Consenting Noteholders;
- (t) the aggregate amount of Unresolved Claims and the amount of the Unresolved Claims Reserve shall, in each case, be acceptable to SFC, the Monitor and the Initial Consenting Noteholders and shall be confirmed in the Sanction Order;
- (u) Litigation Trust and the Litigation Trust Agreement shall be in form and in substance acceptable to SFC, the Monitor and the Initial Consenting Noteholders and SFC, each acting reasonably, and the Litigation Trust shall be established in a jurisdiction that is acceptable to the Initial Consenting Noteholders and SFC, each acting reasonably;
- (v) SFC, the Monitor and the Initial Consenting Noteholders, each acting reasonably, shall be satisfied with the proposed use of proceeds and payments relating to all aspects of the Restructuring Transaction and the Plan, including, without limitation, any change of control payments, consent fees, transaction fees, third party fees or termination or severance payments, in the aggregate of \$500,000 or more, payable by SFC or any Subsidiary to any Person (other than a Governmental Entity) in respect of or in connection with the Restructuring Transaction or the Plan, including without limitation, pursuant to any employment agreement or incentive plan of SFC or any Subsidiary;
- (w) SFC, the Monitor and the Initial Consenting Noteholders, each acting reasonably, shall be satisfied with the status and composition of all liabilities, indebtedness and obligations of the Subsidiaries and all releases of the Subsidiaries provided for in the Plan and the Sanction Order shall be binding and effective as of the Plan Implementation Date;

Plan Implementation Date Matters

- (x) the steps required to complete and implement the Plan shall be in form and in substance satisfactory to SFC and the Initial Consenting Noteholders;
- (y) the Noteholders and the Early Consent Noteholders shall receive, on the Plan Implementation Date, all of the consideration to be distributed to them pursuant to the Plan;
- (z) all of the following shall be in form and in substance satisfactory to SFC and the Initial Consenting Noteholders: (i) all materials filed by SFC with the Court or any court of competent jurisdiction in the United States, Canada, Hong Kong, the PRC or any other jurisdiction that relates to the Restructuring Transaction; (ii) the terms of any court-imposed charges on any of the assets, property or undertaking

of any of SFC, including without limitation any of the Charges; (iii) the Initial Order; (iv) the Claims Procedure Order; (v) the Meeting Order; (vi) the Sanction Order; (vii) any other Order granted in connection with the CCAA Proceeding or the Restructuring Transaction by the Court or any other court of competent jurisdiction in Canada, the United States, Hong Kong, the PRC or any other jurisdiction; and (viii) the Plan (as it is approved by the Required Majority and the Sanction Order);

- (aa) any and all court-imposed charges on any assets, property or undertaking of SFC, including the Charges, shall be discharged on the Plan Implementation Date on terms acceptable to the Initial Consenting Noteholders and SFC, each acting reasonably;
- (bb) SFC shall have paid, in full, the Expense Reimbursement and all fees and costs owing to the SFC Advisors on the Plan Implementation Date, and Newco shall have no liability for any fees or expenses due to the SFC Advisors or the Noteholder Advisors either as at or following the Plan Implementation Date;
- (cc) SFC or the Subsidiaries shall have paid, in full all fees owing to each of Chandler Fraser Keating Limited and Spencer Stuart on the Plan Implementation Date, and Newco shall have no liability for any fees or expenses due to either Chandler Fraser Keating Limited and Spencer Stuart as at or following the Plan Implementation Date;
- (dd) SFC shall have paid all reasonable fees and expenses, including reasonable legal fees and expenses, of the Trustees in connection with the performance of their respective duties under the Note Indentures or this Plan that are outstanding as of the Plan Implementation Date, and the Initial Consenting Noteholders shall be satisfied that SFC has made adequate provision in the Unaffected Claims Reserve for the payment of the reasonable fees and expenses, including reasonable legal fees and expenses, to be incurred by the Trustees after the Plan Implementation Date in connection with the performance of their respective duties under the Note Indentures or this Plan;
- (ee) there shall not exist or have occurred any Material Adverse Effect, and SFC shall have provided the Initial Consenting Noteholders with a certificate signed by an officer of the Company, without any personal liability on the part of such officer, certifying compliance with this section 9.1(ee) as of the Plan Implementation Date;
- (ff) there shall have been no breach of the Noteholder Confidentiality Agreements (as defined in the RSA) by the Company or any of the Sino-Forest Representatives (as defined therein) in respect of the applicable Initial Consenting Noteholder;
- (gg) the Plan Implementation Date shall have occurred no later than November 30, 2012 (or such later date as may be consented to by SFC and the Initial Consenting Noteholders);

RSA Matters

- (hh) all conditions set out in sections 6 and 7 of the RSA shall have been satisfied or waived in accordance with the terms of the RSA;
- (ii) the RSA shall not have been terminated;

Other Matters

- (jj) the Initial Consenting Noteholders shall have completed due diligence in respect of SFC and the Subsidiaries and the results of such due diligence shall be acceptable to the Initial Consenting Noteholders prior to the date of the hearing of the Sanction Order;
- (kk) if so requested by the Initial Consenting Noteholders, the Sanction Order shall have been recognized and confirmed as binding and effective pursuant to an order of a court of competent jurisdiction in Canada, the United States, and any other jurisdiction requested by the Initial Consenting Noteholders, and all applicable appeal periods in respect of any such recognition order shall have expired and any appeals therefrom shall have been disposed of by the applicable appellate court; and
- (ll) all press releases, disclosure documents and definitive agreements in respect of the Restructuring Transaction or the Plan shall be in form and substance satisfactory to SFC and the Initial Consenting Noteholders, each acting reasonably.

9.2 Monitor's Certificate

Upon delivery of written notice from SFC and Goodmans LLP (on behalf of the Initial Consenting Noteholders) of the satisfaction of the conditions set out in section 9.1, the Monitor shall deliver to Goodmans LLP and SFC a certificate stating that the Plan Implementation Date has occurred and that the Plan and the Sanction Order are effective in accordance with their respective terms. Following the Plan Implementation Date, the Monitor shall file such certificate with the Court.

**ARTICLE 10
GENERAL****10.1 Binding Effect**

On the Plan Implementation Date:

- (a) the Plan will become effective at the Effective Time;
- (b) the Plan shall be final and binding in accordance with its terms for all purposes on all Persons named or referred to in, or subject to, the Plan and their respective

heirs, executors, administrators and other legal representatives, successors and assigns;

- (c) each Person named or referred to in, or subject to, the Plan will be deemed to have consented and agreed to all of the provisions of the Plan, in its entirety and shall be deemed to have executed and delivered all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out the Plan in its entirety.

10.2 Waiver of Defaults

- (a) From and after the Plan Implementation Date, all Persons shall be deemed to have waived any and all defaults of SFC then existing or previously committed by SFC, or caused by SFC, the commencement of the CCAA Proceedings by SFC, any matter pertaining to the CCAA Proceedings, any of the provisions in the Plan or steps contemplated in the Plan, or non-compliance with any covenant, warranty, representation, term, provision, condition or obligation, expressed or implied, in any contract, instrument, credit document, indenture, note, lease, guarantee, agreement for sale or other agreement, written or oral, and any and all amendments or supplements thereto, existing between such Person and SFC, and any and all notices of default and demands for payment or any step or proceeding taken or commenced in connection therewith under any such agreement shall be deemed to have been rescinded and of no further force or effect, provided that nothing shall be deemed to excuse SFC from performing its obligations under the Plan or be a waiver of defaults by SFC under the Plan and the related documents.
- (b) Effective on the Plan Implementation Date, any and all agreements that are assigned to Newco as part of the SFC Assets shall be and remain in full force and effect, unamended, as at the Plan Implementation Date, and no Person shall, following the Plan Implementation Date, accelerate, terminate, rescind, refuse to perform or otherwise repudiate its obligations under, or enforce or exercise any right (including any right of set-off, dilution or other remedy) or make any demand against Newco or any Subsidiary under or in respect of any such agreement with Newco or any Subsidiary, by reason of:
 - (i) any event that occurred on or prior to the Plan Implementation Date that would have entitled any Person thereto to enforce those rights or remedies (including defaults or events of default arising as a result of the insolvency of SFC);
 - (ii) the fact that SFC commenced or completed the CCAA Proceedings;
 - (iii) the implementation of the Plan, or the completion of any of the steps, transactions or things contemplated by the Plan; or
 - (iv) any compromises, arrangements, transactions, releases, discharges or injunctions effected pursuant to the Plan or this Order.

10.3 Deeming Provisions

In the Plan, the deeming provisions are not rebuttable and are conclusive and irrevocable.

10.4 Non-Consummation

SFC reserves the right to revoke or withdraw the Plan at any time prior to the Sanction Date, with the consent of the Monitor and the Initial Consenting Noteholders. If SFC so revokes or withdraws the Plan, or if the Sanction Order is not issued or if the Plan Implementation Date does not occur, (a) the Plan shall be null and void in all respects, (b) any settlement or compromise embodied in the Plan, including the fixing or limiting to an amount certain any Claim, and any document or agreement executed pursuant to the Plan shall be deemed null and void, and (c) nothing contained in the Plan, and no acts taken in preparation for consummation of the Plan, shall (i) constitute or be deemed to constitute a waiver or release of any Claims by or against SFC or any other Person; (ii) prejudice in any manner the rights of SFC or any other Person in any further proceedings involving SFC; or (iii) constitute an admission of any sort by SFC or any other Person.

10.5 Modification of the Plan

- (a) SFC may, at any time and from time to time, amend, restate, modify and/or supplement the Plan with the consent of the Monitor and the Initial Consenting Noteholders, provided that: any such amendment, restatement, modification or supplement must be contained in a written document that is filed with the Court and:
 - (i) if made prior to or at the Meeting: (A) the Monitor, SFC or the Chair (as defined in the Meeting Order) shall communicate the details of any such amendment, restatement, modification and/or supplement to Affected Creditors and other Persons present at the Meeting prior to any vote being taken at the Meeting; (B) SFC shall provide notice to the service list of any such amendment, restatement, modification and/or supplement and shall file a copy thereof with the Court forthwith and in any event prior to the Court hearing in respect of the Sanction Order; and (C) the Monitor shall post an electronic copy of such amendment, restatement, modification and/or supplement on the Website forthwith and in any event prior to the Court hearing in respect of the Sanction Order; and
 - (ii) if made following the Meeting: (A) SFC shall provide notice to the service list of any such amendment, restatement, modification and/or supplement and shall file a copy thereof with the Court; (B) the Monitor shall post an electronic copy of such amendment, restatement, modification and/or supplement on the Website; and (C) such amendment, restatement, modification and/or supplement shall require the approval of the Court following notice to the Affected Creditors and the Trustees.
- (b) Notwithstanding section 10.5(a), any amendment, restatement, modification or supplement may be made by SFC: (i) if prior to the Sanction Date, with the

consent of the Monitor and the Initial Consenting Noteholders; and (ii) if after the Sanction Date, with the consent of the Monitor and the Initial Consenting Noteholders and upon approval by the Court, provided in each case that it concerns a matter that, in the opinion of SFC, acting reasonably, is of an administrative nature required to better give effect to the implementation of the Plan and the Sanction Order or to cure any errors, omissions or ambiguities and is not materially adverse to the financial or economic interests of the Affected Creditors.

- (c) Any amended, restated, modified or supplementary plan or plans of compromise filed with the Court and, if required by this section, approved by the Court, shall, for all purposes, be and be deemed to be a part of and incorporated in the Plan.

10.6 Actions and Approvals of SFC after Plan Implementation

- (a) From and after the Plan Implementation Date, and for the purpose of this Plan only:
 - (i) if SFC does not have the ability or the capacity pursuant to Applicable Law to provide its agreement, waiver, consent or approval to any matter requiring SFC's agreement, waiver, consent or approval under this Plan, such agreement, waiver consent or approval may be provided by the Monitor; and
 - (ii) if SFC does not have the ability or the capacity pursuant to Applicable Law to provide its agreement, waiver, consent or approval to any matter requiring SFC's agreement, waiver, consent or approval under this Plan, and the Monitor has been discharged pursuant to an Order, such agreement, waiver consent or approval shall be deemed not to be necessary.

10.7 Consent of the Initial Consenting Noteholders

For the purposes of this Plan, any matter requiring the agreement, waiver, consent or approval of the Initial Consenting Noteholders shall be deemed to have been agreed to, waived, consented to or approved by such Initial Consenting Noteholders if such matter is agreed to, waived, consented to or approved in writing by Goodmans LLP, provided that Goodmans LLP expressly confirms in writing (including by way of e-mail) to the applicable Person that it is providing such agreement, consent or waiver on behalf of Initial Consenting Noteholders.

10.8 Paramountcy

From and after the Effective Time on the Plan Implementation Date, any conflict between:

- (a) the Plan; and
- (b) the covenants, warranties, representations, terms, conditions, provisions or obligations, expressed or implied, of any contract, mortgage, security agreement,

indenture, trust indenture, note, loan agreement, commitment letter, agreement for sale, lease or other agreement, written or oral and any and all amendments or supplements thereto existing between any Person and SFC and/or the Subsidiaries as at the Plan Implementation Date,

will be deemed to be governed by the terms, conditions and provisions of the Plan and the Sanction Order, which shall take precedence and priority.

10.9 Severability of Plan Provisions

If, prior to the Sanction Date, any term or provision of the Plan is held by the Court to be invalid, void or unenforceable, the Court, at the request of SFC and with the consent of the Monitor and the Initial Consenting Noteholders, shall have the power to either (a) sever such term or provision from the balance of the Plan and provide SFC with the option to proceed with the implementation of the balance of the Plan as of and with effect from the Plan Implementation Date, or (b) alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, and provided that SFC proceeds with the implementation of the Plan, the remainder of the terms and provisions of the Plan shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such holding, alteration or interpretation.

10.10 Responsibilities of the Monitor

The Monitor is acting in its capacity as Monitor in the CCAA Proceeding and the Plan with respect to SFC and will not be responsible or liable for any obligations of SFC.

10.11 Different Capacities

Persons who are affected by this Plan may be affected in more than one capacity. Unless expressly provided herein to the contrary, a Person will be entitled to participate hereunder in each such capacity. Any action taken by a Person in one capacity will not affect such Person in any other capacity, unless expressly agreed by the Person in writing or unless its Claims overlap or are otherwise duplicative.

10.12 Notices

Any notice or other communication to be delivered hereunder must be in writing and reference the Plan and may, subject as hereinafter provided, be made or given by personal delivery, ordinary mail or by facsimile or email addressed to the respective parties as follows:

- (a) if to SFC or any 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

(b) if to the Initial Consenting Noteholders:

c/o 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
Fax: 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
Fax: 852-2219-0222

(c) if to the Monitor:

FTI Consulting Canada Inc.
TD Waterhouse Tower
79 Wellington Street West
Suite 2010, P.O. Box 104
Toronto, ON M5K 1G8

Attention: Greg Watson
Email: greg.watson@fticonsulting.com
Fax: (416) 649-8101

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

Gowling Lafleur Henderson LLP
1 First Canadian Place

100 King Street West, Suite 1600
Toronto, Ontario M5X 1G5

Attention: Derrick Tay
Email: derrick.tay@gowlings.com
Fax: (416) 862-7661

or to such other address as any party may from time to time notify the others in accordance with this section. Any such communication so given or made shall be deemed to have been given or made and to have been received on the day of delivery if delivered, or on the day of faxing or sending by other means of recorded electronic communication, provided that such day in either event is a Business Day and the communication is so delivered, faxed or sent before 5:00 p.m. (Toronto time) on such day. Otherwise, such communication shall be deemed to have been given and made and to have been received on the next following Business Day.

10.13 Further Assurances

SFC, the Subsidiaries and any other Person named or referred to in the Plan will execute and deliver all such documents and instruments and do all such acts and things as may be necessary or desirable to carry out the full intent and meaning of the Plan and to give effect to the transactions contemplated herein.

DATED as of the 27th day of August, 2012.

TAB 14

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



**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR.)
JUSTICE MORAWETZ)

TUESDAY, THE ~~31~~³¹ DAY
 OF ~~SEPTEMBER~~^{AUGUST}, 2012

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

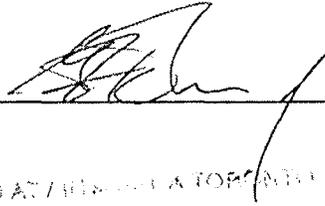
AND IN THE MATTER OF A PLAN OF COMPROMISE AND
ARRANGEMENT OF SINO-FOREST CORPORATION

ORDER

THIS MOTION made by the Ad Hoc Committee of Purchasers of the Applicant's Securities ("Class Action Plaintiffs") for (a) an order validating and abridging the time for service and filing of the notice of motion and motion record, and dispensing with any further service thereof; (b) an order appointing the Class Action Plaintiffs as representatives of the members of the classes proposed in the action in the Ontario Superior Court of Justice bearing court file no. CV-11-431153-00CP and the action in the Quebec Superior Court bearing Court File No. 200-06-000132-111 (collectively, the "Classes"), for the purposes of this and any related or ensuing receivership, bankruptcy or other insolvency proceeding that has or may be brought before this court; and (c) an order granting the Classes leave to vote on Sino-Forest Corporation's Plan of Compromise dated August 14, 2012, as may be amended, (collectively, the "Class Action Plaintiffs' Relief"), was heard this day, at the courthouse at 330 University Avenue, Toronto, Ontario.

WHEREAS the parties do not oppose an adjournment of this motion,

1. THIS COURT ORDERS that that none of Class Action Plaintiffs' Relief has been determined by this court and that the Class Action Plaintiffs' motion, including all determinations of their entitlement to the Class Action Plaintiffs' Relief, is adjourned *sine die*, without costs.



RECORDED AT / RECORDEE A TORONTO
BOOK NO.
FILE / DATED BY / TIME NO.:

SEP 4 - 2012

11-11-11



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

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

PROCEEDING COMMENCED AT
TORONTO

ORDER

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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 against the Applicant

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

Aug 28/12

Aug 31, 2012.

*On an unopposed basis, and
with the acknowledgment of the
parties that none of the
Class Action Plaintiffs' Relief
has been determined - motion
adjourned sine die, without
costs*

[Signature]

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDING COMMENCED AT
TORONTO

MOTION RECORD
(Motion Returnable August 28, 2012)

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

TAB 15

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
(sworn September 24, 2012)**

I, Daniel 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, co-counsel for 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 "Proposed Ontario Class Action").
2. Siskinds LLP (along with Koskie Minsky LLP and Paliare Roland Rosenberg Rothstein LLP) are counsel to an Ad Hoc Committee of Purchasers of Sino-Forest's Securities, including the Representative Plaintiffs in Ontario and a parallel proceeding in Quebec (collectively, the "Class Action Plaintiffs" and the "Proposed Class Actions", respectively) against Sino-Forest Corporation ("Sino-Forest"), its directors and officers and a number of third party defendants. The identity of our clients is set out in my affidavit sworn April 11, 2012.
3. 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.
4. I swear this affidavit in support of the Plaintiffs' motion for an order lifting the stay in of proceedings to permit the Proposed Class Actions to proceed with motions for

leave pursuant to Part XXIII.1 of the *Securities Act*, R.S.O. 1990, c. S.5 (“OSA”) and certifying the Ontario Class Action pursuant to the *Class Proceedings Act, 1992*, S.O. 1992, c. 6 (“CPA”) and similar relief in Quebec. 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.

5. On April 11, 2012, I swore an affidavit in support of the April 10, 2012 notice of motion requesting, among other things, advice and direction of this court regarding the impact of the stay of proceedings imposed by the Initial Order dated March 30, 2012.

6. The intention of this affidavit is to provide an overview of the events that have taken place since April 11, 2012.

DELISTING OF SINO-FOREST SHARES

7. On May 9, 2012, Sino-Forest shares were delisted from the Toronto Stock Exchange. Attached as **Exhibit “A”** is a copy of Sino-Forest’s press release of April 5, 2012.

OSC ENFORCEMENT PROCEEDINGS

8. On May 22, 2012, the Ontario Securities Commission (“OSC”) commenced enforcement proceedings against Sino-Forest, Allen Chan, David Horsley and other senior officers and employees. The OSC Statement of Allegations alleges that Sino-Forest and its senior executives “engaged in a complex fraudulent scheme to inflate the assets and revenue of Sino-Forest and made materially misleading statements in Sino-Forest’s public disclosure record related to its primary business.” Among other detailed allegations, it alleges “Sino-Forest falsified the evidence of ownership for the vast majority of its timber holdings by engaging in a deceitful documentation process. This dishonest process included the fraudulent creating of deceitful Purchase Contracts and Sales Contracts, including key attachments and other supplemental documentation.” Further, it alleges that Allen Chan (“Chan”) and other former management materially misled OSC staff during their investigation. Attached as **Exhibit “B”** is a copy of the OSC statement of allegations.

THE PÖYRY SETTLEMENT

9. On March 30, 2012, the Plaintiffs in the Proposed Ontario Class Action entered into a settlement agreement with the defendant, Pöyry (Beijing) Consulting Company Limited (“Pöyry” and the “Pöyry Settlement”, respectively) on behalf of all members of the putative class in the Proposed Ontario Class Action.

10. As part of that settlement, Pöyry provided class counsel with an evidentiary proffer.

11. On September 21, 2012 a settlement approval and certification motion was held before Justice Perell. The Court’s decision is on reserve. Prior to that hearing, notice of the settlement approval motion was made to potential class members. No class member objected to the settlement.

RESIGNATION OF CHAN AND HORSLEY

12. Chan resigned his position as Chairman of Sino-Forest on or about August 25, 2011, but remained as “Founding Chairman Emeritus” at that time. On April 17, 2012, Chan resigned as Founding Chairman Emeritus and currently holds no position with Sino-Forest whatsoever.

13. On the same date, David Horsley resigned as Chief Financial Officer, but remained an employee for the stated purpose of assisting with Sino-Forest’s restructuring efforts. Attached as **Exhibit “C”** is a copy of Sino-Forest’s press release of April 17, 2012.

FAILURE OF THE SALE PROCESS

14. On March 30, 2012, this Court issued an Order authorizing Sino-Forest to conduct a sale process in accordance with certain sale process procedures (“SPP”). Attached as **Exhibit “D”** is a copy of the Sale Process Order.

15. The purpose of the sale process was to determine whether any parties were willing to purchase substantially all of Sino-Forest’s business operations. Pursuant to the SPP, Sino-Forest solicited non-binding letters of intent (“LOIs”). Sino-Forest, in consultation

with its financial advisor and the Monitor, was required to determine whether any of the LOIs constituted “Qualified Letters of Intent.” Among other technical criteria, a Qualified Letter of Intent is one that contains a bid of more than 85% of amounts owed to Sino-Forest noteholders (including interest).

16. The bids received for Sino-Forest’s assets have not been disclosed, but Sino-Forest determined that none of the LOIs constituted a Qualified Letter of Intent. Attached as **Exhibit “E”** is a copy of the Fourth Report of the Monitor.

17. As a result, on July 10, 2012, Sino-Forest issued a press release announcing the termination of the SPP, and its intention to proceed with the restructuring transaction contemplated by a restructuring support agreement dated March 30, 2012, between Sino-Forest and certain of its noteholders. Attached as **Exhibit “F”** is a copy of the July 10, 2012 Press Release.

CONTINUING FINANCIAL DIFFICULTIES

18. The Sixth Report of the Monitor highlights the continuing difficulties that the Monitor and the Applicant were having in establishing the ownership and value of Sino-Forest's forestry assets, difficulty in enforcing accounts receivable, and indicated the possibility of massive write-downs in Sino-Forest's financial statements, including, among other things, that:

- (a) The Monitor is experiencing ongoing difficulties in collecting Sino-Forest’s receivable balances. Certain Authorized Intermediaries (“AIs”) operating in the People's Republic of China with significant accounts payable to Sino-Forest were de-registered, and no longer exist as corporate entities;
- (b) An ongoing effort by the Monitor to determine the location and value of Sino-Forest's forestry assets has only been able to verify about 8% of these assets to date, and as a result of the time and expense of this process, was unlikely to be able to verify a substantial proportion of the forestry assets Sino-Forest claimed in its financial statements;

- (c) Sino-Forest was expecting to report a write-down of \$560 million in respect of its internal 2011 financial statements; and
- (d) The combined value of the write-down and the accounts receivable from de-registered authorized intermediaries could total over \$1 billion.

19. Attached as **Exhibit "G"** is a copy of the Sixth Report of the Monitor.

THE PROPOSED PLAN OF ARRANGEMENT AND MEETING ORDER

20. Following the failure of the sale process, and in accordance with the restructuring support agreement, the Monitor and the Applicant developed a proposed Plan of Compromise and Reorganization (the "Proposed Plan"). The Monitor and Sino-Forest intend to hold a meeting of creditors of Sino-Forest prior to November 30, 2012 to consider and vote on the Proposed Plan.

21. The Class Action Plaintiffs have proposed certain limited amendments to the Proposed Plan, essentially to clarify their ability to pursue the Class Action claims against certain directors and officers and recover proceeds from Sino-Forest's Directors' and Officers' liability insurance.

22. The Applicant brought a motion returnable August 28, 2012 seeking an order for a meeting of creditors, the purpose of which is to vote on the Proposed Plan. That motion was adjourned. Certain terms of the Proposed Plan, as currently drafted, are still contested by the parties and shall be determined at a date to be fixed.

23. On August 31, 2012 this court issued an order brought by the Applicant with the consent of the parties, which orders a meeting of the creditors of Sino-Forest, subject to the determination of outstanding issues in the Proposed Plan, including: (a) the final text for approval of the Plan; (b) the jurisdiction to approve the Proposed Plan; (c) whether the Proposed Plan complies with the CCAA; (d) whether any aspect or term of the Proposed Plan is fair and reasonable; (e) the validity or quantum of any claims; and (f) the classification of creditors for voting purposes.

24. Subject to the determination of these issues and among other things, the Proposed Plan provides as follows:

- (a) Sino-Forest will be restructured such that its business operations will be transferred under a new entity (“NewCo”) free and clear of all claims;
- (b) NewCo will distribute its securities to the current noteholders;
- (c) claims, including class actions claims against Sino-Forest and certain of its current and former directors and officers shall be released, except that such claims will continue to the extent of available insurance to respond to such claims;
- (d) the Class Action claims that fall within the scope of s. 5.1(2) of the CCAA will be permitted to continue but may (this term is still contested) be compromised by limiting them to available insurance proceeds; and
- (e) the Class Action claims and the claims of current noteholders against third party defendants will be permitted to proceed.

25. Attached as **Exhibit “H”** is a copy of the Proposed Plan.

MEDIATION ORDER AND FAILURE OF THE MEDIATION

26. On July 25, 2012, on motion by the Monitor and with the consent of the parties, this court directed a mediation of the claims advanced in the Proposed Class Actions (the “Mediation”).

27. The Mediation was held on September 4 and 5, 2012, but the parties were unable to reach any settlement.

PROPOSED TIMETABLE

28. In reasons dated March 26, 2012, Justice Perell set a timetable for the Plaintiffs' Leave Motion and Certification. These reasons are marked and attached as **Exhibit "I"**.

29. The timetable, as set out at paragraph 93 of those reasons, is as follows:

Leave and Certification Motions

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.
October 19, 2012:	Plaintiffs to deliver factum.
November 9, 2012:	Defendants to deliver factum.
November 21 - 30, 2012:	Hearing of the motion.

30. As a result of the stay imposed by the Initial Order, roughly 5 ½ months have been lost.

31. Following the failure of the Mediation, the Class Action Plaintiffs sought the consent of the parties to a revised timetable reflecting the time elapsed following the Initial Order. No agreement has been reached about a revised schedule.

PRODUCTION OF DOCUMENTS

32. The Class Action Plaintiffs brought a motion returnable July 16, 2012, for the production of documents relevant to the CCAA proceedings and the Proposed Class Actions. The Class Action Plaintiffs and Sino-Forest reached an agreement on the documents to be produced, subject to the execution of a non-disclosure agreement (the

“Non-Disclosure Agreement”). On July 25, 2012, Justice Morawetz made an order requiring certain documents to be placed in a confidential data room.

33. The Non-Disclosure Agreement does not restrict 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.

34. Many documents were subsequently put into an electronic data room by Sino-Forest on a confidential basis.

35. A number of the documents reviewed by the Class Action Plaintiffs thus far (listed in Confidential Appendix “A” to the Class Action Plaintiffs’ Notice of Motion) are particularly relevant to the probity and seriousness of the positions taken by the Class Action Plaintiffs in these proceedings.

QUEBEC ACTION

36. On June 9, 2011, a petition for authorization to institute a class action was filed in the Province of Quebec in the case of *Guining Liu v. Sino Forest Corporation & al.* (200-06-000132-111).

37. On March 20, 2012, the Quebec petitioner entered into a settlement agreement with the defendant, Pöyry (Beijing) Consulting Company Limited.

38. On June 1, 2012, the Quebec petitioner filed a motion for approval of the notice to members of the class regarding the Pöyry settlement agreement.

39. On August 3, 2012, a motion for permission to amend the petition for authorization to institute a class action was filed in order to add defendants.

40. On August 30, 2012, Justice Jean-François Émond of the Québec Superior Court, granted the motion for permission to amend the petition for authorization to institute a class action.

SWORN BEFORE ME at the City of
Toronto, on September 24, 2012.



Commissioner for Taking Affidavits

LAURA-MARIE PAYNTER, a Commissioner, etc.,
Province of Ontario, for Siskinds^{LLP}
Barristers and Solicitors. Expires: April 5, 2015



DANIEL E. H. BACH

TAB A



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

P.O. Box 55, 19th Floor
20 Queen Street West
Toronto ON M5H 3S8

CP 55, 19^e étage
20, rue queen ouest
Toronto ON M5H 3S8

**IN THE MATTER OF THE *SECURITIES ACT*,
R.S.O. 1990, c. S.5, AS AMENDED**

- AND -

**IN THE MATTER OF
SINO-FOREST CORPORATION, ALLEN CHAN, ALBERT IP, ALFRED
C.T. HUNG, GEORGE HO, SIMON YEUNG and DAVID HORSLEY**

STATEMENT OF ALLEGATIONS

Further to a Notice of Hearing dated May 22, 2012, Staff ("Staff") of the Ontario Securities Commission (the "Commission") make the following allegations:

PART I. OVERVIEW AND SUMMARY OF ALLEGATIONS

A. Sino-Forest

1. Sino-Forest Corporation ("Sino-Forest" or the "Company")¹ is a reporting issuer in the province of Ontario as that term is defined in subsection 1(1) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act"). Until recently, the common shares of Sino-Forest were listed on the Toronto Stock Exchange ("TSX").

2. Sino-Forest purportedly engaged primarily in the purchase and sale of Standing Timber in the People's Republic of China (the "PRC").

¹ Sino-Forest or the Company includes all of Sino-Forest's subsidiaries and companies that it controls as set out in its public disclosure record and as the context within this Statement of Allegations requires.

3. From February of 2003 until October of 2010, Sino-Forest raised approximately \$3.0 billion (US)² in cash from the issuance of equity and debt securities to investors (the “Investors”)³.

4. From June 30, 2006 to March 31, 2011, Sino-Forest’s share price grew from \$5.75 (Can) to \$25.30 (Can), an increase of 340%.⁴ By March 31, 2011 Sino-Forest’s market capitalization was well over \$6 billion.

5. In early June of 2011, the share price of Sino-Forest plummeted after a private analyst made allegations of fraud against Sino-Forest.

6. On November 15, 2011, Sino-Forest announced that it was deferring the release of its interim financial report for the third quarter of 2011.⁵ Sino-Forest has never filed this interim financial report with the Commission.

7. On January 10, 2012, Sino-Forest issued a news release cautioning that its historic financial statements and related audit reports should not be relied upon.

8. Sino-Forest was required to file its 2011 audited annual financial statements with the Commission by March 30, 2012. That very day, Sino-Forest initiated proceedings in front of the Superior Court of Justice (Ontario) requesting protection from its creditors. Sino-Forest has never filed its 2011 audited annual financial statements with the Commission.

9. On April 4, 2012, the auditors of Sino-Forest resigned.

10. On May 9, 2012, the TSX delisted the shares of Sino-Forest.

² Unless otherwise stated, all amounts presented in this Statement of Allegations and the attached Schedules are in United States Dollars.

³ The Glossary attached as Schedule A contains a list of certain of the defined terms used in the Statement of Allegations and the paragraph where they are located within the Statement of Allegations.

⁴ Attached as Schedule B is selected data from its audited annual financial statements for 2005 to 2010.

⁵ The financial year end of Sino-Forest is December 31.

11. As set out below, Sino-Forest and its former senior executives, including Allen Chan (“Chan”), Albert Ip (“Ip”), Alfred C.T. Hung (“Hung”), George Ho (“Ho”) and Simon Yeung (“Yeung”), engaged in a complex fraudulent scheme to inflate the assets and revenue of Sino-Forest and made materially misleading statements in Sino-Forest’s public disclosure record related to its primary business.

12. Chan, former Chairman of the Board and Chief Executive Officer (“CEO”) of Sino-Forest until August 28, 2011, also committed fraud in relation to Sino-Forest’s purchase of a controlling interest in a company now known as Greenheart Group Limited (“Greenheart”). By concealing Chan’s substantial interest in this transaction, Chan and Sino-Forest made materially misleading statements in Sino-Forest’s public disclosure record.

13. Chan, Ip, Hung, Ho and Yeung (together, “Overseas Management”) all materially misled Staff during the investigation of this matter.

14. David Horsley (“Horsley”), former Senior Vice President and Chief Financial Officer (“CFO”) of Sino-Forest, did not comply with Ontario securities law and acted contrary to the public interest.

B. The Standing Timber Fraud

15. From June 30, 2006 until January 11, 2012 (the “Material Time”), Sino-Forest and Overseas Management engaged in numerous deceitful and dishonest courses of conduct (the “Standing Timber Fraud”) that ultimately caused the assets and revenue derived from the purchase and sale of Standing Timber (that constituted the majority of Sino-Forest’s business) to be fraudulently overstated, putting the pecuniary interests of Investors at risk contrary to Ontario securities law and contrary to the public interest.

16. The Standing Timber Fraud was primarily comprised of three elements:

- i) Sino-Forest dishonestly concealed its control over Suppliers, AIs and other nominee companies in the BVI Network. Sino-Forest established a collection of “nominee”/“peripheral” companies that were controlled, on

its behalf, by various “caretakers”.⁶ Sino-Forest conducted a significant level of its business with these companies, the true economic substance of which was misstated in Sino-Forest’s financial disclosure;

- ii) Sino-Forest falsified the evidence of ownership for the vast majority of its timber holdings by engaging in a deceitful documentation process. This dishonest process included the fraudulent creation of deceitful Purchase Contracts and Sales Contracts, including key attachments and other supplemental documentation. Sino-Forest then relied upon these documents to evidence the purported purchase, ownership and sale of Standing Timber in the BVI Model; and
- iii) Sino-Forest dishonestly concealed internal control weaknesses/failures that obscured the true nature of transactions conducted within the BVI Network and prevented the detection of the deceitful documentation process. Sino-Forest’s statements in its public disclosure record regarding the extent of its internal control weaknesses were wholly inadequate and misleading.

17. Each of the above dishonest and deceitful courses of conduct by Sino-Forest and Overseas Management put the pecuniary interests of Investors at risk, constituting fraud. Together, these courses of conduct made the public disclosure record of Sino-Forest so misleading that it was fraudulent.

18. As set out in paragraph 47, the vast majority of the Sino-Forest’s Standing Timber assets were held in the BVI Model. The available underlying documentation for these Standing Timber assets did not provide sufficient evidence of legal ownership of these assets. As of this date, Sino-Forest has not been able to confirm full legal ownership of the Standing Timber assets that it claims to hold in the BVI Model.

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

20. The following are four illustrative examples of the fraudulent courses of conduct that Sino-Forest and Overseas Management perpetrated within the Standing Timber Fraud. These

⁶ These “nominee”/“peripheral” companies and “caretakers” are described in greater detail in paragraph 57.

four examples, described in detail below, illustrate how Sino-Forest and Overseas Management materially inflated assets and revenue in Sino-Forest's public disclosure record:

- i) the Dacheng Fraud;
- ii) the 450,000 Fraud;
- iii) Gengma Fraud #1; and
- iv) Gengma Fraud #2.

21. Schedule C illustrates the primary elements of the Standing Timber Fraud as introduced in paragraph 16 and the fraudulently overstated revenue arising from the four illustrative examples introduced in the previous paragraph.

22. The allegations regarding the Standing Timber Fraud are set out in paragraphs 53 to 119 below.

C. Materially Misleading Statements Related to the Standing Timber Fraud

23. Given the three elements of the Standing Timber Fraud introduced in paragraph 16, the public disclosure record of Sino-Forest required by Ontario securities law was materially misleading, contrary to Ontario securities law and contrary to the public interest.

24. The assets and revenue recorded as a result of the Standing Timber Fraud caused Sino-Forest's public disclosure record, including its audited annual financial statements, annual information forms ("AIFs") and management's discussion and analysis ("MD&A"), to be materially misleading during the Material Time.

25. Sino-Forest's statements in its public disclosure, including its AIFs and its MD&A filed with the Commission during the Material Time, regarding the extent of its internal control weaknesses and deficiencies were wholly inadequate and misleading.

26. The allegations regarding these materially misleading statements related to the Standing Timber Fraud are set out in paragraphs 120 to 141 below.

D. The Greenheart Transaction - Fraud by Chan and Materially Misleading Statements by Chan and Sino-Forest

27. In 2010, following a complex series of transactions, Sino-Forest completed the purchase of a controlling interest in Greenheart, a public company listed on the Hong Kong Stock Exchange (the "Greenheart Transaction"). Greenheart holds natural forest concessions, mostly in Suriname.

28. Chan secretly controlled companies that received over \$22 million as a result of the purchase by Sino-Forest of this controlling interest in Greenheart. The Greenheart Transaction was significant to Sino-Forest's business and cost the Company approximately \$120 million.

29. Chan fraudulently concealed his involvement in the Greenheart Transaction and the substantial benefit he secretly received. Chan and Sino-Forest misled the public through Sino-Forest's continuous disclosure. Chan falsely certified the accuracy of Sino-Forest's AIFs for 2008, 2009 and 2010 as these documents did not disclose his interest in the Greenheart Transaction.

30. Chan's course of conduct relating to the Greenheart Transaction constituted fraud and the making of misleading statements, contrary to Ontario securities law and contrary to the public interest. Chan and Sino-Forest made materially misleading statements related to the Greenheart Transaction, contrary to Ontario securities law and contrary to the public interest.

31. The allegations regarding fraud and materially misleading statements related to the Greenheart Transaction are set out in paragraphs 142 to 154 below.

E. Overseas Management of Sino-Forest Misled Staff during the Investigation

32. During the investigation by Staff, numerous members of Sino-Forest's management were interviewed by Staff. Overseas Management materially misled Staff in their interviews, contrary to Ontario securities law and contrary to the public interest.

33. The allegations that Overseas Management materially misled Staff are set out in paragraphs 155 to 167 below.

PART II. THE RESPONDENTS

34. Sino-Forest is a Canadian company with its principal executive office located in Hong Kong and its registered office located in Mississauga, Ontario.

35. During the Material Time, as set out above, Chan was Chairman of the Board of Directors and CEO of Sino-Forest.

36. During the Material Time, Ip was Senior Vice President, Development and Operations North-east and South-west China of Sino-Forest.

37. During the Material Time, Hung was Vice-President, Corporate Planning and Banking of Sino-Forest.

38. During the Material Time, Ho was Vice-President, Finance (China) of Sino-Forest.

39. During the Material Time, Yeung was Vice President - Operation within the Operation /Project Management group of Sino-Panel (Asia) Inc. ("Sino-Panel"), a subsidiary of Sino-Forest.

40. During the Material Time, Horsley was Senior Vice President and CFO of Sino-Forest.

PART III. STANDING TIMBER - THE PRIMARY BUSINESS OF SINO-FOREST

A. Introduction

41. In its AIF for 2010, Sino-Forest stated that its operations were comprised of two core business segments which it titled "Wood Fibre Operations" and "Manufacturing and Other

Operations". Wood Fibre Operations had two subcomponents entitled "Plantation Fibre" and "Trading of Wood Logs".

42. According to Sino-Forest, the Plantation Fibre subcomponent of its business was derived from the purported acquisition, cultivation and sale of either "standing timber" or "logs" in the PRC. For the purpose of this Statement of Allegations, the Plantation Fibre subcomponent of Sino-Forest's business will be referred to as "Standing Timber" as most, if not all, of the revenue from the sale of Plantation Fibre was derived from the sale of "standing timber".

B. Standing Timber - Sino-Forest's Main Source of Revenue

43. From 2007 to 2010, Sino-Forest reported Standing Timber revenue totalling approximately \$3.56 billion, representing about 75% of its total revenue of \$4.77 billion. The following table provides a summary of Sino-Forest's stated revenue for the period from 2007 to 2010 and illustrates the importance of the revenue derived from the sale of Standing Timber:

	<i>\$ (millions)</i>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Plantation Fibre (defined as Standing Timber herein)	521.5	685.4	954.2	1,401.2	3,562.3
Trading of Wood Logs	154.0	153.5	237.9	454.0	999.4
<i>Wood Fibre Operations</i>	<i>675.5</i>	<i>838.9</i>	<i>1,192.1</i>	<i>1,855.2</i>	<i>4,561.7</i>
<i>Manufacturing and Other Operations</i>	<i>38.4</i>	<i>57.1</i>	<i>46.1</i>	<i>68.3</i>	<i>209.9</i>
Total Revenue	713.9	896.0	1,238.2	1,923.5	4,771.6

C. The BVI and WFOE Models - Revenue and Holdings

44. Standing Timber was purchased, held and sold by Sino-Forest in two distinct legal structures or models: the “BVI Model” and the “WFOE Model”.

45. In the BVI Model, Sino-Forest’s purchases and sales of Standing Timber in the PRC were conducted using wholly owned subsidiaries of Sino-Forest incorporated in the British Virgin Islands (the “BVI Subs”). The BVI Subs purported to enter into written purchase contracts (“Purchase Contracts”) with suppliers in the PRC (“Suppliers”) and then purported to enter into written sales contracts (“Sales Contracts”) with customers called “authorized intermediaries” in the PRC (“AIs”).

46. In the WFOE Model, Sino-Forest used subsidiaries incorporated in the PRC called Wholly Foreign Owned Enterprises (“WFOEs”) to acquire, cultivate and sell the Standing Timber. The Sino-Forest WFOEs also entered into Purchase Contracts and Sales Contracts with other parties in the PRC.

47. At December 31, 2010, Sino-Forest reported total timber holdings of \$3.1 billion comprising 799,700 hectares. About \$2.5 billion or approximately 80% of the total timber holdings (by value) was held in the BVI Model, comprising approximately 467,000 hectares of Standing Timber. The WFOE Model purportedly held approximately 97,000 hectares of Standing Timber valued at \$295.6 million or approximately 10% of the total timber holdings (by value). The timber holdings in the BVI Model and the WFOE Model comprised approximately 90% of the total timber holdings (by value) of Sino-Forest as at December 31, 2010.

48. The cash-flows associated with the purchase and sale of Standing Timber executed in the BVI Model took place “off-book” pursuant to a payables/receivables offsetting arrangement (the “Offsetting Arrangement”), whereby the BVI Subs would not directly receive the proceeds on the sale of Standing Timber from the purchasing AI. Rather, Sino-Forest disclosed that it would direct the AI that purchased the timber to pay the sales proceeds to a new Supplier in order to

buy additional Standing Timber. Consequently, Sino-Forest also did not make payment directly to Suppliers for purchases of Standing Timber.

49. Sino-Forest did not possess the bank records to confirm that these “off-book” cash-flows in the Offsetting Arrangement actually took place. This lack of transparency within the BVI Model meant that independent confirmation of these “off-book” cash-flows was reliant on the good faith and independence of Suppliers and AIs.

50. Further, pursuant to the terms of Sales Contracts entered into between a BVI Sub and an AI, the AI assumed responsibility for paying any PRC taxes associated with the sale that were owed by the BVI Sub. This obligation purportedly included paying the income tax and valued added tax on behalf of Sino-Forest.

51. Sino-Forest dealt with relatively few Suppliers and AIs in the BVI Model. For example, in 2010, six Suppliers accounted for 100% of the Standing Timber purchased in the BVI Model and five AIs accounted for 100% of Sino-Forest’s revenue generated in the BVI Model.

52. From 2007 to 2010, revenue from the BVI Model totalled \$3.35 billion, representing 94% of Sino-Forest’s reported Standing Timber revenue and 70% of Sino-Forest’s total revenue. The importance of the revenue from the BVI Model is demonstrated in the following table:

	<i>\$ (millions)</i>				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
BVI Model Revenue	501.4	644.9	882.1	1,326.0	3,354.4
WFOE Model Revenue	20.1	40.5	72.1	75.2	207.9
Standing Timber Revenue	521.5	685.4	954.2	1,401.2	3,562.3
Total Revenue	713.9	896.0	1,238.2	1,923.5	4,771.6
BVI Model as % of Total Revenue	70%	72%	71%	69%	70%

PART IV. THE STANDING TIMBER FRAUD

53. As introduced in paragraph 16, the Standing Timber Fraud was primarily comprised of three elements:

- i) Undisclosed control over parties within the BVI Network;

II

- ii) The undisclosed dishonest process of creating deceitful Purchase Contracts and Sales Contracts and their key attachments used in both the BVI Model and the WFOE Model to inflate Standing Timber assets and revenue; and
- iii) Undisclosed internal control weaknesses/deficiencies that facilitated and concealed the fraudulent conduct within the BVI Network, and the dishonest creation of Purchase Contracts and Sales Contracts, including their key attachments.

54. On this basis, Sino-Forest then created transactions to fraudulently inflate assets and revenue in its public disclosure record.

A. Undisclosed Control over Parties within the BVI Network

55. Almost all of the buying and selling of Standing Timber in the BVI Model was generated through transactions between BVI Subs and a small number of Suppliers and AIs. Sino-Forest also conducted a significant level of this buying and selling with companies that are described in various Sino-Forest documents and correspondence as “peripheral” companies. Sino-Forest established a network of “nominee” companies that were controlled, on its behalf, by various so-called “caretakers”.

56. For the purpose of this Statement of Allegations, the BVI Subs, Suppliers, AIs, “nominee” companies and “peripheral” companies involved in the buying and selling of Standing Timber in the BVI Model are collectively referred to as the “BVI Network”. Some of the companies within the BVI Network were also involved in the buying and selling of Standing Timber within the WFOE Model.

57. One Sino-Forest document (the “Caretaker Company List”) lists more than 120 “peripheral” (nominee) companies that are controlled by 10 “caretakers” on behalf of Sino-Forest. The “caretakers” include Person #1 (legal representative of Huaihua City Yuda Wood Ltd. (“Yuda Wood”), described in greater detail in paragraphs 61 to 65 below), Person #2 (a relative of Chan), Person #3 (a former Sino-Forest employee), Person #4 (an acquaintance of Chan and Chan’s nominee in the Greenheart Transaction as outlined in paragraphs 145 to 147

below), Person #5 (a former shareholder of Greenheart Resources Holdings Limited (“GRHL”) and a shareholder of Greenheart) and Person #6 (an individual associated with some of Sino-Forest’s Suppliers).

58. The control and influence that Sino-Forest exerted over certain Suppliers, AIs and peripheral companies within the BVI Network brings the *bona fides* of numerous contracts entered into in the BVI Model into question, thereby placing the pecuniary interests of Investors at risk. Sino-Forest wielded this control and influence through Overseas Management. As well, certain transactions recorded in the BVI Model do not reflect the true economic substance of the underlying transactions. Sino-Forest’s control of, or influence over, certain parties within the BVI Network was not disclosed to Investors.

59. Some of the counterparties to the Dacheng Fraud, the 450,000 Fraud, Gengma Fraud #1 and Gengma Fraud #2 are companies that are included in the Caretaker Company List, as outlined in more detail in paragraphs 90 to 115 below.

60. Sino-Forest did not disclose the true nature of the relationship between itself and the following two key companies in the BVI Network: Yuda Wood and Dongkou Shuanglian Wood Company Limited (“Dongkou”). This was dishonest.

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

61. Yuda Wood was a Supplier secretly controlled by Sino-Forest during a portion of the Material Time.

62. From 2007 to 2010, Yuda Wood was purportedly Sino-Forest’s largest Supplier, accounting for 18% of all purchases in the BVI Model. Sino-Forest claimed to have paid Yuda Wood approximately \$650 million during that time.

63. Yuda Wood was registered and capitalized by members of Overseas Management, who also controlled bank accounts of Yuda Wood and key elements of its business.

64. The legal representative of Yuda Wood is Person #1, a former employee of Sino-Forest and also a shareholder and director of Hong Kong Sonic Jita Engineering Co., Ltd. (“Sonic Jita”), the sole shareholder of Yuda Wood. In addition, Person #1 had significant interests in other Suppliers of Sino-Forest and was identified as the “caretaker” of several nominee/peripheral companies.

65. Yuda Wood and other companies controlled by Sino-Forest through Person #1 were used to perpetrate portions of the Standing Timber Fraud including the Dacheng Fraud, the 450,000 Fraud, Gengma Fraud #1 and Gengma Fraud #2.

2) Sino-Forest Controlled Dongkou, a Major AI

66. Dongkou was an AI secretly controlled by Sino-Forest during a portion of the Material Time.

67. In 2008, Dongkou was Sino-Forest’s most significant AI, purportedly purchasing approximately \$125 million in Standing Timber from Sino-Forest, constituting about 18% of Sino-Forest’s Standing Timber revenue for that year.

68. Sino-Forest controlled Dongkou through one of its WFOE subsidiaries Shaoyang Jiading Wood Products Co. Ltd. (“Shaoyang Jiading”). Correspondence indicates that, according to an agreement dated November 18, 2006, Shaoyang Jiading purchased Dongkou for RMB⁷ 1.38 million (approximately \$200,000).

69. By November 2006, the six original shareholders of Dongkou had been replaced with two Sino-Forest employees: Person #7 and Person #8. These two persons became the sole Dongkou shareholders, with Person #7 holding 47.5% and Person #8 holding 52.5%.

⁷ RMB is the Chinese unit of currency. During the Material Time, the conversion rate was approximately 7 RMB = 1 US\$.

70. Also, in 2007, at the direction of Ip and others, employees of Sino-Forest drafted purchase contracts to be entered into by Dongkou and its suppliers (other than Sino-Forest). Essentially, Sino-Forest, through Overseas Management, controlled Dongkou's business with certain counterparties.

B. Dishonest Process to Create Deceitful Purchase Contracts and Sales Contracts in the BVI Model - Concealment of this Dishonest Process

1) Purchase Contracts in the BVI Model

71. As set out in paragraph 47, approximately 80% (by value) of Sino-Forest's timber assets were held in the BVI Model as of December 31, 2010.

72. Sino-Forest used the Purchase Contracts to acquire and evidence ownership of Standing Timber in the BVI Model. The Purchase Contracts purported to have three attachments:

- i) Plantation Rights Certificates ("Certificates") or other ownership documents;
- ii) Farmers' Authorization Letters ("Farmers' Authorizations"); and
- iii) Timber Survey Reports ("Survey Reports").

73. The Purchase Contracts and their attachments were fundamentally flawed in at least four ways, making the public disclosure record of Sino-Forest materially misleading, thus placing the pecuniary interests of Investors at risk.

74. First, Sino-Forest did not hold Certificates to evidence ownership of the Standing Timber allegedly purchased by the BVI Subs. Instead, Sino-Forest claimed that, since the BVI Subs could not obtain Certificates from the PRC government to evidence ownership, it purported to rely on confirmations issued by the forestry bureaus in the PRC as evidence of ownership ("Confirmations"). However, Confirmations are not legally recognized documents evidencing ownership of timber assets in the PRC. These Confirmations were purportedly granted to Sino-Forest as favours by the PRC forestry bureaus. According to Sino-Forest, the PRC forestry bureaus did not intend that these Confirmations would be disclosed to third parties. Also, certain

PRC forestry bureau employees obtained gifts and cash payments from Suppliers of Sino-Forest, further undermining the value of the Confirmations as evidence of ownership.

75. Second, during the Material Time, Sino-Forest employed a deceitful systematic quarterly documentation process in the BVI Model whereby the purported Purchase Contracts were not drafted and executed until the quarter after the date on which the purchase allegedly occurred and was included in the public financial disclosure.

76. Like the Purchase Contracts, the Confirmations were also created by Sino-Forest and deceitfully dated to the previous quarter. These Confirmations were created contemporaneously with the creation of the corresponding Purchase Contracts. These Confirmations were then allegedly provided to the relevant PRC forestry bureau for verification and execution.

77. Third, the Purchase Contracts referred to Farmers' Authorizations. However, none were attached. In the absence of Farmers' Authorizations, there is no evidence that ownership to the Standing Timber was properly transferred to Sino-Forest or to the Supplier prior to the purported transfer of ownership to Sino-Forest. Ownership of the Standing Timber would have remained with the original Certificate holder.

78. Fourth, the Survey Reports, which purported to identify the general location of the purchased timber, were all prepared by a single firm during the Material Time. A 10% shareholder of this survey firm was also an employee of Sino-Forest. Drafts of certain Survey Reports purportedly prepared by this independent survey company were located on the computer of another employee of Sino-Forest. Like the Purchase Contracts and Confirmations, these drafts of the Survey Reports were deceitfully dated to the quarter prior to their creation.

79. In the absence of both Certificates and Farmers' Authorizations, Sino-Forest relies on the validity of the Purchase Contracts and the Confirmations as proof of ownership of the Standing Timber it held in the BVI Model. However, the Purchase Contracts and available attachments, including Confirmations, were prepared using the deceitful documentation process outlined

above, and do not constitute proof of ownership of the trees purported to have been bought by Sino-Forest in the BVI Model.

80. Moreover, the Purchase Contracts and readily available attachments, including the Confirmations, did not identify the precise location of the Standing Timber being purchased such that the existence of this Standing Timber could not be readily verified and valued independently.

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

2) Sales Contracts in the BVI Model

82. Like the Purchase Contracts, all of the Sales Contracts purportedly entered into by the BVI Subs in the BVI Model were not actually created and executed until the quarter after the date of the alleged transaction.

83. Accordingly, the revenue from the Sales Contracts in the BVI Model was recognized in the quarter prior to the creation of the Sales Contracts. Therefore, the public disclosure of Sino-Forest regarding its revenue from Standing Timber was materially misleading and deceitful. During the Material Time, in its correspondence to Staff, Sino-Forest misled the Commission about its revenue recognition practice.

C. Undisclosed Internal Control Weaknesses/Failures

84. In its MD&A for 2010 dated March 15, 2011, Sino-Forest stated the following on page 27 regarding its "Disclosure Control and Procedures and Internal Controls Over Financial Reporting":

The success of the Company's vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. **As such, senior management**

plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. By taking additional steps in 2011 to address this deficiency, management will continue to monitor and work on mitigating this weakness. [**Emphasis added**]

85. Sino-Forest made similar disclosure in its annual MD&A from 2006 to 2009 regarding this concentration of authority or lack of segregation and the risk resulting from these weaknesses. These material weaknesses were not remedied during the Material Time by Sino-Forest, Overseas Management or Horsley.

86. Sino-Forest failed to disclose the extent of the concentration of duties in Overseas Management. It did not disclose that Overseas Management and their nominees had complete control over the operation of the BVI Model including the fraudulent creation and execution of the Purchase Contracts and Sales Contracts described in paragraphs 71 to 81 and the extent of the “off-book” cash flow set out in paragraphs 48 to 49. This concentration of control in the hands of Overseas Management facilitated the fraudulent course of conduct perpetrated in the BVI Model.

D. Four Examples of Fraudulent Transactions within the Standing Timber Fraud

87. During the Material Time, Sino-Forest and Overseas Management engaged in significant fraudulent transactions related to its purchase and sale of Standing Timber. These fraudulent transactions had the effect of overstating Sino-Forest’s assets and revenue during the Material Time.

88. By way of example, four series of fraudulent transactions are detailed below: (i) the Dacheng Fraud; (ii) the 450,000 Fraud; (iii) Gengma Fraud #1, and (iv) Gengma Fraud #2.

89. In these transactions, Sino-Forest used certain Suppliers, AIs and other nominee companies that it controlled to falsify the financial disclosure of Sino-Forest, including the value of its Standing Timber assets and revenue.

1) The Dacheng Fraud

90. Sino-Forest and members of Overseas Management committed fraud (the “Dacheng Fraud”) in a series of purported transactions commencing in 2008, related to purchases of timber plantations (the “Dacheng Plantations”) from a Supplier called Guangxi Dacheng Timber Co. Ltd. (“Dacheng”). Companies controlled by Sino-Forest through Person #1 were used in the Dacheng Fraud.

91. The Dacheng Fraud involved duplicating the same Standing Timber assets within the Dacheng Plantations in the records of two Sino-Forest subsidiaries. Sino-Forest recorded the same assets once in the WFOE Model and again in the BVI Model.

92. In 2008, these Standing Timber assets were recorded at a value of RMB 47 million (approximately \$6.3 million) in the WFOE Model and this amount was paid to Dacheng. These funds were then funnelled through Dacheng back to other subsidiaries of Sino-Forest, as the purported collection of receivables.

93. At the same time, Sino-Forest recorded these Standing Timber assets in the BVI Model at a value of approximately RMB 205 million (approximately \$30 million). In 2009, Sino-Forest purported to sell the Standing Timber assets from the Dacheng Plantations held in the BVI Model for approximately RMB 326 million (approximately \$48 million). This revenue was recorded in Q3 of 2009.

94. As a result of the Dacheng Fraud, in 2008, Sino-Forest overstated the value of certain Standing Timber assets by approximately \$30 million and, in 2009, Sino-Forest overstated its revenue by approximately \$48 million. The effect of this revenue overstatement on the public disclosure record of Sino-Forest is illustrated in paragraph 127 below.

2) The 450,000 Fraud

95. Sino-Forest and members of Overseas Management committed fraud (the “450,000 Fraud”) in a complex series of transactions involving the purchase and sale of 450,000 cubic meters of timber in Q4 of 2009, again utilizing companies controlled by Sino-Forest through Person #1. In an email, Yeung described this purchase and sale of timber as “a pure accounting arrangement”.

96. Three subsidiaries of Sino-Panel (the “Sino-Panel Companies”) purported to purchase 450,000 cubic meters of Standing Timber at a cost of RMB 183 million (approximately \$26 million) from Guangxi Hezhou City Yuangao Forestry Development Co. Ltd (“Yuangao”) during October 2009.

97. In Q4 of 2009, the Sino-Panel Companies purportedly sold this Standing Timber to the following three customers:

- i) Gaoyao City Xinqi Forestry Development Co., Ltd. (“Xinqi”);
- ii) Guangxi Rongshui Meishan Wood Products Factory (“Meishan”); and
- iii) Guangxi Pingle Haosen Forestry Development Co., Ltd. (“Haosen”).

98. The sale price for this Standing Timber was RMB 233 million (approximately \$33 million), for an apparent profit of RMB 50 million (approximately \$7.1 million).

99. The purported supplier (Yuangao) and the purported customers (Xinqi, Meishan and Haosen) are all so-called “peripheral” companies of Sino-Forest, i.e., they are nominee companies controlled by Person #1 on behalf of Sino-Forest. Xinqi, Meishan and Haosen are also companies included in the Caretaker Company List, and Person #1 is identified as the “caretaker” of each company.

100. This RMB 233 million sale of Standing Timber was recorded in Sino-Forest’s WFOE Model, as opposed to its BVI Model. As noted in paragraph 48, the BVI Model employs the

Offsetting Arrangement where payables and receivables are made and collected “off-book”. However, in the WFOE Model, Sino-Forest takes receipt of the sales proceeds directly or “on-book”.

101. By July 2010, none of the sales proceeds had been collected and the receivable was long overdue. In order to evidence the “collection” of the RMB 233 million in sales proceeds, Sino-Forest devised two separate “on-book” payables/receivables offsetting arrangements, one in 2010 and one in 2011, whereby Sino-Forest made payments to various companies, including Yuangao and at least two other Sino-Forest nominee companies.⁸

102. To account for the purported profit of RMB 50 million, Sino-Forest had to “collect” more (RMB 233 million) than just the purchase price (RMB 183 million). Consequently, Sino-Forest created additional “payables” to complete the circular flow of funds needed to collect the sales proceeds of RMB 233 million. These “on-book” offsetting arrangements, therefore, included the purported settlement of various accounts payable, not just the Yuangao payable arising from the 450,000 Fraud.

103. The companies referred to paragraph 101 then funnelled the money to Xinqi, Meishan and Haosen who, in turn, repaid the money to the Sino-Panel Companies to achieve the purported collection of the RMB 233 million in revenue.

104. The “on-book” offsetting arrangements required that Suppliers and customers have bank accounts through which the funds could flow. In July and August 2010, Sino-Forest set up bank accounts for the suppliers and customers associated with the 450,000 Fraud to facilitate the circular cash flows. These bank accounts were overseen by Ip, Ho, Person #1 and/or Person #9 (a former Sino-Forest employee and associate of Person #1).

105. These circular cash-flows commenced in July 2010 and were finally concluded in February 2011.

⁸ Dao County Juncheng Forestry Development Co., Ltd. and Guangxi Rongshui Taiyuan Wood Co., Ltd.

106. The circular flow of funds underlying the 450,000 Fraud demonstrates that the sales contracts purportedly entered into between the Sino-Panel Companies and Xinqi, Meishan and Haosen are fraudulent and have no true economic substance. As a result of the 450,000 Fraud, Sino-Forest overstated the value of its revenue by approximately \$30 million for Q4 of 2009. The effect of this revenue overstatement on the public disclosure record of Sino-Forest is illustrated in paragraph 129 below.

3) Gengma Fraud # 1

107. Sino-Forest and members of Overseas Management committed fraud (“Gengma Fraud #1”) in 2007 related to Standing Timber assets purchased from Gengma Dai and Wa Tribe Autonomous Region Forestry Co., Ltd. (“Gengma Forestry”) by Sino-Panel (Gengma) Co., Ltd. (“Sino-Panel Gengma”), a Sino-Forest subsidiary.

108. In 2007, Sino-Panel Gengma purchased certain land use rights and Standing Timber for RMB 102 million (approximately \$14 million) from Gengma Forestry. These contracts were signed by Chan. However, this transaction between Sino-Panel Gengma and Gengma Forestry was not recorded. Instead, Sino-Forest purported to purchase the same assets from Yuda Wood, allegedly paying RMB 509 million (approximately \$68 million) for the Standing Timber in 2007 and RMB 111 million (approximately \$15 million) for certain land use rights during the period from June 2007 to March 2009. This purchase was recorded and these Standing Timber assets remained on the books of Sino-Forest until 2010.

109. Gengma Fraud #1 resulted in an overstatement of Sino-Forest’s timber holdings for 2007, 2008 and 2009.

110. In 2010, this Standing Timber was then purportedly sold for RMB 1,579 million (approximately \$231 million). However, these same Standing Timber assets were offered as collateral for a bank loan by Sino-Forest in 2011 so the sale of these assets in 2010 could not have taken place and been recorded as revenue in that year.

111. The effect of the revenue overstatement from Gengma Fraud #1 on the public disclosure record of Sino-Forest is illustrated in paragraph 131 below.

4) Gengma Fraud # 2

112. In 2007, Sino-Forest and members of Overseas Management committed fraud (“Gengma Fraud #2”) in another series of transactions to artificially inflate its assets and revenue from the purchase and sale of Standing Timber.

113. In September 2007, Sino-Forest recorded the acquisition of Standing Timber from Yuda Wood at a cost of RMB 161 million (approximately \$21.5 million) related to Standing Timber in Yunnan Province (the “Yunnan Plantation”). However, Yuda Wood did not actually acquire these assets in the Yunnan Plantation until September 2008.

114. In 2007, Sino-Forest had also purportedly purchased the land use rights to the Yunnan Plantation from Yuda Wood at a cost of RMB 53.4 million (approximately \$7 million), RMB 52.9 million of which was paid to Yuda Wood during the period from January 2009 to April 2009. Sino-Forest then fabricated the sale of the land use rights to Guangxi Hezhou City Kun’an Forestry Co., Ltd. (“Kun’an”) pursuant to a contract dated November 23, 2009. Kun’an was controlled by Sino-Forest through Person #1 and is a company included in the Caretaker Company List referred to in paragraph 57 above.

115. Sino-Forest then purported to sell the Standing Timber in the Yunnan Plantation in a series of transactions between March 2008 and November 2009 for RMB 338 million (approximately \$49 million). As Yuda Wood did not own this Standing Timber asset until September 2008, Sino-Forest could not have recorded the sale of this Standing Timber prior to that time. The effect of this revenue overstatement on the public disclosure record of Sino-Forest is illustrated in paragraph 133 below.

D. Conclusion Regarding the Standing Timber Fraud

116. The effect of the above conduct is that Sino-Forest and Overseas Management engaged in deceitful or dishonest conduct related to Sino-Forest's Standing Timber assets and revenue that they knew or ought to have known constituted fraud, contrary to subsection 126.1(b) of the Act and the public interest.

117. Due to the chronic and pervasive nature of the systemic conduct set out above, neither the magnitude of the Standing Timber Fraud by Sino-Forest and Overseas Management nor the magnitude of the risk to the pecuniary interests of Investors can be quantified with certainty.

118. Given their positions as officers of Sino-Forest and/or Sino-Panel, Overseas Management authorized, permitted or acquiesced in the non-compliance with Ontario securities law by Sino-Forest and are deemed to have not complied with Ontario securities law pursuant to section 129.2 of the Act. This conduct was also contrary to the public interest.

119. As CFO of Sino-Forest, Horsley authorized, permitted or acquiesced in Sino-Forest's and Overseas Management's commission of the Standing Timber Fraud and therefore is deemed under section 129.2 of the Act to have not complied with Ontario securities law. This conduct was also contrary to the public interest.

PART V. MATERIALLY MISLEADING STATEMENTS RELATED TO THE STANDING TIMBER FRAUD

120. On January 10, 2012, Sino-Forest issued a news release which cautioned that its historic financial statements and related audit reports should not be relied upon.

121. By failing to properly disclose the elements of the Standing Timber Fraud set out above, Sino-Forest made statements in its filings to the Commission during the Material Time which were, in a material respect and at the time and in the light of the circumstances under which they were made, misleading or untrue or did not state facts that were required to be stated or that were

necessary to make the statements not misleading. Overseas Management participated in the conduct that made these statements materially misleading.

122. The misleading, untrue or incomplete statements related to Sino-Forest's description of its primary business were contained in (or absent from) Sino-Forest's continuous disclosure, including its audited annual financial statements, AIFs and MD&A filed with the Commission during the Material Time as required by Ontario securities law.⁹ These misleading, untrue or incomplete statements related to Sino-Forest's description of its primary business were contained in (or absent from) Sino-Forest's short form prospectuses filed with the Commission during the Material Time, which incorporated by reference the relevant audited annual financial statements, AIFs and MD&A as required by Ontario securities law.

123. These misleading statements were related to Sino-Forest's primary business in the BVI Model and the WFOE Model, representing approximately 90% of Sino-Forest's stated timber assets as of December 31, 2010 and 75% of its stated revenue from 2007 to 2010.

A. Materially Misleading Statements Regarding Ownership of Assets and Revenue Recognition

124. Members of Overseas Management created and executed the Purchase Contracts in the BVI Model in the quarters after the assets related to those transactions were recognized. This made Sino-Forest's audited annual financial statements, AIFs and MD&A for the years 2006, 2007, 2008, 2009 and 2010 materially misleading.

125. Further, given that Sino-Forest did not have sufficient proof of ownership of the majority of its Standing Timber assets due to the courses of conduct set out above, the information regarding Sino-Forest's timber holdings in its audited annual financial statements, AIFs and MD&A for the years 2006, 2007, 2008, 2009 and 2010 was materially misleading. For the same reasons, the information regarding Sino-Forest's timber holdings in its short form prospectuses

⁹ By way of example, these misstatements include Sino-Forest's disclosure of "Plantation Rights Certificates for Our Purchased Plantations" on page 26 of its 2010 AIF and its disclosure of "Implementation and Issuance of new form Plantation Rights Certificate" on pages 46-47 of its 2010 AIF.

filed in 2007 and 2009 (which incorporated by reference the relevant audited annual financial statements, AIFs and MD&A as required by Ontario securities law) was materially misleading.

126. Sino-Forest and members of Overseas Management created and executed the Sales Contracts in the BVI Model in the quarter after the revenue related to those transactions was recognized. This was contrary to the revenue recognition process set out in Sino-Forest's continuous disclosure, including its MD&A and the notes to its audited annual financial statements.

B: Effect of the Dacheng Fraud, the 450,000 Fraud, Gengma #1 and Gengma #2 on the Reported Revenue of Sino-Forest

1) The Dacheng Fraud

127. The Dacheng Fraud resulted in Sino-Forest fraudulently overstating its revenue in Q3 of 2009 as set out in this table:

Approximate Effect of the Dacheng Fraud on Q3 of 2009 (\$ millions)	
Quarterly Reported Revenue	367.0
Fraudulently Overstated Revenue	47.7
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	13.0%

128. Sino-Forest reported its revenue for Q3 of 2009 at page 20 of its annual MD&A for 2009 (dated March 16, 2010) and page 87 of its 2009 Annual Report, summarizing the "2009 Quarterly Highlights".

2) The 450,000 Fraud

129. The 450,000 Fraud resulted in Sino-Forest fraudulently overstating its revenue for Q4 of 2009 as set out in this table:

Approximate Effect of the 450,000 Fraud on Q4 2009 (\$ millions)

Quarterly Reported Revenue	469.6
Fraudulently Overstated Revenue	30.1
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	6.4%

130. Sino-Forest reported its revenue for Q4 of 2009 at page 20 of its annual MD&A for 2009 (dated March 16, 2010) and page 87 of its 2009 Annual Report, summarizing the “2009 Quarterly Highlights”.

3) Gengma Fraud #1

131. Gengma Fraud #1 resulted in Sino-Forest fraudulently overstating its revenue for Q1 and Q2 of 2010 as set out in this table:

Approximate Effect of Gengma Fraud #1 on Q1 and Q2 2010 (\$ millions)

	Q1 2010	Q2 2010
Quarterly Reported Revenue	251.0	305.8
Fraudulently Overstated Revenue	73.5	157.8
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	29.3%	51.6%

132. Sino-Forest reported its revenue for Q1 and Q2 of 2010 at page 20 of its annual MD&A for 2010 (dated March 15, 2011) and page 88 of its 2010 Annual Report, summarizing the “2010 Quarterly Highlights”.

4) Gengma Fraud #2

133. Gengma Fraud #2 resulted in Sino-Forest fraudulently overstating its revenue for Q1, Q2 and Q3 of 2008 and Q4 of 2009 as set out in this table:

Approximate Effect of Gengma Fraud #2 on Q1, Q2 and Q3 of 2008 and Q4 of 2009 (\$ millions)

	Q1 2008	Q2 2008	Q3 2008	Q4 2009
Quarterly Reported Revenue	136.1	187.1	295.5	469.6
Fraudulently Overstated Revenue	5.7	4.9	5.9	32.6
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	4.2%	2.6%	2.0%	6.9%

134. Sino-Forest reported its revenue for Q1, Q2 and Q3 of 2008 at page 19 of its annual MD&A for 2008 (dated March 16, 2009) and page 73 of its 2008 Annual Report summarizing the "2008 Quarterly Highlights". Revenue for Q4 of 2009 was reported as set out above in paragraph 130.

C. Materially Misleading Statements Regarding Internal Controls

135. Sino-Forest's disclosure in its AIFs and annual MD&A for 2006, 2007, 2008, 2009 and 2010 relating to the material weaknesses in its internal controls was misleading, untrue or incomplete. This disclosure was also contained in Sino-Forest's short form prospectuses filed in 2007 and 2009 (which incorporated by reference the relevant AIFs and MD&A as required by Ontario securities law).

136. Sino-Forest did disclose that the concentration of authority in Overseas Management and lack of segregation of duties created a risk in terms of measurement and completeness of transactions, as well as the possibility of non-compliance with existing controls.

137. However, as set out in paragraphs 84 to 86, this disclosure by Sino-Forest was wholly inadequate, failing to reveal the extent of the weaknesses in Sino-Forest's internal controls.

D. Conclusion Regarding Materially Misleading Statements Related to the Standing Timber Fraud

138. During the Material Time, given the Standing Timber Fraud, Sino-Forest consistently misled the public in the disclosure required to be made under Ontario securities law. The conduct of Sino-Forest, Chan, Ip, Hung and Ho was contrary to subsection 122(1)(b) of the Act and contrary to the public interest.

139. Further, due to the above conduct, Sino-Forest's audited annual financial statements did not comply with Canadian Generally Accepted Accounting Principles.

140. Given their positions as officers of Sino-Forest, Chan, Ip, Ho and Hung authorized, permitted or acquiesced in Sino-Forest's making of materially misleading statements and thereby committed an offence under subsection 122(3) of the Act. This conduct was also contrary to the public interest.

141. As CFO of Sino-Forest, Horsley authorized, permitted or acquiesced in Sino-Forest's and Overseas Management's making of materially misleading statements and therefore is deemed under section 129.2 of the Act to have not complied with Ontario securities law. This conduct was also contrary to the public interest.

PART VI. THE GREENHEART TRANSACTION - FRAUD BY CHAN AND MATERIALLY MISLEADING STATEMENTS BY CHAN AND SINO-FOREST

142. Chan committed fraud in relation to Chan's undisclosed interest and substantial financial benefit in the Greenheart Transaction described below.

143. Chan and Sino Forest made materially misleading statements in Sino-Forest's AIFs for 2008, 2009 and 2010 by not disclosing Chan's interest in the Greenheart Transaction. These misleading statements were also contained in Sino-Forest's short form prospectuses filed in 2009 (which incorporated by reference the relevant AIFs and MD&A as required by Ontario securities law).

144. In 2010, through a complex series of transactions, Sino-Forest completed the purchase of a controlling interest in Greenheart, a public company listed on the Hong Kong Stock Exchange. In 2005, the primary assets of Greenheart's key subsidiary at the time, GRHL, were previously acquired by the original owners of GRHL for approximately \$2 million. These assets consisted of natural forest concessions and operations located in Suriname. The total cost of the Greenheart Transaction to Sino-Forest was approximately \$120 million, composed of a combination of cash and securities of Sino-Forest.

145. Two of the companies holding shares of GRHL, thus benefitting from the Greenheart Transaction, were Fortune Universe Ltd. ("Fortune Universe") and Montsford Ltd. ("Montsford"). Both Fortune Universe and Montsford were BVI shelf companies incorporated in 2004 and subsequently acquired by, or for the benefit of, Chan in 2005.

146. Person #10 was the sole director and shareholder of Fortune Universe and Person #4 was the sole director and shareholder of Montsford. However, Chan arranged for Person #10 and Person #4 to act as Chan's nominees. Chan was the true beneficial owner of Fortune Universe and Montsford.

147. Person #10 was the legal representative and director of one of Sino-Forest's largest Suppliers during the Material Time. Person #4 was an acquaintance of Chan based in the PRC.

148. As a result of the Greenheart Transaction, Fortune Universe and Montsford received over \$22.1 million, comprised of approximately \$3.7 million in cash and approximately \$18.4 million in securities of Sino-Forest. The securities of Sino-Forest received by Fortune Universe and Montsford appreciated in value and were subsequently sold for a total of approximately \$35 million. With the help of Person #11 (Chan's assistant), these securities were sold through brokerage accounts of Fortune Universe and Montsford which were opened at her direction, on the instructions of Chan.

149. While Sino-Forest disclosed that another director of Sino-Forest had an interest in the Greenheart Transaction in its AIFs for 2008, 2009 and 2010, it did not disclose that Chan benefitted directly or indirectly from the Greenheart Transaction through Fortune Universe and Montsford. Chan certified the AIFs for 2008, 2009 and 2010.

150. Chan knew that he was engaging in deceitful or dishonest conduct in relation to the Greenheart Transaction and knew that he was making deceitful or dishonest statements to Investors in Sino-Forest's continuous disclosure.

151. Chan placed the pecuniary interests of Investors at risk and committed fraud, contrary to subsection 126.1(b) of the Act and made materially misleading statements contrary to subsection 122(1)(b) of the Act. This conduct was also contrary to the public interest.

152. Through Chan, Sino-Forest made materially misleading statements contrary to subsection 122(1)(b) of the Act. This conduct was also contrary to the public interest.

153. Given his position as Chairman of the Board and CEO of Sino-Forest, Chan, authorized, permitted or acquiesced in Sino-Forest's making of materially misleading statements and thereby committed an offence under subsection 122(3) of the Act. This conduct was also contrary to the public interest.

154. As Chairman of the Board and CEO of Sino-Forest, Chan authorized, permitted or acquiesced in Sino-Forest's commission of fraud and therefore is deemed under section 129.2 of the Act to have not complied with Ontario securities law. This conduct was also contrary to the public interest.

PART VII. CHAN, IP, HUNG, HO AND YEUNG MATERIALLY MISLED STAFF

A. Chan Materially Misled Staff

155. During his examination by Staff, Chan made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or

untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

156. Chan was asked whether Sino-Forest had any control over certain Suppliers or whether these Suppliers were independent. Chan misled Staff, responding that they were independent companies. Chan repeatedly confirmed that Yuda Wood was an independent company and that it was not controlled by any employee of Sino-Forest. This information was false and misleading.

B. Ip Materially Misled Staff

157. During his examination by Staff, Ip made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

158. Ip misled Staff regarding the creation of Confirmations by Sino-Forest. Ip falsely informed Staff as to nature of the interaction between the PRC forestry bureaus and Sino-Forest personnel surrounding the issuance of the Confirmations. Ip also misled Staff about the timing of purported payments made by Sino-Forest to Suppliers. Ip stated that payments were only made once the Purchase Contracts were signed. This information was false and misleading.

C. Hung Materially Misled Staff

159. During his examination by Staff, Hung made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

160. Hung falsely described the creation of the Purchase Contracts, Sales Contracts and their attachments, including Confirmations, to Staff. Hung informed Staff that he confirmed the

accuracy of all the information in the Purchase Contracts. Hung also stated that he ensured that the attachments to the Purchase Contracts, including Confirmations and Survey Reports, would be “in place”. This information was false and misleading.

161. Hung also misled Staff as to the timing of alleged payments made pursuant to the Purchase Contracts.

D. Ho Materially Misled Staff

162. During his examination by Staff, Ho made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

163. Ho was specifically asked about what role he took “in the whole BVI process.” Ho replied, “None whatsoever”, further stating, “No, I’m not at all involved in the BVI whatsoever.” This information was false and misleading.

164. Ho also denied that he was copied on any emails or communications involving the BVI Model. This information was false and misleading.

165. Ho also asserted that Yuda Wood was independent of Sino-Forest and that he had no control over any aspect of its business. This information was false and misleading.

E. Yeung Materially Misled Staff

166. During his examination by Staff, Yeung made statements that, in a material respect and at the time and in the light of the circumstances under which they were made, were misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statements not misleading, contrary to subsection 122(1)(a) of the Act and the public interest.

167. Yeung was specifically asked about his involvement in the creation of Yuda Wood. Yeung stated that he assisted with the application process as a favour to his friend, Person #1. He denied that Sino-Forest supplied the registration capital for Yuda Wood. Yeung also denied any knowledge of Sino-Forest creating fraudulent transactions involving the purchase and sale of Standing Timber. This information was false and misleading.

168. Staff reserve the right to make such other allegations as Staff may advise and the Commission may permit.

DATED at Toronto, Ontario, this 22nd day of May 2012.

SCHEDULE "A"**GLOSSARY OF CERTAIN DEFINED TERMS
AND LOCATION IN THE STATEMENT OF ALLEGATIONS**

"AIs" means the authorized intermediaries to whom Sino-Forest purported to sell assets in the PRC, including Standing Timber (paragraph 45).

"BVI Model" means the business model employed by Sino-Forest to buy and sell assets through the BVI Subs in the PRC (paragraph 45).

"BVI Network" means the entire network of BVI Subs, Suppliers, AIs and other companies who bought and sold assets in the BVI Model in the PRC (paragraph 56).

"BVI Subs" means wholly owned subsidiaries of Sino-Forest incorporated in the British Virgin Islands (paragraph 45).

"Caretaker Company List" means the document listing the "peripheral" or "nominee" companies controlled by "caretakers" on behalf of Sino-Forest (paragraph 57).

"Certificates" means Plantation Rights Certificates issued by the PRC government (paragraph 72).

"Company" means Sino-Forest Corporation including all of its subsidiaries and companies it controls as set out in its public disclosure record and as the context within this Statement of Allegations requires (paragraph 1).

"Confirmations" means the confirmations purportedly executed by forestry bureaus that Sino-Forest relied upon to evidence ownership of Standing Timber assets in the BVI Model in the absence of Certificates (paragraph 74).

"Dacheng" means Guangxi Dacheng Timber Co. Ltd. (paragraph 90).

"Dacheng Plantations" means the timber plantations purchased from Dacheng commencing in 2008 (paragraph 90).

"Dongkou" means Dongkou Shuanglian Wood Company Limited (paragraph 60).

"Farmers' Authorizations" means farmers' authorization letters (paragraph 72).

"Fortune Universe" means Fortune Universe Ltd. (paragraph 145).

"Gengma Forestry" means Gengma Dai and Wa Tribe Autonomous Region Forestry Co., Ltd. (paragraph 107).

"Greenheart" means the company now known as Greenheart Group Limited (paragraph 12).

“Greenheart Transaction” means the series of transactions where Sino-Forest purchased a controlling interest in Greenheart (paragraph 27).

“GRHL” means Greenheart Resources Holdings Limited (paragraph 57).

“Haosen” means Guangxi Pingle Haosen Forestry Development Co., Ltd. (paragraph 97).

“Investors” means the securityholders of Sino-Forest (paragraph 3).

“Kun’an” means Guangxi Hezhou City Kun’an Forestry Co., Ltd. (paragraph 114).

“Material Time” means the period from June 30, 2006 to January 11, 2012 (paragraph 15).

“Meishan” means Guangxi Rongshui Meishan Wood Products Factory (paragraph 97).

“Montsford” means Montsford Ltd. (paragraph 145).

“Offsetting Arrangement” means the payables/receivables arrangement used in the BVI Model by Sino-Forest to buy and sell Standing Timber (paragraph 48).

“Overseas Management” means Allen Chan, Albert Ip, Alfred C.T. Hung, George Ho and Simon Yeung (paragraph 13).

“Plantation Fibre” is one of the two subcomponents of Sino-Forest’s core business segment called Wood Fibre Operation (paragraph 41).

“PRC” means the People’s Republic of China (paragraph 2).

“Purchase Contracts” means the contracts used by Sino-Forest to purchase assets in the BVI Model (paragraph 45).

“Sales Contracts” means the contracts used by Sino-Forest to sell assets in the BVI Model (paragraph 45).

“Shaoyang Jiading” means Shaoyang Jiading Wood Products Co. Ltd. (paragraph 68).

“Sino-Forest” means Sino-Forest Corporation including all of its subsidiaries and companies it controls as set out in its public disclosure record and as the context within this Statement of Allegations requires (paragraph 1).

“Sino-Panel” means Sino-Panel (Asia) Inc., a subsidiary of Sino-Forest (paragraph 39).

“Sino-Panel Companies” means the three subsidiaries of Sino-Panel which purported to purchase Standing Timber from Yuangao (paragraph 96).

“Sino-Panel Gengma” means Sino-Panel (Gengma) Co., Ltd., a Sino-Forest subsidiary (paragraph 107).

“**Sonic Jita**” means Hong Kong Sonic Jita Engineering Co., Ltd. (paragraph 64).

“**Standing Timber**” means all of the Plantation Fibre subcomponent of Wood Fibre Operations and as the context within this Statement of Allegations requires (paragraph 42).

“**Suppliers**” means the parties from whom Sino-Forest purported to buy assets in the PRC, including Standing Timber (paragraph 45).

“**Survey Reports**” means timber survey reports (paragraph 72).

“**WFOE Model**” means the business model employed by Sino-Forest to buy and sell assets through its WFOEs (paragraph 46).

“**WFOEs**” means Wholly Foreign Owned Enterprises which were subsidiaries of Sino-Forest (paragraph 46).

“**Xinqi**” means Gaoyao City Xinqi Forestry Development Co., Ltd. (paragraph 97).

“**Yuangao**” means Guangxi Hexhou City Yuangao Forestry Development Co., Ltd. (paragraph 96).

“**Yuda Wood**” means Huaihua City Yuda Wood Ltd. (paragraph 57).

“**Yunnan Plantation**” means the Standing Timber plantations in Yunnan Province purportedly purchased in 2007 from Yuda Wood (paragraph 113).

SCHEDULE "B"

SELECTED INFORMATION FROM THE 2005-2010 AUDITED ANNUAL FINANCIAL STATEMENTS OF SINO-FOREST

Reported Revenue

December 31, 2010	\$1,923,536,000
December 31, 2009	1,238,185,000
December 31, 2008 (restated amount)	896,045,000
December 31, 2007	713,866,000
December 31, 2006 (restated amount)	555,480,000
December 31, 2005	493,301,000

Reported Total Assets

December 31, 2010	\$5,729,033,000
December 31, 2009	3,963,899,000
December 31, 2008	2,603,924,000
December 31, 2007	1,837,497,000
December 31, 2006	1,207,255,000
December 31, 2005	895,271,000

Reported Timber Assets (with % of total assets)

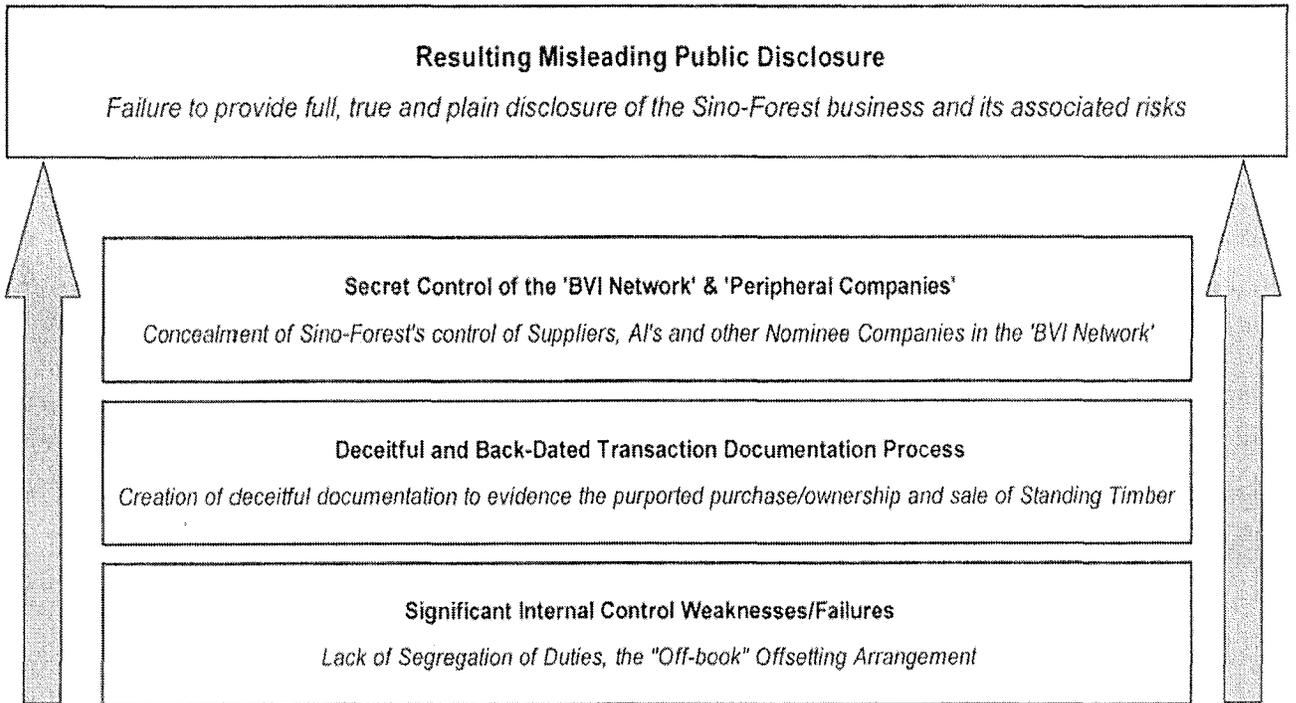
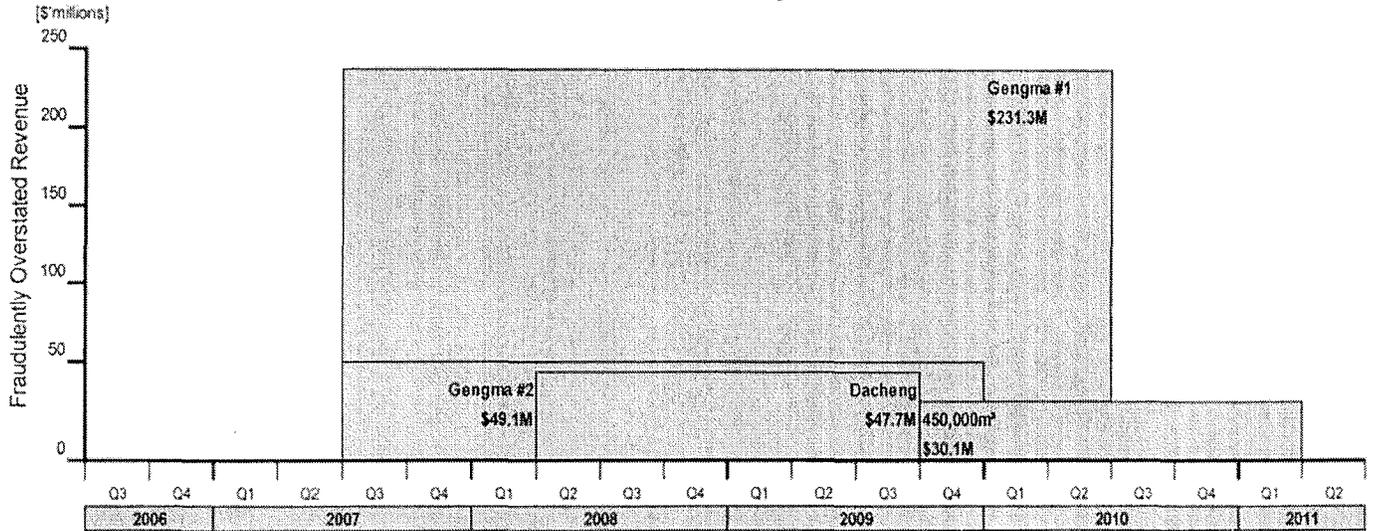
December 31, 2010	\$3,122,517,000 (55%)
December 31, 2009	2,183,489,000 (55%)
December 31, 2008	1,653,306,000 (63%)
December 31, 2007	1,174,153,000 (64%)
December 31, 2006	752,783,000 (62%)
December 31, 2005	513,412,000 (57%)

Number of Outstanding Common Shares

December 31, 2010	245,740,889
December 31, 2009	242,129,062
December 31, 2008	183,119,072
December 31, 2007	182,592,961
December 31, 2006	137,999,548
December 31, 2005	137,789,548

SCHEDULE "C"

**Sino-Forest Corporation
Overview of the Standing Timber Fraud**



TAB 16

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 W. JUDSON MARTIN
(Sworn September 24, 2012)

I, W. Judson Martin, of the City of Hong Kong, Special Administrative Region, People's Republic of China, **MAKE OATH AND SAY:**

1. I am the Vice-Chairman and Chief Executive Officer of Sino-Forest Corporation ("SFC"). I therefore have personal knowledge of the matters set out below, except where otherwise stated. Where I do not possess personal knowledge, I have stated the source of my information and I believe such information to be true.

2. Capitalized terms not defined in this affidavit are as defined in my affidavit sworn March 30, 2012 (the "Initial Order Affidavit"). A copy of my Initial Order Affidavit (without exhibits) is attached hereto as Exhibit "A".

BACKGROUND

3. On March 30, 2012, this Honourable Court made an Initial Order granting the CCAA stay of proceedings against SFC and certain of its subsidiaries (the "CCAA Stay") and appointing FTI Consulting Canada Inc. as the Monitor in the CCAA proceedings. A copy of the Initial Order is attached as Exhibit "B".

4. On May 31, 2012, this Honourable Court extended the CCAA Stay to September 28, 2012 (the "Stay Extension Order"). A copy of the May 31 Stay Extension Order is attached as Exhibit "C".

DEVELOPMENTS SINCE MAY 31, 2012

i. Developments in the CCAA Proceedings

5. Since the May 31 Stay Extension Order, there have been a number of developments in the CCAA proceedings.

6. First, on June 26, 2012, this Honourable Court heard a motion brought by SFC seeking directions that claims against SFC, which result from the ownership, purchase or sale of an equity interest in SFC, and indemnification claims related thereto, are "equity claims" as defined by the CCAA. In reasons released on July 27, 2012, a copy of which are attached as Exhibit "D", this Honourable Court substantially granted the relief sought. A copy of the Order issued in connection with that motion is attached as Exhibit "E".

7. Second, pursuant to a consent order issued by this Honourable Court on July 25, 2012, a copy of which is attached as Exhibit "F", the parties to the Canadian class action proceedings

participated in a two-day mediation. That mediation was conducted by the Honourable Justice Newbould, and was held at the offices of Bennett Jones LLP from September 4-5, 2012. The mediation did not result in a settlement.

8. Third, in connection with that mediation, SFC consented to certain relief sought by class counsel in connection with the mediation. The relief sought involved the production of otherwise confidential documents to the parties to the mediation for the sole purpose of use in that mediation and pursuant to the terms and conditions set out in confidentiality agreements executed by each of the parties to the mediation. A copy of the consent Order of this Honourable Court dated July 30, 2012 (the "Mediation Documents Order") is attached as Exhibit "G".

9. I am advised by counsel that tens of thousands of documents were made available in the data room pursuant to the Mediation Documents Order. I am further advised by counsel that there have been no suggestions that there was anything less than full compliance with the Mediation Documents Order by SFC.

10. Fourth, on August 31, 2012, this Honourable Court issued a Plan Filing and Meeting Order, which accepted SFC's draft Plan of Compromise and Reorganization for filing, required certain meeting material to be sent to creditors, and called for a meeting. A copy of the Plan Filing and Meeting Order is attached as Exhibit "H".

11. The Plan Filing and Meeting Order was made on the basis that a number of objections that were raised on the motion for the Plan Filing and Meeting Order would be heard at a later time, at the sanction hearing stage (assuming those objections continue to be maintained at that time),

after creditors had had a chance to consider and vote upon the Plan. Attached as Exhibit "I" is a copy of the endorsement of this Honourable Court setting out these terms.

ii. Further Steps with Respect to the CCAA Plan

12. As set out in the Plan Filing and Meeting Order, the meeting material was to be distributed to affected creditors entitled to vote on the Plan within twenty days of the order, unless that date was extended by the Monitor with the consent of SFC and counsel to the Initial Consenting Noteholders. On September 20, 2012, the Monitor extended the mailing date to on or before October 3, 2012 with the consent of SFC and counsel to the Initial Consenting Noteholders.

13. The delay in mailing the meeting materials is attributable to the fact that certain steps and issues necessary to be completed prior to the mailing of the Plan are still in the process of being completed and certain terms of the Plan itself are and continue to be subject to refinement and negotiation.

14. Under the Plan Filing and Meeting Order, the Meeting Date is to be within 30 days of the mailing of the meeting materials. Assuming the mailing occurs on October 3, 2012, that would mean that the meeting of creditors will occur no later than November 2, 2012.

iii. Ontario Securities Commission

15. Staff ("Staff") of the Ontario Securities Commission (the "Commission") have been cooperative in assisting SFC to take steps necessary to advance the Plan. As was described in my initial affidavit filed in this proceeding, the Commission issued a temporary cease trade order ("TCTO") ceasing trading in the securities of SFC.

16. At Staff's request, SFC brought an application before the Commission to vary the TCTO to permit the mailing to creditors as ordered by this Honourable Court. Staff believed that the act of mailing the meeting materials could be considered an "act in furtherance of a trade", which would be contrary to the TCTO.

17. On September 18, 2012, Vice-Chair Mary Condon of the Commission heard SFC's motion to vary the TCTO to permit the mailing. Counsel for the Monitor, the Ad Hoc Committee of Noteholders and Staff were present at that hearing. Vice-Chair Condon granted the relief sought. A copy of the Order dated September 18, 2012 is attached as Exhibit "J".

18. Also on September 18, 2012, SFC gave notice to the Commission that it would seek a further variation of the TCTO to allow for the implementation of further steps in connection with the Plan, including holding the Meeting itself, and taking the steps contemplated by the Plan, if it is approved by creditors and this Honourable Court. A copy of SFC's notice is attached as Exhibit "K". While the date is still being finalized, it is anticipated that that application will be heard on October 26, 2012, in advance of the Meeting.

iv. The Class Proceedings

19. Pursuant to an Order dated May 8, 2012, a copy of which is attached as Exhibit "L", this Honourable Court granted leave to the Ontario class plaintiffs to seek certain relief with respect to a settlement entered into between them and Poyry (Beijing) Consulting Company Limited ("Poyry").

20. The motion to approve the settlement with Poyry was scheduled to be heard by the Honourable Justice Perell on September 21, 2012. The parties agreed on the form of an Order

for that settlement approval and submitted it to Justice Perell for approval. A copy of that Order is attached as Exhibit "M".

EXTENSION OF THE STAY PERIOD

21. As set out at a 9:30 chambers attendance with this Honourable Court on September 18, 2012, the class plaintiffs have stated that they intend to bring three motions on October 8-9, 2012. One of those motions is to lift the stay of proceedings against certain defendants in the Ontario class proceedings. In order to avoid any argument about prejudicing class plaintiffs' position on that motion, SFC is seeking an extension of the stay only through to October 10, 2012. I am advised by counsel that the class plaintiffs (and to the knowledge of SFC, any of the parties) do not oppose an extension to that date.

22. The Monitor's Eighth Report, which will be filed in connection with this motion, sets out updated cash flows. The updated cash forecast shows that SFC has sufficient funds to fund the proceedings through the proposed stay extension period.

23. Since the issuance of the Stay Extension Order, SFC has acted and continues to act in good faith and with due diligence.

24. The extension of the Stay Period is necessary in order to provide stability to Sino-Forest's business while SFC, with the assistance of its advisors and the Monitor, works diligently on completing the steps and Plan refinements necessary to enable the mailing of meeting materials to creditors as required by the Plan Filing and Meeting Order.

25. I do not believe that any creditor will suffer any material prejudice if the Stay Period is extended.

SWORN BEFORE ME at the City of Hong)
Kong, Special Administrative Region,)
People's Republic of China, this 24th day of)
September, 2012)



W. Judson Martin

A Commissioner of Oaths



Hui Yam Yi
Deacons
Solicitor, Hong Kong SAR

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 OR COMPROMISE OR ARRANGEMENT OF SINO-FOREST CORPORATION

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceedings commenced in Toronto

AFFIDAVIT OF W. JUDSON MARTIN
(Sworn September 24, 2012)

BENNETT JONES LLP
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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 17

**CITATION The Trustees of the Labourers' Pension Fund of Central and Eastern
Canada v. Sino Forest Corporation, 2012 ONSC 5398
COURT FILE NO.: CV-11-431153-00CP
DATE: September 25, 2012**

**ONTARIO
SUPERIOR COURT OF JUSTICE**

BETWEEN:

THE TRUSTEES OF THE LABOURERS')	
PENSION FUND)	
OF CENTRAL AND EASTERN)	<i>A. Dimitri Lascaris, Serge Kalloghlian, and</i>
CANADA, THE TRUSTEES OF THE)	<i>S. Sajjad Nematollahi for the Plaintiffs</i>
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)	<i>Peter Osborne, Shara Roy, and Brendon</i>
& YOUNG LLP, BDO LIMITED (formerly)	<i>Grey for the Defendant Ernst & Young LLP</i>
known as BDO MCCABE LO LIMITED),)	
ALLEN T.Y. CHAN, W. JUDSON)	<i>John Fabello for the Defendants Credit</i>
MARTIN, KAI KIT POON, DAVID J.)	<i>Suisse Securities (Canada) Inc., TD</i>
HORSLEY, WILLIAM E. ARDELL,)	<i>Securities Inc., Dundee Securities</i>
JAMES P. BOWLAND, JAMES M.E.)	<i>Corporation, RBC Dominion Securities Inc.,</i>
HYDE, EDMUND MAK, SIMON)	<i>Scotia Capital Inc., CIBC World Markets</i>
MURRAY, PETER WANG, GARRY J.)	<i>Inc., Merrill Lynch Canada Inc., Canaccord</i>
WEST, PÖYRY (BEIJING))	<i>Financial Ltd., Maison Placements Canada</i>
CONSULTING COMPANY LIMITED,)	<i>Inc., Credit Suisse Securities (USA) LLC</i>
CREDIT SUISSE SECURITIES)	<i>and Banc of America Securities LLC</i>
(CANADA), INC., TD SECURITIES INC.,)	
DUNDEE SECURITIES CORPORATION,)	<i>Kenneth Dekker for the Defendant BDO</i>
RBC DOMINION SECURITIES INC.,)	<i>Limited</i>
SCOTIA CAPITAL INC., CIBC WORLD)	
MARKETS INC., MERRILL LYNCH)	<i>John J. Pirie and David Gadsden for the</i>
CANADA INC., CANACCORD)	<i>Defendant Pöyry (Beijing) Consulting</i>
FINANCIAL LTD., MAISON)	<i>Company Limited</i>
PLACEMENTS CANADA INC., CREDIT)	

SUISSE SECURITIES (USA) LLC and	)	<i>Emily Cole and Megan Mackey</i> for Allen
MERRILL LYNCH, PIERCE, FENNER &	)	Chan
SMITH INCORPORATED (successor by)	
merger to Banc of America Securities LLC)	)	<i>Michael Eizenga</i> for Sino-Forest
Defendants	)	Corporation , W. Judson Martin, and Kai Kit
	)	Poon
)	
)	
Proceeding under the <i>Class Proceedings</i>	)	HEARD: September 21, 2012
<i>Act, 1992</i>)	

PERELL, J.

REASONS FOR DECISION

A. INTRODUCTION

[1] This is a motion for approval of a partial settlement in a proposed class action under the *Class Proceedings Act, 1992*, S.O. 1992, c. C.6.

[2] The Plaintiffs are: Labourers' Pension Fund of Central and Eastern Canada ("Labourers"), the Trustees of the International Union of Operating Engineers Local 793 Pension Plan for Operating Engineers in Ontario ("Operating Engineers"), Sjunde AP-Fonden ("AP7"), David Grant, and Robert Wong.

[3] The Defendants are: 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 Mak, Simon Murray, Peter Wang, Garry J. West, Pöyry (Beijing) Consulting Company Limited, Credit Suisse Securities (Canada) Inc., TD Securities Inc., Dundee Securities Corporation, RBC Dominion Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., Canaccord Financial Ltd., Maison Placements Canada Inc., Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated (successor by merger to Banc of America Securities LLC).

[4] In this action, the Plaintiffs allege that Sino Forest misstated in its public filings its financial statements, misrepresented its timber rights, overstated the value of its assets, and concealed material information about its business operations from investors. There is a companion proposed class action in Québec. The Plaintiffs claim damages of \$9.2 billion on behalf of resident and non-resident shareholders and noteholders of Sino-Forest.

[5] The Plaintiffs in Ontario and Québec have reached a settlement with one of the defendants, Pöyry (Beijing) Consulting Company Limited ("Pöyry (Beijing)"). The Settlement Agreement is subject to court approval in Ontario and Québec. The litigation is continuing against the other defendants.

[6] The Plaintiffs bring a motion for an order: (a) certifying the action for settlement purposes as against Pöyry (Beijing); (b) appointing the Plaintiffs as representative plaintiffs for the class; (c) approving the settlement as fair, reasonable, and in the best interests of the class; and (d) approving the form and method of dissemination of notice to the class of the certification and settlement of the action.

[7] The motion for settlement approval is not opposed by the Defendants.

[8] Up until the morning of the fairness hearing motion, three groups of Defendants objected to the settlement; namely: (a) Ernst & Young LLP; (b) BDO Limited; and (c) 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 (collectively the "Underwriters").

[9] When the Plaintiffs and Pöyry (Beijing) and various other Pöyry entities agreed to amend their settlement arrangements to provide extensive discovery rights against the Pöyry entities, the opposition disappeared.

[10] While I originally I had misgivings, I have concluded that the court should approve the settlement as fair, reasonable, and in the best interests of the class members of the consent certification. Accordingly, I grant the Plaintiffs' motion.

B. FACTUAL BACKGROUND

[11] On July 20, 2011, the Plaintiffs commenced this action.

[12] Of the Plaintiffs, Labourers' and Operating Engineers are specified multi-employer pension plans. AP7 is a Swedish National Pension Fund and is part of Sweden's national pension system. David Grant is an individual residing in Calgary, Alberta. Robert Wong is an individual residing in Kincardine, Ontario.

[13] All the Plaintiffs purchased Sino Forest shares or Sino Forest Notes and lost a great deal of money.

[14] All of the Plaintiffs, especially the institutional investors, would appear to be sophisticated. They are capable of understanding the issues and competent to give instructions to their lawyers about the tactics and strategies of this massive litigation.

[15] I mention this last point because their lawyers urged me that in weighing the fairness of the settlement to the class members, I should give considerable deference to the astuteness of the Plaintiffs and to the wisdom of their experienced lawyers about the advantages and disadvantages of the proposed settlement. See *Metzler Investment GmbH v Gildan Activewear Inc.*, 2011 ONSC 1146 at para. 31.

[16] In their action, the Plaintiffs allege that in its public filings, Sino Forest misstated its financial statements, misrepresented its timber rights, overstated the value of its assets, and concealed material information about its business and operations from

investors. As a result of these alleged misrepresentations, Sino Forest's securities allegedly traded at artificially inflated prices for many years.

[17] The Defendant Pöyry (Beijing) was one of several affiliated entities that appraised the value of Sino Forest's assets. Some of the Pöyry valuation reports were incorporated by reference into various offering documents. Some of the valuation reports were made publicly available through SEDAR and Pöyry valuation reports were posted on Sino Forest's website.

[18] In their statement of claim, the Plaintiffs allege that Pöyry (Beijing) is liable for: (a) negligence and under s. 130 of the Ontario *Securities Act*, R.S.O. 1990, c. S.5 to primary market purchasers of Sino-Forest shares and (b) is liable for negligence and under Part XXIII.1 of the *Act* to purchasers of Sino Forest's securities in the secondary markets.

[19] Only one Pöyry entity has been named as a defendant. The affiliated Pöyry entities have not been named as defendants.

[20] On January 26, 2012, the Plaintiffs filed an amended notice of action and a Statement of Claim. Around this time, The Plaintiffs and Pöyry (Beijing) began settlement discussions. Those discussions culminated in a Settlement Agreement made as of March 20, 2012.

[21] In its original form, the terms of the Settlement Agreement were as follows:

- Pöyry (Beijing) will provide information and cooperation to the Plaintiffs for the purpose of pursuing the claims against the other defendants.
- Pöyry (Beijing) is required to provide an evidentiary proffer relating to the allegations in this action. (This evidentiary proffer was made and apparently was very productive and the harbinger of useful information.).
- Pöyry (Beijing) is required to provide relevant documents within the possession, custody or control of Pöyry (Beijing) and its related entities, including: (a) documents relating to Sino-Forest, the Auditors or the Underwriters, or any of them, as well as the dates, locations, subject matter, and participants in any meetings with or about Sino-Forest, the Auditors, the Underwriters, or any of them; (b) documents provided by Pöyry (Beijing) or any of its related entities to any state, federal, or international government or administrative agency concerning the allegations raised in the proceedings; and (c) documents provided by Pöyry (Beijing) or any of its related entities to Sino Forest's Independent Committee or the ad hoc committee of noteholders.
- Pöyry (Beijing) is obliged to use reasonable efforts to make available directors, officers or employees of Pöyry (Beijing) and its related entities for interviews with Class Counsel, and to provide testimony at trial and affidavit evidence.
- The Plaintiffs will release their claims against Pöyry (Beijing) and its related entities.

- The Non-settling Defendants will be subject to a bar order that precludes any right to contribution or indemnity against Pöyry (Beijing) and its related entities, but preserves the non-settling defendants' rights of discovery as against Pöyry (Beijing) and Pöyry Management Consulting (Singapore) PTE, LTD. ("Pöyry (Singapore)").
- Pöyry (Beijing) will consent to certification for the purpose of settlement.
- Pöyry (Beijing) will pay the first \$100,000 of the costs of providing the notice of certification and settlement, and half of any such costs over \$100,000.

[22] The Settlement Agreement is subject to court approval in Ontario and Québec.

[23] As already noted above, Ernst & Young, BDO, and the Underwriters objected to the original version of the proposed settlement, but hard upon the hearing of the fairness motion, they withdrew their opposition because of a revised version of the settlement that preserved and extended their rights of discovery as against the Pöyry entities.

[24] The revised terms of the settlement agreement included, among other things, the following provisions:

- The Court shall retain jurisdiction over the Plaintiffs, the Pöyry Parties (Pöyry (Beijing), Pöyry Management Consulting (Singapore) Pte. Ltd., Pöyry Forest Industry Ltd., Pöyry Forest Industry Pte. Ltd, Pöyry Management Consulting (Australia) Pty. Ltd., Pöyry Management Consulting (NZ) Ltd., JP Management Consulting (Asia-Pacific) Ltd.), Pöyry PLC, and Pöyry Finland OY for all matters all of these parties are declared to have attorned to the jurisdiction of this Court.
- After all appeals or times to appeal from the certification of this action against the Non-Settling Defendants have been exhausted, any Non-Settling Defendant is entitled to the following:
 - documentary discovery and an affidavit of documents from any and all of Pöyry (Beijing), and the "Pöyry Parties";
 - oral discovery of a representative of any Pöyry Party, the transcript of which may be read in at trial solely by the Non-Settling Defendants as part of their respective cases in defending the Plaintiffs' allegations concerning the Proportionate Liability of the Releasees and in connection with any claim [described below] by a Non-Settling Defendant against a Pöyry Party for contribution and indemnity;
 - leave to serve a request to admit on any Pöyry Party in respect of factual matters and/or documents;
 - the production of a representative of any Pöyry Party to testify at trial, with such witness or witnesses to be subject to cross-examination by counsel for the Non-Settling Defendants;
 - leave to serve *Evidence Act* notices on any Pöyry Party; and

- discovery shall proceed pursuant to an agreement between the Non-Settling Defendants and the Pöyry Parties in respect of a discovery plan, or failing such agreement, by court order.
- The Pöyry Parties, Pöyry PLC, and Pöyry Finland OY shall, on a best efforts basis, take steps to collect and preserve all documents relevant to the matters at issue in the within proceeding.
- If any Pöyry Party fails to satisfy its reasonable obligations a Non-Settling Defendant may make a motion to this Court to compel reasonable compliance. If such an Order is made, and not adhered to by the Pöyry Party, a Non-Settling Defendant may then bring a motion to lift the Bar Order and to advance a claim for contribution, indemnity or other claims over against the Pöyry Party.
- If an Order is made permitting a claim to be advanced against a Pöyry Party by a Non-Settling Defendant any limitation period applicable to such a claim, whether in favour of a Pöyry Party or a Non-Settling Defendant, shall be deemed to have been tolled as of the date of the settlement approval order.

C. SUPPORT FOR THE SETTLEMENT AGREEMENT

[25] On May 17, 2012, the Plaintiffs distributed notice of the fairness hearing. No objections were filed by putative class members.

[26] The Plaintiffs' lawyers recommend the settlement for four reasons:

- (1) Although the Plaintiffs' central allegation against Pöyry (Beijing) is that its valuation reports on Sino Forest's assets contained misrepresentations, Pöyry (Beijing)'s, four reports (and one press release) contain exculpatory language that would pose significant challenges to establishing liability;
- (2) Pöyry (Beijing) is located in the People's Republic of China, and serious difficulties exist with respect to serving documents, compelling evidence, and enforcing any judgment, especially because compliance with the Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters ("Hague Convention") has already proven untimely;
- (3) The Plaintiffs' recourse against Pöyry (Beijing) may be limited to the collection of insurance proceeds (€2 million) from Pöyry (Beijing)'s insurer; and
- (4) Pöyry (Beijing) is well-positioned to provide useful and valuable information and documents that would be helpful in the prosecution of the claims against the remaining defendants.

[27] As emerged from the argument at the fairness hearing, the last reason is by far the most significant reason that the Plaintiffs' lawyers recommend the settlement. They urged me that the direct claim against Pöyry (Beijing) is weak and not worth the effort, but the information available from the Pöyry entities and the swiftness of its availability

would be enormously valuable in the litigation battles for leave to assert an action under the Ontario *Securities Act*, to obtaining certification against the non-settling defendants, to succeeding on the merits, and to facilitating settlement overtures and negotiations.

[28] The Plaintiffs' lawyers urged me that the releases of the Pöyry entities and the risks of the bar order, which risks included the Plaintiffs having to take on the risk and task of contesting the non-settling defendants' efforts to attribute all or the greater proportion of responsibility onto the Pöyry entities was in the best interests of the class.

D. THE WITHDRAWN OPPOSITION OF BDO, ERNST & YOUNG AND THE UNDERWRITERS

[29] In connection with BDO's audits of the annual financial statements of Sino Forest for the years ended December 31, 2005 and December 31, 2006, BDO obtained and reviewed the Pöyry Asset Valuations and members of its audit team met with individuals from JP Management and Pöyry New Zealand and attended site visits at Sino Forest plantations with Pöyry staff.

[30] In its statement of defence, BDO will deny the allegations of negligence, and it will deliver a crossclaim against Pöyry (Beijing).

[31] BDO has already commenced an action against a Pöyry Beijing affiliate, Pöyry Management Consulting (Singapore) Pte. Ltd. ("Pöyry Singapore"), seeking contribution and indemnity in connection with the claims advanced against BDO in this action.

[32] The Pöyry valuations were relied upon by the Defendant Ernst & Young in its role as auditor of Sino Forest from 2007 to 2012. Ernst & Young submits that that the Plaintiffs' claims against it are inextricably linked to the claims the Plaintiffs advance against Pöyry (Beijing).

[33] Ernst & Young has commenced a separate action against Pöyry (Beijing) and the other Pöyry entities seeking contribution, indemnity and other relief emanating from the claim made by the plaintiffs against Ernst & Young.

[34] It was the position of the underwriters that the Pöyry entities and their valuation reports played significant roles in presenting Sino Forest's business to the market for many years and before the involvement of the Underwriters.

[35] The Underwriters have commenced an action seeking contribution and indemnity against seven Pöyry entities in respect of their involvement Sino Forest's disclosure and any liability that may be found after trial.

[36] Ernst & Young, BDO, and the Underwriters in their factums opposing the court approving the settlement disparaged the settlement as providing nothing of benefit to the class and as unfair to the non-settling defendants who had substantial claims of contribution and indemnity against the Pöyry entities whom they submit were at the centre of the events of this litigation.

E. CERTIFICATION FOR SETTLEMENT PURPOSES

[37] Pursuant to s. 5(1) of the *Class Proceedings Act, 1992*, S.O. 1992, c.6, the court shall certify a proceeding as a class proceeding if: (a) the pleadings disclose a cause of action; (b) there is an identifiable class; (c) the claims of the class members raise common issues of fact or law; (d) a class proceeding would be the preferable procedure; and (e) there is a representative plaintiff who would adequately represent the interests of the class without conflict of interest and who has produced a workable litigation plan.

[38] Where certification is sought for the purposes of settlement, all the criteria for certification still must be met; *Baxter v. Canada (Attorney General)* (2006), 83 O.R. (3d) 481 (S.C.J.) at para. 22. However, compliance with the certification criteria is not as strictly required because of the different circumstances associated with settlements: *Bellaire v. Daya*, [2007] O.J. No. 4819 (S.C.J.) at para. 16; *National Trust Co. v. Smallhorn*, [2007] O.J. No. 3825 (S.C.J.) at para. 8; *Bonanno v. Maytag Corp.*, [2005] O.J. No. 3810 (S.C.J.); *Bona Foods Ltd. v. Ajinomoto U.S.A. Inc.*, [2004] O.J. No. 908 (S.C.J.); *Garipey v. Shell Oil Co.*, [2002] O.J. No. 4022 (S.C.J.) at para. 27; *Nutech Brands Inc. v. Air Canada*, [2008] O.J. No. 1065 (S.C.J.) at para. 9.

[39] Subject to approval of the settlement, in my opinion, the Plaintiffs' action satisfies the criterion for certification under the *Class Proceedings Act, 1992*. Their pleading discloses two causes of action against Pöyry (Beijing); namely: (1) misrepresentations in relation to the assets, business and transactions of Sino-Forest contrary to Part XXIII.1 and section 130 of the Ontario *Securities Act*, and (2) negligence in the preparation of its opinions and reports about the nature and value of Sino Forest's assets. Thus, the first criterion is satisfied.

[40] There is an identifiable class in which all class members have an interest in the resolution of the proposed common issue. Thus, the second criterion is satisfied. The proposed class is defined as:

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 person and entities who acquired Sino's Securities during the Class Period* who are resident of Canada or were resident of Canada at the time of acquisition and who acquired Sino's Securities outside of Canada, except the Excluded Persons.*

*Class Period is defined as the period from and including March 19, 2007 to and including June 2, 2011.

*Excluded Persons is defined 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.

[41] The Plaintiffs propose the following common issue, as agreed to between the parties to the Settlement Agreement:

Did [Pöyry (Beijing)] make misrepresentations as alleged in this Proceeding during the Class Period concerning the assets, business or transactions of Sino-Forest? If so, what damages, if any, did Settlement Class Members suffer?

[42] I am satisfied that this question satisfies the third criterion.

[43] I am also satisfied that assuming that the settlement agreement is approved, a class proceeding is the preferable procedure and the Plaintiffs are suitable representative plaintiffs.

[44] Thus, I conclude that the action against Pöyry (Beijing) should be certified as a class action for settlement purposes.

F. SETTLEMENT APPROVAL

[45] To approve a settlement of a class proceeding, the court must find that in all the circumstances the settlement is fair, reasonable, and in the best interests of those affected by it: *Dabbs v. Sun Life Assurance*, [1998] O.J. No. 1598 (Gen. Div.) at para. 9, aff'd (1998), 41 O.R. (3d) 97 (C.A.); leave to appeal to the S.C.C. ref'd, [1998] S.C.C.A. No. 372; *Parsons v. Canadian Red Cross Society*, [1999] O.J. No. 3572 (S.C.J.) at paras. 68-73.

[46] In determining whether to approve a settlement, the court, without making findings of facts on the merits of the litigation, examines the fairness and reasonableness of the proposed settlement and whether it is in the best interests of the class as a whole having regard to the claims and defences in the litigation and any objections raised to the settlement: *Baxter v. Canada (Attorney General)* (2006), 83 O.R. (3d) 481 (S.C.J.) at para. 10.

[47] While a court has the jurisdiction to reject or approve a settlement, it does not have the jurisdiction to rewrite the settlement reached by the parties: *Dabbs v. Sun Life Assurance Co. of Canada*, *supra*, at para. 10.

[48] In determining whether a settlement is fair and reasonable and in the best interests of the class members, an objective and rational assessment of the pros and cons of the settlement is required: *Al-Harazi v. Quizno's Canada Restaurant Corp.*, [2007] O.J. No. 2819 (S.C.J.) at para. 23.

[49] A settlement must fall within a zone of reasonableness. Reasonableness allows for a range of possible resolutions and is an objective standard that allows for variation depending upon the subject matter of the litigation and the nature of the damages for which the settlement is to provide compensation: *Parsons v. The Canadian Red Cross Society*, *supra*, at para. 70; *Dabbs v. Sun Life Assurance*, *supra*.

[50] When considering the approval of negotiated settlements, the court may consider, among other things: likelihood of recovery or likelihood of success; amount and nature of discovery, evidence or investigation; settlement terms and conditions; recommendation and experience of counsel; future expense and likely duration of litigation and risk; recommendation of neutral parties, if any; number of objectors and

nature of objections; the presence of good faith, arms length bargaining and the absence of collusion; the degree and nature of communications by counsel and the representative plaintiffs with class members during the litigation; information conveying to the court the dynamics of and the positions taken by the parties during the negotiation: *Dabbs v. Sun Life Assurance Company of Canada*, *supra*; *Parsons v. The Canadian Red Cross Society*, [1999] O.J. No. 3572 (S.C.J.) at paras. 71-72; *Frohlinger v. Nortel Networks Corp.*, [2007] O.J. No. 148 (S.C.J.) at para. 8.

[51] There is an initial presumption of fairness when a settlement is negotiated arms-length: *Vitapharm Canada Ltd. v. F. Hoffmann-La Roche Ltd.* (2005), 74 O.R. (3d) 758 (S.C.J.) at paras. 113-114; *CSL Equity Investments Ltd. v. Valois*, [2007] O.J. No. 3932 (S.C.J.) at para. 5.

[52] The court may give considerable weight to the recommendations of experienced counsel who have been involved in the litigation and are in a better position than the court or the class members, to weigh the factors that bear on the reasonableness of a particular settlement: *Kranjcec v. Ontario*, [2006] O.J. No. 3671 (S.C.J.) at para. 11; *Vitapharm Canada Ltd. v. F. Hoffmann-La Roche Ltd.* (2005), 74 O.R. (3d) 758 (S.C.J.) at para. 142.

[53] In assessing the reasonableness of a settlement agreement, the court is entitled to consider the non-monetary benefits, including the provision of cooperation: *Nutech Brands Inc. v. Air Canada*, [2009] O.J. No. 709 (SCJ) at paras 29-30, 36-37; *Osmun v Cadbury Adams Canada Inc.*, [2010] O.J. No. 1877 (S.C.J.), *aff'd* 2010 ONCA 841, leave to appeal to S.C.C. *ref'd* [2011] S.C.C.A. No. 55.

[54] The court may approve a settlement with a “bar order” in which the plaintiff settles with some defendants and agrees only to pursue claims of several liability against the remaining defendants: *Ontario New Home Warranty Program v. Chevron Chemical Co.* (1999), 46 O.R. (3d) 130 (S.C.J.); *Vitapharm Canada Ltd. v. F. Hoffmann-La Roche Ltd.* (2005), 74 O.R. (3d) 758 (S.C.J.) at paras. 134-39; *Millard v. North George Capital Management Ltd.*, [2000] O.J. No. 1535 (S.C.J.); *Garipey v. Shell Oil Co.*, [2002] O.J. No. 4022 (S.C.J.); *McCarthy v. Canadian Red Cross Society*, [2001] O.J. No. 2474 (S.C.J.); *Bona Foods Ltd. v. Ajinomoto U.S.A. Inc.*, [2004] O.J. No. 908 (S.C.J.); *Attis v. Canada (Minister of Health)*, [2003] O.J. No. 344 (S.C.J.), *aff'd* [2003] O.J. No. 4708 (C.A.); *Osmun v. Cadbury Adams Canada Inc.*, *supra*.

[55] In the case at bar, before the settlement agreement between the Plaintiffs and Pöyry (Beijing) was revised at the eleventh hour, I had serious misgivings about approving the proposed settlement. I was concerned about whether the non-settling Defendants were being fairly treated, and I was concerned about whether the Plaintiffs should take on the risk and burden of contesting the apportionment of liability in crossclaims and third party claims that normally would not be their concern.

[56] Subject to what the Plaintiffs might submit during the oral argument, the Defendants’ arguments in their factums appeared to me to make a strong case that the non-settling Defendants’ ability to defend themselves by shifting the blame exclusively on the Pöyry entities and the non-settling Defendants’ ability to advance their

substantive claims for contribution and indemnity were unfairly compromised by the release of all the Pöyry entities and the protection afforded all of them by a bar order.

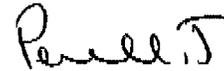
[57] Subject to what the Plaintiffs might submit during the oral argument, I was concerned whether the release and bar order was in the class members' best interests in the circumstances of this case, where it is early days in assessing the extent to which the non-settling Defendants could succeed in establishing their claims of contribution and indemnity.

[58] However, with the non-settling Defendants, apparently being content with the revised settlement arrangement, and with the assertive and confident recommendation of the Plaintiffs and their lawyers made during oral argument that the proposed settlement is in the best interests of the class members and will increase the likelihood of success in obtaining leave under the *Securities Act* and certification under the *Class Proceedings Act, 1992* and perhaps success in encouraging a settlement, my conclusion is that the court should approve the settlement.

[59] I know from the carriage motion that the lawyers for the Plaintiffs have expended a great deal of forensic energy investigating and advancing this litigation and it is true that they are in a better position than the court to weigh the factors that bear on the reasonableness of a particular settlement, particularly a tactically and strategically motivated settlement in ongoing litigation.

G. CONCLUSION

[60] For the above reasons, I grant the Plaintiffs' motion without costs.



Perell, J.

Released: September 25, 2012

The Trustees of the Labourers' Pension Fund of Central and Eastern Canada v. Sino Forest Corporation, 2012 ONSC 5398

**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

Plaintiff

- and -

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

Defendants

REASONS FOR DECISION

Perell, J.

Released: September 25, 2012.

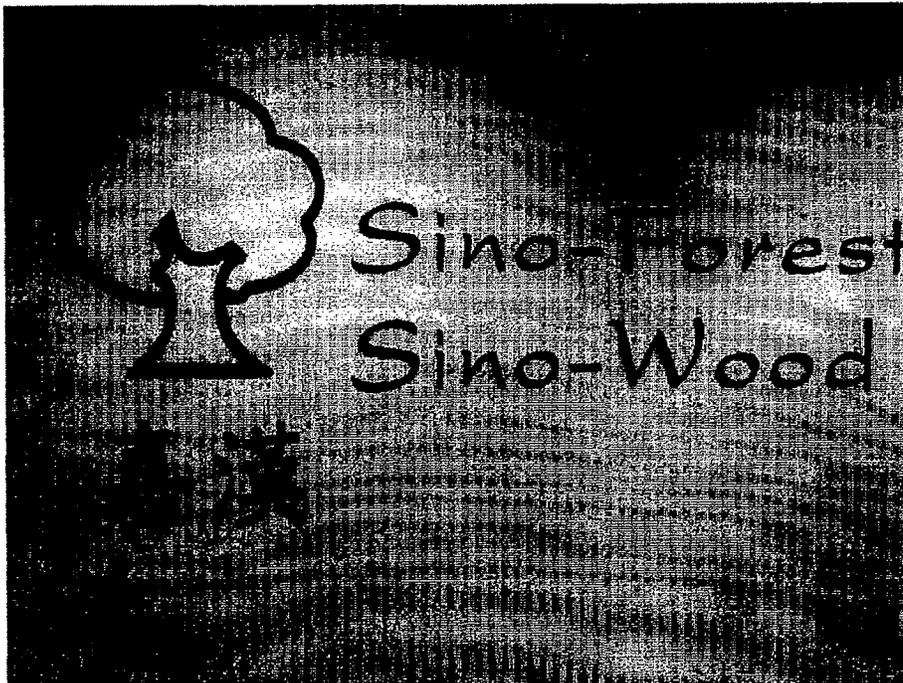
TAB 18

FP STREET *Follow the Money*

Sino-Forest shareholders turn to Joe Groia



PETER KOVEN | Sep 26, 2012 5:20 PM ET | Last Updated: Sep 26, 2012 5:23 PM ET
More from Peter Koven



Retail investors holding shares of Sino-Forest Corp. have turned to veteran securities lawyer Joe Groia to try to get a voice for themselves and wring some value from the insolvent Chinese forestry firm.

Mr. Groia has not agreed to act in an official capacity yet, but he is doing some pro bono investigative work to see if there is a strategy he can pursue on behalf of shareholders.

“For me to say we have a gameplan would be putting the cart before the horse at this stage,” he said in an interview. “I’m not altogether sure there’s a lot that can be done. But we want to look carefully at potential sources of recovery.”

Ever since short seller Muddy Waters LLC published a report accusing Sino-Forest of fraud last year, the retail shareholders have been furious about how the process played out. They believe the Ontario Securities Commission over-reacted when it halted the stock, and that they are being wrongly shoved aside as the CCAA process plays out.

Shareholders were initially told they might receive a portion of the new company that would emerge from Sino’s restructuring transaction, but that is no longer the case. They were also removed from the litigation trust that was set up to pursue a lawsuit against Muddy Waters. They were originally supposed to receive as much as 100% of it.

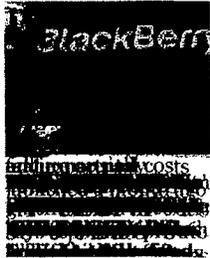
Mr. Groia referred to the shareholders’ plight as a “very complicated situation.”



"You could turn this into a very good law school examination question. It's not something that's going to have a quick and easy solution."

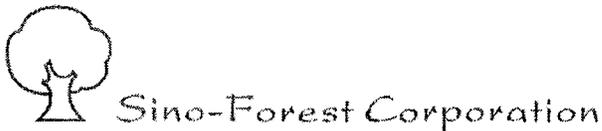
Mr. Groia is best known for his successful defence of Bre-X geologist John Felderhof. The Law Society of Upper Canada recently said that he violated civility rules during that trial.

Most Popular



Topics: FP Street, Joe Groia, Sino-Forest Corp.

TAB 19



Sino-Forest Announces Personnel Change

TORONTO, CANADA – September 27, 2012 – Sino-Forest Corporation (“Sino-Forest” or the “Company”) announced today that David Horsley has ceased to be employed by the Company.

Mr. Horsley was the Senior Vice President and Chief Financial Officer of the Company from October of 2005 until April of 2012. In April 2012 Mr. Horsley resigned as Chief Financial Officer, at the Company's request, following the receipt by the Company and certain of its former officers, including Mr. Horsley, on April 5, 2012, of "Enforcement Notices" from Staff of the Ontario Securities Commission. Enforcement Notices typically are issued by staff of the Commission at or near the end of an investigation, identify issues that have been the subject of investigation, and advise that staff contemplate commencing formal proceedings in relation to those issues.

On May 22, 2012, together with the Company and others, Mr. Horsley was named as a respondent in a proceeding commenced by staff of the Ontario Securities Commission.

Mr. Horsley continued at Sino-Forest after resigning as Chief Financial Officer of the Company until he ceased to be employed by the Company on September 27, 2012.

FOR MEDIA INQUIRIES PLEASE CONTACT: BRUNSWICK GROUP LIMITED Email: sinoforest@brunswickgroup.com	
New York Stan Neve Tel: +1 212 333 3810	Hong Kong Tim Payne Cindy Leggett-Flynn Tel: +852 3512 5000

TAB 20

LEARN MORE


THE GLOBE AND MAIL

September 27, 2012

Former Sino-Forest CFO leaves company

By Andy Hoffman

David Horsley was chief financial officer from 2005 to 2012

Sino-Forest Corp., the Canada-based Chinese timber firm that collapsed under the weight of fraud allegations in 2011, says former chief financial officer David Horsley is no longer employed by the company.

Mr. Horsley was the top Canadian-based executive at the TSX-listed forestry firm and served as CFO from October, 2005, until April, 2012, when Sino-Forest was hit with enforcement notices by the Ontario Securities Commission.

In May, 2012, Mr. Horsley was one of several respondents named in a series of allegations made by the OSC. At the time, the OSC alleged Mr. Horsley had not complied with securities laws and had not acted in the public interest.

The regulator did not, however, accuse Mr. Horsley of participating in fraudulent activity it alleged was conducted by other executives, including Sino-Forest's former chairman and chief executive officer Allen Chan. Mr. Horsley had remained an employee at the company after resigning as CFO.

Late Wednesday, Sino-Forest disclosed it had received a second enforcement notice from the OSC that "adds a further allegation similar in nature," to the allegations made in May.

On Thursday, Sino-Forest said Mr. Horsley "has ceased to be employed by the company."

Mr. Horsley did not respond to a call to his mobile phone requesting comment.

Once Canada's largest publicly traded forest firm with a market value in excess of \$6-billion, Sino-Forest's shares have been delisted from the Toronto Stock Exchange and the company is now insolvent. It is in creditor protection administered by an Ontario court.

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TAB 21

CANADA**COUR SUPÉRIEURE
(recours collectif)****PROVINCE DE QUÉBEC
DISTRICT DE DISTRICT DE QUÉBEC****NO : 200-06-000132-111****GUINING LIU
REQUÉRANT****C.****SINO-FOREST CORPORATION ET AUTRES
INTIMÉS**

**REQUÊTE DU REQUÉRANT POUR PERMISSION D'AMENDER
(Art. 1016 C.p.c.)**

**À L'HONORABLE JUGE JEAN-FRANÇOIS ÉMOND, DE LA COUR SUPÉRIEURE DU QUÉBEC,
JUGE DÉSIGNÉ POUR ENTENDRE TOUTES LES PROCÉDURES AYANT TRAIT À CETTE
AFFAIRE, LE REQUÉRANT EXPOSE CE QUI SUIT :**

1. Le 9 juin 2011, le requérant a déposé une requête pour autorisation d'exercer un recours collectif, sous le titre : «*Motion to authorize the bringing of a Class Action and to obtain the status of representative*»;
2. Le 3 août 2012, le requérant a déposé une requête pour permission d'amender la requête pour autorisation d'exercer un recours collectif;
3. Par jugement rendu le 30 août 2012, cette honorable Cour a accueilli la requête pour permission d'amender;
4. En vue de la présentation de la requête pour obtenir l'autorisation d'exercer un recours collectif pour fins de règlement et pour l'approbation de la transaction intervenue avec l'intimée Pöyry (Beijing) Consulting Company Limited, le requérant désire obtenir la permission d'amender de nouveau afin de clarifier le statut d'un requérant, de limiter le nombre d'intimées et de cerner les causes d'action;

5. La présente demande d'amendement a pour but de corriger la demande d'amendement du 3 août 2012;
6. Ces amendements sont nécessaires afin que le recours collectif du Québec puisse suivre son cours, et ce, considérant que la transaction avec Pöyry a été approuvée le 25 septembre 2012 dans le recours collectif de l'Ontario;

Ajout d'un requérant

7. Le jugement du 30 août 2012 autorise l'ajout de Monsieur Ilan Toledano à titre de requérant. Le but de l'amendement visait plutôt l'ajout de la compagnie Condex Wattco inc. à titre de requérante ainsi que Monsieur Ilan Toledano à titre de personne désignée;
8. Condex Wattco inc. a fait l'achat de 835 actions de Sino durant la période visée par le recours collectif;
9. Monsieur Toledano est à l'emploi de Condex Wattco inc.;
10. L'amendement proposé est dans le meilleur intérêt des membres, car Monsieur Toledano est une personne bien renseignée dans le domaine des valeurs mobilières et se montre apte à représenter adéquatement les membres;
11. Le requérant demande la permission d'ajouter la compagnie Condex Wattco inc. à titre de requérante ainsi que Monsieur Toledano à titre de personne désignée;

Ajout et retrait des intimées

12. Après analyse, les causes d'action du recours collectif reposent sur la responsabilité des intimées sur le marché secondaire prévue à l'article 225.4 de la *Loi sur les valeurs mobilières* (ci-après «*LVM*») ainsi que sur la faute en vertu de la responsabilité extracontractuelle prévue à l'article 1457 *C.c.Q.*;
13. Les allégations concernant le marché primaire n'étant plus requises, l'ajout des preneurs fermes à titre d'intimées devient sans objet et risque de provoquer des contestations des autres intimées qui pourraient retarder le déroulement de l'audition du recours collectif;
14. Les membres du groupe ne subissent aucun préjudice par le retrait des preneurs fermes à titre d'intimées;
15. Pour sa part, l'ajout de BDO Limited à titre d'intimée demeure dans l'intérêt du groupe;
16. Le requérant demande la permission d'ajouter, à titre d'intimée, la partie ci-dessous :

Un cabinet de vérificateurs;

➤ BDO Limited (connu sous BDO MCCABE LO LIMITED);

17. Le requérant demande la permission de retirer, à titre d'intimées, les parties ci-dessous :

Des preneurs fermes

- 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.;
- BANC OF AMERICA SECURITIES LLC.

Modification de l'intitulé du recours collectif

18. L'article 225.4 *LVM* prévoit que l'action en dommages-intérêts intentée en vertu de cette section de la loi doit être préalablement autorisée par le tribunal;
19. L'amendement proposant la modification de l'intitulé de la requête pour autorisation est dans le meilleur intérêt des membres;
20. Le requérant demande la permission de modifier l'intitulé de la requête pour autorisation qui se lira dorénavant comme suit : *Amended Motion for leave to plead the cause of action contained in Title VIII, Chapter II, Division II of the QSA and to Authorize the bringing of a class action and to obtain the status of representative* ainsi que l'ajout des allégations et conclusions liées à la *Loi sur les valeurs mobilières* et le *Code civil du Québec*,
21. La présente requête est bien fondée en faits et en droit;

PAR CES MOTIFS, PLAISE À LA COUR :

ACCUEILLIR la requête;

PERMETTRE au requérant d'amender la requête pour autorisation d'exercer un recours collectif afin d'y ajouter la compagnie Condex Wattco inc. à titre de requérante ainsi que Monsieur Toledano à titre de personne désignée;

PERMETTRE au requérant d'amender la requête pour autorisation d'exercer un recours collectif afin d'ajouter, à titre d'intimée, la partie ci-dessous :

- BDO LIMITED (connu sous BDO MCCABE LO LIMITED);

PERMETTRE au requérant d'amender la requête pour autorisation d'exercer un recours collectif afin de retirer, à titre d'intimées, les parties ci-dessous :

- 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.;
- BANC OF AMERICA SECURITIES LLC.

PERMETTRE au requérant d'amender la requête pour autorisation d'exercer un recours collectif afin de modifier l'intitulé de la requête pour autorisation qui se lira dorénavant comme suit : *«Amended Motion for leave to plead the cause of action contained in Title VIII, Chapter II, Division II of the QSA and to Authorize the bringing of a class action and to obtain the status of representative»* ainsi que l'ajout des allégations et conclusions liées à la *Loi sur les valeurs mobilières* et le *Code civil du Québec*,

Le tout selon le texte du document intitulé : *«Amended Motion for leave to plead the cause of action contained in Title VIII, Chapter II, Division II of the QSA and to Authorize the bringing of a class action and to obtain the status of representative»* joint à cette requête pour permission d'amender;

LE TOUT sans frais, sauf en cas de contestation.

Québec, ce 1^{er} octobre 2012

SISKINDS, DESMEULES, S.E.N.C.R.L.
Me Samy Elnemr, procureur du requérant

DÉCLARATION SOLENNELLE

Je soussignée, BARBARA ANN CAIN, avocate, exerçant ma profession au 43, rue Buade, bureau 320, Québec, Québec, déclare solennellement ce qui suit :

1. Je suis l'un des procureurs du requérant en la présente instance;
2. Tous les faits allégués à la présente requête sont vrais;

EN FOI DE QUOI, J'AI SIGNÉ,
à Québec, ce octobre 2012

Barbara Ann Cain

Déclaré solennellement devant moi
à Québec, ce octobre 2012

Commissaire à l'assermentation pour tous les districts judiciaires de Québec

AVIS DE PRÉSENTATION**À : Me Mason Poplaw et Me Céline Legendre**

McCarthy Tétrault
1000, de la Gauchetière Ouest, bureau 2500
Montréal (Québec) H3B 0A2
Procureurs de Ernst & Young LLP

Me Bernard Gravel

Lapointe Rosenstein Marchand Melançon LLP
1250, boul. René-Lévesque Ouest, bureau 1400
Montréal (Québec) H3B 5E9
Procureurs de Pöyry (Beijing) Consulting Company Limited

Mr Michael Eizenga

Bennet Jones
3400 One First Canadian Place, P.O. Box 130
Toronto, Ontario, M5X 1A4
Procureurs de Sino-Forest Corporation

Me Dominique Gibbens

Fasken Martineau DuMoulin SENCRL
C.P. 242, Tour de la Bourse
800 place Victoria
Bureau 3700
Montréal QC H4Z 1E9
Procureurs des preneurs fermes

PRENEZ AVIS que la présente requête pour obtenir la permission d'amender sera présentée pour adjudication devant l'Honorable juge Jean-François Émond, de la Cour supérieure du Québec, à un endroit et un moment à être fixé lors d'une conférence de gestion de l'instance.

Québec, ce 1^{er} octobre 2012

SISKINDS, DESMEULES, S.E.N.C.R.L.
Me Samy Elnemr, procureur du requérant

**COUR SUPÉRIEURE
(RECOURS COLLECTIF)**

CANADA
PROVINCE DE QUÉBEC
DISTRICT DE QUÉBEC

N° : 200-06-000132-111

DATE : OCTOBRE 2012

EN PRÉSENCE DE L'HONORABLE JEAN-FRANÇOIS ÉMOND, J.C.S.

GUINING LIU

Requérant

c.

**SINO-FOREST CORPORATION ET
AL.**

Intimés

JUGEMENT

- [1] VU la nouvelle demande pour permission d'amender la requête pour autorisation d'exercer un recours collectif;
- [2] CONSIDÉRANT l'absence de contestation;
- [3] CONSIDÉRANT que cette demande d'amendement a pour but de clarifier le statut d'un requérant, de limiter le nombre d'intimées et de cerner les causes d'action;
- [4] CONSIDÉRANT que cette demande d'amendement a pour but de corriger la demande d'amendement du 3 août 2012 dont jugement a résulté le 30 août 2012;

- [5] **CONSIDÉRANT** que cette demande d'amendement ne retardera pas l'audition de la requête pour autorisation d'exercer un recours collectif;

PAR CES MOTIFS, LE TRIBUNAL:

- [6] **PERMET** au requérant d'amender sa requête pour autorisation d'exercer un recours collectif de la manière qui suit :

- **AJOUTER** la compagnie Condex Wattco inc. à titre de requérante ainsi que Monsieur Toledano à titre de personne désignée;
- **AJOUTER** à titre d'intimée BDO Limited (connu sous BDO MCCABE LO LIMITED);
- **RETIRER** à titre d'intimées les parties qui suivent :

- 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.;
- BANC OF AMERICA SECURITIES LLC.

- [7] **PERMET** la modification de l'intitulé de la requête pour autorisation qui se lira dorénavant comme suit : «*Amended Motion for leave to plead the cause of action contained in Title VIII, Chapter II, Division II of the QSA and to Authorize the bringing of a class action and to obtain the status of representative*» ainsi que l'ajout des allégations et conclusions liées à la *Loi sur les valeurs mobilières* et le *Code civil du Québec*.

- [8] **LE TOUT** sans frais.

JEAN-FRANÇOIS ÉMOND, J.C.S.

Me Simon Hébert et Me Samy Elnemr
Siskinds, Desmeules s.e.n.c.r.l.
Procureurs du Requéant
(casier 15)

Me Bernard Gravel et Me Bruno Floriani
LAPOINTE ROSENSTEIN MARCHAND MELANÇON, L.L.P.
1250, Boul. René-Lévesque Ouest, suite 1400
Montréal (Québec) H3B 5E9
Procureurs de PÖYRY (BEIJING) CONSULTING COMPANY LIMITED

Me Mason Poplaw et Me Céline Legendre
McCarthy Tétrault
1000, de la Gauchetière Ouest #2500
Montréal (Québec) H3B 0A2
Procureurs d'ERNST & YOUNG LLP

Mr Michael A. Eizenga
Bennet Jones
3400 One First Canadian Place, P.O. Box 130
Toronto ON M5X 1A4
Procureurs de Sino-Forest Corporation

Me Dominique Gibbens
Fasken Martineau DuMoulin SENCRL
C.P. 242, Tour de la Bourse
800 place Victoria
Bureau 3700
Montréal QC H4Z 1E9
Procureurs des preneurs fermes

Date de l'audience : le •

Les Promenades du Vieux-Québec
43, rue de Buade, bureau 320, Québec (Québec) G1R 4A2
Tél.: (418) 694-2009 Téléc.: (418) 694-0281
www.siskinds.com

SISKINDS, DESMEULES | **AVOCATS**
S E N C R L

Montréal, le 1^{er} octobre 2012

Par télécopieur et par courriel

L'Honorable Jean-François Émond, j.c.s.
PALAIS DE JUSTICE DE QUÉBEC
300, boul. Jean-Lesage
Québec (Québec) G1K 8K6

OBJET : Guining Liu c. Sino-Forest Corporation et als.
C.S.Q.: 200-06-000132-111
N/  : 67-101

Monsieur le juge,

Il me fait plaisir de vous informer que le soussigné fait dorénavant partie du bureau Siskinds Desmeules à Montréal et agira avec Me Simon Hébert dans le dossier cité en rubrique pour le compte des membres du recours collectif.

Le 30 août dernier, vous avez accueilli la requête pour permission d'amender la requête en autorisation d'exercer un recours collectif. Les amendements visaient l'ajout d'un requérant et de plusieurs intimées.

Depuis votre jugement, il y a eu des développements qui nécessitent votre attention en vertu de l'article 1016 *C.p.c.*, et ce, afin que nous puissions procéder lors de l'audition prévue les 30 et 31 octobre 2012 pour la présentation de la requête pour obtenir l'autorisation d'exercer un recours collectif pour fins de règlement et pour l'approbation de la transaction intervenue avec l'intimée Pöyry (Beijing) Consulting Company Limited.

Après réflexion, nous croyons qu'il serait dans l'intérêt des membres et de la justice de vous soumettre une nouvelle demande d'amendement afin de corriger certains aspects de l'amendement initial. À cet effet, nous avons pris l'initiative de discuter du contenu de la présente avec nos collègues en défense afin qu'aucune partie ne soit pris par surprise.

Par souci de clarté, nous aborderons chacun des points nécessitant votre attention dans une rubrique distincte.

Ajout d'un requérant

Au paragraphe 4 de votre jugement, vous avez autorisé l'ajout de Monsieur Ilan Toledano à titre de requérant. Nous souhaitons préciser que notre but était plutôt l'ajout de la compagnie Condex Wattco inc. à titre de requérante ainsi que Monsieur Toledano à titre de personne désignée. Nous comprenons que notre requête omettait cet aspect important.

Nous demandons respectueusement la permission en vertu de l'article 1016 *C.p.c.* d'ajouter la compagnie Condex Wattco inc. à titre de requérante ainsi que Monsieur Toledano à titre de personne désignée.

Ajout et retrait des intimées

Au paragraphe 4 de votre jugement, vous avez autorisé l'ajout des intimées suivants :

- a) Un cabinet de vérificateurs :
 - BDO Limited;

- b) Des preneurs fermes :
 - 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.;
 - BANC OF AMERICA SECURITIES LLC.

Suite à l'analyse de notre dossier, nous sommes d'opinion que l'ajout des preneurs fermes n'est pas requis puisque tel qu'il appert de notre *Amended Motion for leave to plead the cause of action contained in Title VIII, Chapter II, Division II of the QSA and to Authorize the bringing of a class action and to obtain the status of representative*, ci-jointe, les causes d'action du recours collectif reposent sur la responsabilité des intimées sur le marché secondaire prévue à l'article 225.4 de la *Loi sur les valeurs mobilières* (ci-après «*LVM*») ainsi que sur la faute en vertu de la responsabilité extracontractuelle prévue à l'article 1457 *C.c.Q.*

Par conséquent, l'ajout des preneurs fermes à titre d'intimées devient sans objet et risque de provoquer des contestations des autres intimées qui pourraient retarder le déroulement de l'audition du recours collectif.

Les membres du groupe ne subissent aucun préjudice par le retrait des preneurs fermes à titre d'intimées.

Pour sa part, l'ajout de BDO Limited à titre d'intimée demeure dans l'intérêt du groupe.

À la lumière de ce qui précède, nous demandons respectueusement la permission en vertu de l'article 1016 *C.p.c.* de retirer les preneurs fermes à titre d'intimées afin que l'amendement vise à ajouter seulement BDO Limited.

Modification de l'intitulé du recours collectif

L'article 225.2 et suivants *L.V.M.* prévoient les recours possibles suite à la diffusion d'informations fausses ou trompeuses sur le marché secondaire.

Particulièrement, l'article 225.4 *LVM* prévoit que l'action en dommages-intérêts intentée en vertu de cette section de la loi doit être préalablement autorisée par le tribunal.

L'article 225.4 *LVM* prévoit donc son propre mécanisme de filtrage, tel que décrit par votre collègue l'Honorable Marc-André Blanchard, j.c.s., dans l'affaire *121851 Canada inc. c. Theratechnologies inc. et al.* (2012 QCCS 699).

Conformément à l'article 225.5 *LVM*, la requête pour autorisation a été transmise à l'Autorité des marchés financiers.

À lumière de ce qui précède, le requérant doit obtenir l'autorisation du tribunal pour exercer une action en dommages-intérêts en vertu de la *LVM* et il doit également obtenir l'autorisation du tribunal pour exercer un recours collectif en vertu du *Code de procédure civile*.

L'amendement proposant la modification de l'intitulé de la requête pour autorisation est dans le meilleur intérêt des membres.

Nous demandons respectueusement la permission en vertu de l'article 1016 *C.p.c.* de modifier l'intitulé de la requête pour autorisation qui se lira dorénavant comme suit : *Amended Motion for leave to plead the cause of action contained in Title VIII, Chapter II, Division II of the QSA and to Authorize the bringing of a class action and to obtain the status of representative* ainsi que l'ajout des allégations et conclusions liées à la *Loi sur les valeurs mobilières* et le *Code civil du Québec*.

Commentaire

Nous réalisons qu'il s'agit d'une situation légèrement inusitée où nous requérons l'amendement une seconde fois aux fins de corriger l'amendement initial. Il s'agit d'un dossier qui connaît une évolution particulière qui nécessite que le tribunal utilise la

discrétion qui lui est conférée en vertu de l'article 1045 *C.p.c.* afin d'assurer la protection des intérêts des membres.

Afin d'éviter tout délai, nous joignons à la présente les documents suivants:

- Requête pour permission d'amender;
- Requête amendée intitulée «*Amended Motion for leave to plead the cause of action contained in Title VIII, Chapter II, Division II of the QSA and to Authorize the bringing of a class action and to obtain the status of representative*»;
- Une copie d'un projet de jugement.

Nous proposons que l'audition de la requête pour permission d'amender se fasse par l'entremise d'une conférence téléphonique ou autre selon votre discrétion.

Espérant le tout conforme, veuillez agréer, Monsieur le juge, l'expression de nos sentiments distingués.

SISKINDS, DESMEULES, AVOCATS

Samy Elnemr, avocat
SE/cb

p.j.

c.c. par courriel: Mes Mason Poplaw et Céline Legendre (pour Ernst & Young)
Mes Bernard Gravel et Bruno Floriani (pour Pöyry)
Me Michael A. Eizenga (pour Sino)
Mes Dominique Gibbens et Alain Riendeau (pour les preneurs fermes)

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF QUÉBEC
NO: 200-06-000132-111

(Class Action)
SUPERIOR COURT

GUINING LIU;

Petitioner;

and
CONDEX WATTCO INC., legal person
established for a private interest, having its had
office at 55 Ave Milton Montréal (Québec) H8R
1K6;

Petitioner;

and
Ian Toledano, acting as designated person for
Condex Wattco inc.;

Designated Person;

V.

SINO-FOREST CORPORATION;

and

ERNST & YOUNG LLP;

and

BDO LIMITED (formerly known as BDO
MCCABE LO LIMITED) having its head office
at 25th Floor, Wing On Centre, 111 Connaught
Road Central, Hong Kong, China;

and

ALLEN T.Y. CHAN;

and

W. JUDSON MARTIN;

and

KAI KIT POON;

and

DAVID J. HORSLEY;

and

WILLIAM E. ARDELL;

and

JAMES P. BOWLAND;

and
JAMES M.E. HYDE;
 and
EDMUND MAK;
 and
SIMON MURRAY;
 and
PETER WANG;
 and
GARRY J. WEST;
 and
**PÖYRY (BEIJING) CONSULTING
 COMPANY LIMITED;**
 Defendants;

**AMENDED MOTION FOR LEAVE TO PLEAD THE CAUSE OF ACTION
 CONTAINED IN TITLE VIII, CHAPTER II, DIVISION II OF THE QUÉBEC
 SECURITIES ACT ("QSA") AND TO AUTHORIZE THE BRINGING OF A CLASS
 ACTION AND TO OBTAIN THE STATUS OF REPRESENTATIVE
 (Article 1002 C.C.P. and following and 225.4 QSA and following)**

**TO [...] THE HONOURABLE [...] JUSTICE JEAN-FRANÇOIS ÉMOND OF THE
 [...] SUPERIOR COURT, SITTING IN AND FOR THE DISTRICT OF QUÉBEC, [...] AND PRESIDING OVER THE PRESENT CLASS ACTION, THE PETITIONERS
 RESPECTFULLY DECLARE THE FOLLOWING :**

General presentation

1. The Petitioners wish to institute a class action on behalf of the following group, of which he is a member (the "Group"):

"All persons or entities (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 a member of

the immediate families of the individual named defendants) who purchased or otherwise acquired, in the secondary market [...], common shares, notes or other equity or debt securities of or relating to Sino-Forest Corporation, from and including [...] March 19, 2007 to and including June 2, 2011 (the "Class Period"), and who are resident in Quebec or who were resident in Quebec at the time of their acquisition of those securities."

or such other group definition as may be approved by the Court;

2. Sino-Forest Corporation (along with its subsidiaries, "Sino") is a public company and its shares were listed for trading at all material times on the Toronto Stock Exchange (the "TSX") under the ticker symbol "TRE," on the Berlin exchange as "SFJ GR," on the OTC market in the United States as "SNOFF" and on the Tradegate market as "SFJ TH";
3. At all material times, Sino purported to be a legitimate enterprise operating as a commercial forest plantation operator in the People's Republic of China ("PRC"). At all material times, Sino overstated the nature of its forestry operations, including the value of its forestry assets and the amount of its revenue and net income, and misrepresented the fact that its financial reporting had complied with Canadian GAAP, when in fact it had not done so;
4. The relief that the Petitioners seek[...] includes the following:

- a) damages in an amount equal to the losses that it and the other Members of the Group suffered as a result of purchasing or acquiring the securities of Sino at inflated prices during the Class Period;
- b) a declaration [...] the 2005 Annual Consolidated Financial Statements (filed on **SEDAR** on March 31, 2006), Q1 2006 Financial Statements (filed on **SEDAR** on May 11, 2006), the 2006 Annual Consolidated Financial Statements (filed on **SEDAR** on March 19, 2007), 2006 **AIF** (filed on **SEDAR** on March 30, 2007), 2006 Annual **MD&A** (filed on **SEDAR** on March 19, 2007), Management Information Circular dated April 27, 2007 (filed on **SEDAR** on May 4, 2007), Q1 2007 **MD&A** (filed on **SEDAR** on May 14, 2007), Q1 2007 Financial Statements (filed on **SEDAR** on May 14, 2007), **June 2007 Prospectus**, Q2 2007 **MD&A** (filed on **SEDAR** on August 13, 2007), Q2 2007 Financial Statements (filed on **SEDAR** on August 13, 2007), Q3 2007 **MD&A** (filed on **SEDAR** on November 12, 2007), Q3 2007 Financial Statements (filed on **SEDAR** on November 12, 2007), 2007 Annual Consolidated Financial Statements (filed on **SEDAR** on March 18, 2008), 2007 **AIF** (filed on **SEDAR** on March 28, 2008), 2007 Annual **MD&A** (filed on **SEDAR** on March 18, 2008), Amended 2007 Annual **MD&A** (filed on **SEDAR** on March 28, 2008), Management Information Circular dated April 28, 2008 (filed on **SEDAR** on May

6, 2008), Q1 2008 **MD&A** (filed on **SEDAR** on May 13, 2008), Q1 2008 Financial Statements (filed on **SEDAR** on May 13, 2008), **July 2008 Offering Memorandum**, Q2 2008 **MD&A** (filed on **SEDAR** on August 12, 2008), Q2 2008 Financial Statements (filed on **SEDAR** on August 12, 2008), Q3 2008 **MD&A** (filed on **SEDAR** on November 13, 2008), Q3 2008 Financial Statements (filed on **SEDAR** on November 13, 2008), 2008 Annual Consolidated Financial Statements (filed on **SEDAR** on March 16, 2009), 2008 Annual **MD&A** (filed on **SEDAR** on March 16, 2009), Amended 2008 Annual **MD&A** (filed on **SEDAR** on March 17, 2009), 2008 **AIF** (filed on **SEDAR** on March 31, 2009), Management Information Circular dated April 28, 2009 (filed on **SEDAR** on May 4, 2009), Q1 2009 **MD&A** (filed on **SEDAR** on May 11, 2009), Q1 2009 Financial Statements (filed on **SEDAR** on May 11, 2009), **June 2009 Prospectus, June 2009 Offering Memorandum**, Q2 2009 **MD&A** (filed on **SEDAR** on August 10, 2009), Q2 2009 Financial Statements (filed on **SEDAR** on August 10, 2009), Q3 2009 **MD&A** (filed on **SEDAR** on November 12, 2009), Q3 2009 Financial Statements (filed on **SEDAR** on November 12, 2009), **December 2009 Prospectus, December 2009 Offering Memorandum**, 2009 Annual **MD&A** (filed on **SEDAR** on March 16, 2010), 2009 Audited Annual Financial Statements (filed on **SEDAR** on March 16, 2010), 2009 **AIF** (filed on **SEDAR** on

March 31, 2010), Management Information Circular dated May 4, 2010 (filed on **SEDAR** on May 11, 2010), Q1 2010 **MD&A** (filed on **SEDAR** on May 12, 2010), Q1 2010 Financial Statements (filed on **SEDAR** on May 12, 2010), Q2 2010 **MD&A** (filed on **SEDAR** on August 10, 2010), Q2 2010 Financial Statements (filed on **SEDAR** on August 10, 2010), **October 2010 Offering Memorandum**, Q3 2010 **MD&A** (filed on **SEDAR** on November 10, 2010), Q3 2010 Financial Statements (filed on **SEDAR** on November 10, 2010), 2010 Annual **MD&A** (March 15, 2011), 2010 Audited Annual Financial Statements (filed on **SEDAR** on March 15, 2011), 2010 **AIF** (filed on **SEDAR** on March 31, 2011), and Management Information Circular dated May 2, 2011 (filed on **SEDAR** on May 10, 2011) (the "Impugned Documents") contained one or more misrepresentations, including the Statement that Sino's Financial Statements complied with Canadian generally accounting principles (GAAP), which was, when made, a misrepresentation, both at law and within the meaning of the securities legislation;

- c) a declaration that Sino [...] is vicariously liable for the acts and/or omissions of 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 (the "Individual Defendants"), and of its other officers, directors and employees;

- d) a declaration that Ernst & Young LLP ("E&Y") is vicariously liable for the acts and/or omissions of each of its officers, directors, partners and employees; [...]
- e) a declaration that Pöyry (Beijing) Consulting Company Limited ("Pöyry") is vicariously liable for the acts and/or omissions of each of its officers, directors, partners and employees; and
- f) a declaration that BDO Limited ("BDO") is vicariously liable for the acts and/or omissions of each of its officers, directors, partners and employees.

The Petitioner

- 5. The Petitioner Liu is one of thousands of investors who purchased shares of Sino during the Class Period and continued to hold shares of Sino when the price of Sino's securities declined due to the correction of the misrepresentations alleged herein;
- 5.1 The Petitioner Condex/Wattco inc. (CW) is a legal person established for a private interest that had, at all times during the 12 months period preceding this motion for authorization, not more than 50 persons bound to it by contract of employment;
- 5.2 The Petitioner Condex/Wattco inc. designated Mr Ilan Toledano to act as designated person for purposes of this litigation;

6. During the Class Period, the Petitioner Liu made net purchases of 1,000 Sino shares over the TSX. [Particulars of the Petitioner's Class Period transactions are attached hereto as P-1];
- 6.1 During the Class Period, CW made purchases of 835 Sino shares over the TSX. [Particulars of CW's Class Period transactions are attached hereto as exhibit P-2];

The Defendants

7. The defendant Sino purports to be a commercial forest plantation operator in the PRC. Sino is a corporation formed under the *Canada Business Corporations Act*, RSC 1985, c C-44 (the "CBCA");
8. At the material times, Sino was a reporting issuer in all provinces of Canada, and had its registered office located in Mississauga, Ontario. At the material times, Sino's shares were listed for trading on the TSX under the ticker symbol "TRE," on the Berlin exchange as "SFJ GR," on the OTC market in the United States as "SNOFF" and on the Tradedgate market as "SFJ TH." Sino's securities are also listed on alternative trading systems in Canada and elsewhere including, without limitation, AlphaToronto and PureTrading. Sino also has various debt instruments, derivatives and other securities which are publicly traded in Canada and elsewhere;
9. The defendants 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 and Garry J. West (the "D&Os") are officers and/or directors of Sino. Each of them is a director[...] and/or officer[...] of Sino within the meaning of the [...] *QSA*;

10. [...]

10.1 The defendant E&Y was Sino's auditor from August 13, 2007 through the end of the Class Period, and thereafter until April 4, 2012, on which date E&Y resigned as the company's auditor. E&Y was also engaged as Sino's auditor from Sino's creation through February 19, 1999, when E&Y abruptly resigned during audit season and was replaced by the now-defunct Arthur Andersen LLP. E&Y was also Sino's auditor from 2000 to 2004, when it was replaced by BDO. E&Y is an expert of Sino within the meaning of the *QSA*;

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

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

reports were in fact included or incorporated by reference into such offering documents;

11. [...]

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

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

11.3 BDO consented to the inclusion in each of the June 2007 and December 2009 Prospectuses and the July 2008, June 2009 and December 2009 Offering Memoranda, of its audit reports on Sino's Annual Financial Statements for 2005 and 2006, and BDO's audit reports were in fact included or incorporated by reference into such offering documents;

11.4 E&Y's and BDO's annual Auditors' Report was made "to the shareholders of Sino-Forest corporation," which included the Class Members. Indeed, s. 1000.11 of

the Handbook of the Canadian Institute of Chartered Accountants states that "the objective of financial statements for profit-oriented enterprises focuses primarily on the information needs *of investors and creditors*" [emphasis added];

- 11.5 Sino's shareholders, including numerous Members of the Group, appointed E&Y as auditors of Sino-Forest by shareholder resolutions passed on various dates, including on June 21, 2004, May 26, 2008, May 25, 2009, May 31, 2010 and May 30, 2011;
- 11.6 Sino's shareholders, including numerous Class Members, appointed BDO as auditors of Sino-Forest by resolutions passed on May 16, 2005, June 5, 2006 and May 28, 2007;
- 11.7 During the Class Period, with the knowledge and consent of BDO or E&Y (as the case may be), Sino's audited annual financial statements for the years ended December 31, 2006, 2007, 2008, 2009 and 2010, together with the report of BDO or E&Y thereon (as the case may be), were presented to the shareholders of Sino (including numerous Class Members) at annual meetings of such shareholders held in Toronto, Canada on, respectively, May 28, 2007, May 26, 2008, May 25, 2009, May 31, 2010 and May 30, 2011. As alleged elsewhere herein, all such financial statements constituted Impugned Documents;
- 11.8 Pöyry is an international forestry consulting firm which purported to provide certain forestry consultation services to Sino. Pöyry is an expert of Sino within the meaning of the *QSA*;

- 11.9 Pöyry, in providing what it purported to be "forestry consulting" services to Sino, made statements that it knowingly intended to be, and which were, disseminated to Sino's current and prospective security holders. At all material times, Pöyry was aware of that class of persons, intended to and did communicate with them, and intended that that class of persons would rely on Pöyry's statements relating to Sino, which they did to their detriment;
- 11.10 Pöyry consented to the inclusion in the June 2007, June 2009 and December 2009 Prospectuses, as well as the July 2008, June 2009, December 2009 and October 2010 Offering Memoranda, of its various reports, as detailed below;

Sino's Continuous Disclosure Obligations

12. As a reporting issuer in Québec, Sino was required throughout the Class Period to issue and file with SEDAR:
- within 60 days of the end of each quarter, quarterly interim financial statements prepared in accordance with GAAP including a comparative statement to the end of each of the corresponding periods in the previous financial year;
 - within 140 days of the end of the fiscal year, annual financial statements prepared in accordance with GAAP, including comparative financial statements relating to the period covered by the preceding financial year; and
 - contemporaneously with each of the above, management's discussion and analysis of each of the above financial statements.

13. The Defendants issued the disclosure documents referenced herein pursuant to their statutory obligation to do so, and also for the specific purpose of attracting investment in Sino's securities, and inducing members of the public to purchase those securities;

The Defendants' Misrepresentations

14. Throughout the Class Period, Sino falsely purported to be a legitimate enterprise operating as a commercial forest plantation operator in the PRC. As part of its obligations as a reporting issuer in Québec (and elsewhere), Sino issued the Impugned Documents. In those documents, Sino made statements concerning the nature of its business, its revenues, profitability, future prospects and compliance with the laws of the PRC and of Canada, implicitly and explicitly and through documents incorporated by reference;
15. In fact, such statements were materially false and/or misleading. During the Class Period, Sino overstated its forestry assets, misrepresented its revenue recognition practices, falsely maintained that its financial statements complied with Canadian GAAP [...], issued materially misleading statements regarding Chinese law and Sino's compliance therewith, and failed to disclose certain related party transactions, among other misrepresentations;
16. On June 2, 2011, however, the truth was at least partially revealed. As a result, the market value of Sino's securities fell dramatically, and the market value for Sino's shares in particular fell by in excess of 70% on extraordinarily heavy

trading volume. Trading of Sino common shares was halted on the TSX after a decline in excess of 24% on June 2. When trading resumed on the TSX on June 3, Sino shares fell in excess of a further 63%, for a two-day drop in excess of nearly 73%;

The Defendants' Fault

The Defendants Owed Duties to the Members of the Group

17. The Defendants owed a duty to the Petitioners and to persons and entities similarly situated, at law and under provisions of the [...] QSA and article 1457 of the Civil Code of Québec, to disseminate promptly, or to ensure that prompt dissemination of truthful, complete and accurate statements regarding Sino's business and affairs, and promptly to correct previously-issued, materially inaccurate information, so that the price of Sino's publicly-traded securities was based on complete, accurate and truthful information;
18. At all times material to the matters complained of herein, each of the Defendants knew or ought reasonably to have known that the trading price of Sino's publicly traded securities was directly influenced by the statements disseminated by the Defendants concerning the business and affairs of Sino;
19. As such, the Defendants knew or ought reasonably to have known that a failure to ensure that Sino's disclosures referenced herein were materially accurate and materially complete would cause Sino's securities to become inflated, and thus would cause damage to persons who invested in Sino's securities while their price remained inflated by such false statements;

The Defendants Violated their Duties

20. Certain statements made by Sino and the D&Os in the Impugned Documents were materially false and/or misleading. [...] Petitioners and the Members of the Group relied on such statements directly or indirectly or via the instrumentality of the markets on which Sino securities traded. When the truth was revealed and true value of Sino's securities became clear, [...] Petitioners and the Members of the Group were injured thereby. [...] Petitioners and the Group plead [...] a fault in violation of the general private law duty of diligence owed to them in the circumstances accordingly with article 1457 of the *Civil Code of Québec* as against Sino and the D&Os;
21. Sino's internal controls, which were designed and/or maintained by the D&Os, were inadequate or ignored. The D&Os owed a duty of care to the Petitioners and the Members of the Group to properly design and/or maintain such internal controls. The Petitioners and the Group plead a fault accordingly with article 1457 of the *Civil Code of Québec* as against the D&Os in connection thereto;
22. E&Y and BDO made statements in certain of the Impugned Documents that were continuous disclosure documents that the audited financial statements contained or incorporated by reference therein "present fairly, and in all material respects, the financial position of [Sino] [...] and the results of its operations and cash flows [...] in accordance with Canadian generally accepted accounting principles" (or similar language). Such statements were materially false and/or misleading, and E&Y and BDO lacked a reasonable basis to make such statements when E&Y

and BDO made them. E&Y and BDO knowingly prepared [...] their reports for use by Sino's security holders and prospective security holders. The Petitioners and the Group relied on such statements directly or indirectly or via the instrumentality of the markets on which Sino securities traded. When the truth was revealed and the true value of Sino's securities became clear, the Petitioners and the Group were injured thereby. In respect of Sino's continuous disclosure documents, the Petitioners and the Group plead a fault [...] in violation of the general private law duty of diligence owed to them in the circumstances accordingly with article 1457 of the *Civil Code of Québec* as against E&Y and BDO;

23. [...]

24. Pöyry made statements regarding the nature of Sino's operations in reports dated on or about May 31, 2011, May 27, 2011, April 23, 2010 and April 2, 2009. Such statements were materially false and/or misleading, and Pöyry lacked a reasonable basis to make such statements when Pöyry made such statements. Pöyry knowingly prepared its reports for use by Sino's security holders and prospective security holders. The Petitioners and the Members of the Group relied on such statements directly or indirectly or via the instrumentality of the markets on which Sino securities traded. When the truth was revealed and true value of Sino's securities became clear, the Petitioners and the Members of the Group were injured thereby. The Petitioners and the Members of the Group plead a fault [...] in violation of the general private law duty of diligence owed to

them in the circumstances accordingly with article 1457 of the *Civil Code of Québec* as against Pöyry;

25. At all times material to the matters complained of herein, each of the Defendants ought to have known that Sino's disclosure documents described herein were materially misleading as detailed above. Accordingly, the Defendants have violated their duties to the Petitioners and to persons or entities similarly situated;
26. The reasonable standard of care expected in the circumstances required the Defendants to act fairly, reasonably, honestly, candidly and in the best interests of the Petitioner and the other Members of the Group. The Defendants' conduct failed to meet the requirements imposed by the duty not to harm others by reason of wrongful conduct under the *Civil Code of Québec*,
27. The Defendants failed to meet the standard of care required by issuing Sino's disclosure documents during the relevant period, which were materially false and/or misleading as described above;
28. The fault of the Defendants resulted in the damage to the Petitioners and Members of the Group as pleaded;

The Relationship Between Sino's Disclosures and the Price of Sino's Securities

29. The price of Sino's securities was directly affected during the Class Period by the issuance of the disclosure documents described herein. The Defendants were

aware at all material times of the effect of Sino's disclosures upon the price of its Sino's securities;

30. The disclosure documents referenced above were filed, among other places, with SEDAR and the TSX and thereby became immediately available to, and were reproduced for inspection by, the Members of the Group, other members of the investing public, financial analysts and the financial press;
31. Sino routinely transmitted the documents referred to above to the financial press, financial analysts and certain prospective and actual holders of Sino's securities. Sino provided either copies of the above referenced documents or links thereto on its website;
32. Sino regularly communicated with the public investors and financial analysts via established market communication mechanisms, including through regular disseminations of press releases on newswire services in Canada, the United States and elsewhere. The price of Sino's securities was directly affected each time SINO communicated new material information about Sino's financial results to the public;
33. Sino was the subject of analysts' reports that incorporated material information contained in the disclosure documents referred to above, with the effect that any recommendations in such reports during the Class Period were based, in whole or in part, upon that information;

34. Sino's securities were and are traded on efficient and automated markets. The price at which Sino's securities traded promptly incorporated material information about Sino's business and affairs, including the omissions and/or misrepresentations described herein, which were disseminated to the public through the documents referred to above and distributed by Sino, as well as by other means;

Misrepresentations under the [...] QSA– Secondary Market

35. Each of the Impugned Documents is a "Core Document" within the meaning of the [...] QSA;
36. Each of the Impugned Documents contained one or more misrepresentations;
37. Each of the D&Os was an officer and/or director of Sino at all material times. Each of the D&Os authorized, permitted or acquiesced in the release of some or all of the Impugned Documents;
38. Sino is a reporting issuer within the meaning of the [...] QSA;
39. Pöyry is an expert within the meaning of the [...] QSA;
40. E&Y is an expert within the meaning of the [...] QSA;
- 40.1 BDO is an expert within the meaning of the [...] QSA;

41. The Petitioners and the Group assert the causes of action set forth in Title VIII, Chapter II, Division II of the [...] QSA as against Sino, Pöyry, the D&Os, [...] E&Y and BDO and will seek leave, if and as required, in connection therewith;
42. [...]
43. [...]
44. [...]
45. [...]

Vicarious Liability of Sino, E&Y, BDO and Pöyry

46. Sino is vicariously liable for the acts and omissions of the Individual Defendants particularized in this [...] Amended Petition;
47. The acts or omissions particularized and alleged herein to have been done by Sino were authorized, ordered and done by the Defendants and other agents, employees and representatives of Sino, while engaged in the management, direction, control transaction of the business and affairs of Sino. Such acts and omissions are, therefore, not only the acts and omissions of the Individual Defendants, but are also the acts and omissions of Sino;
- 47.1 E&Y is vicariously liable for the acts and omissions of its directors, officers, partners and employees particularized in this Amended Petition;

- 47.2 The acts or omissions particularized and alleged herein to have been done by E&Y were authorized, ordered and done by the representatives and agents of E&Y, while engaged in the management, direction, or control of the business and affairs of E&Y. Such acts and omissions are, therefore, not only the acts and omissions of such representatives and agents, but are also the acts and omissions of E&Y;
- 47.3 BDO is vicariously liable for the acts and omissions of its directors, officers, partners and employees particularized in this Amended Petition;
- 47.4 The acts or omissions particularized and alleged herein to have been done by BDO were authorized, ordered and done by the representatives and agents of BDO, while engaged in the management, direction, or control of the business and affairs of BDO. Such acts and omissions are, therefore, not only the acts and omissions of such representatives and agents, but are also the acts and omissions of BDO;
- 47.5 Pöyry is vicariously liable for the acts and omissions of its directors, officers, partners and employees particularized in this Amended Petition;
- 47.6 The acts or omissions particularized and alleged herein to have been done by Pöyry were authorized, ordered and done by the representatives and agents of Pöyry, while engaged in the management, direction, or control of the business and affairs of Pöyry. Such acts and omissions are, therefore, not only the acts

and omissions of such representatives and agents, but are also the acts and omissions of Pöyry;

Damages

48. As a result of the acts and omissions described above, the Petitioners and the other Members of the Group were induced to over-pay substantially for Sino's securities. Such persons and entities have suffered damages equivalent to the loss in market value that occurred when Sino corrected the Misrepresentations;
49. The Petitioners and other Members of the Group are also entitled to recover, as damages or costs, the costs of administering the plan to distribute the recovery in this action;

Conditions required to institute a class action

50. The composition of the Group makes the application of article 59 or 67 C.C.P. impracticable for the following reasons:
 - The number of persons included in the group is estimated to be several thousand;
 - The names and addresses of persons included in the group are not known to the Petitioners (but are likely to be known to Defendants);
 - All the facts alleged in the preceding paragraphs make the application of articles 59 or 67 C.C.P. impossible.

51. The claims of the Members of the Group raise identical, similar or related questions of fact or law, namely:
- Did the Defendants authorize or issue false and/or misleading public information?
 - Did the Defendants' Misrepresentations cause the share price of Sino's stock to be artificially inflated during the Class Period?
 - Did the Defendants therefore commit a fault towards the Petitioners and the other Members of the Group, thereby engaging their liability?
 - What prejudice was sustained by the Petitioners and the Members of the Group as a result of the Defendants' faults?
 - Are the Defendants jointly responsible for the damages sustained by each of the members?
52. The interests of justice weigh in favour of this motion being granted in accordance with its conclusions.

Nature of the action and conclusions sought

53. The action that the Petitioners wish[...] to institute for the benefit of the Members of the Group is an action in damages;
54. The conclusions that the Petitioners wish[...] to introduce by way of a motion to institute proceedings are:

GRANT the [...] Petitioners' action against the Defendants, under the cause of action contained in Title VIII, Chapter II, Division II of the QSA and, if necessary, the equivalent provisions of the Other Canadian Securities Legislation and under article 1457 of the Civil Code of Quebec,

CONDEMN Defendants to pay to the Members of the Group compensatory damages for all monetary losses;

GRANT the class action of the Petitioners on behalf of all the Members of the Group;

ORDER the treatment of individual claims of each Member of the Group in accordance with articles 1037 to 1040 C.C.P.;

THE WHOLE with interest and additional indemnity provided for in the *Civil Code of Québec* and with full costs and expenses including expert fees and notice expenses;

55. The Petitioners suggests that this class action be exercised before the Superior Court in the district of Québec for the following reasons:

- A great number of the Members of the Group resides in the judicial district of [...] Québec and in the appeal district of Québec;
- [...] The Petitioners' lawyers have an office in the district of Québec.

56. The Petitioners, who [...] are requesting to obtain the status of representatives, will fairly and adequately protect and represent the interest of the Members of the Group for the following reasons:

- They [...] understand the nature of the action;
- They are [...] available to dedicate the time necessary for an action to collaborate with Members of the Group; and
- Their [...] interests are not antagonistic to those of other Members of the Group.

57. The present motion is well-founded in fact and in law.

FOR THESE REASONS, MAY IT PLEASE THE COURT:

GRANT the present motion;

AUTHORIZE leave under the cause of action contained in Title VIII, Chapter II, Division II of the QSA and, if necessary, the equivalent provisions of the Other Canadian Securities Legislation and the bringing of a class action in the form of a motion to institute proceedings in damages;

ASCRIBE the Petitioners the status of representative of the persons included in the group herein described as:

"All persons or entities (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 a member of the immediate families of the individual named defendants) who purchased or otherwise acquired, in the secondary market [...],

common shares, notes or other equity or debt securities of or relating to Sino-Forest Corporation, from and including [...] March 19, 2007 to and including June 2, 2011 (the "Class Period"), and who are resident in Québec or who were resident in Québec at the time of their acquisition of those securities."

or such other class definition as may be approved by the Court.

IDENTIFY the principle questions of fact and law to be treated collectively as the following:

- Did the Defendants authorize or issue false and/or misleading public information?
- Did the Defendants' Misrepresentations cause the share price of Sino's stock to be artificially inflated during the Class Period?
- Did the Defendants therefore commit a fault towards the Petitioners and the Members of the Group, thereby engaging their liability?
- What prejudice was sustained by the Petitioners and the Members of the Group as a result of the Defendants' faults?
- Are the Defendants jointly responsible for the damages sustained by each of the Members of the Group?

IDENTIFY the conclusions sought by the class action to be instituted as being the following:

GRANT the [...] Petitioners action against the Defendants, under the cause of action contained in Title VIII, Chapter II, Division II of the QSA and, if necessary, the equivalent provisions of the Other Canadian Securities Legislation and under article 1457 of the Civil Code of Québec,

DECLARE that the Defendants made the Misrepresentations during the Class Period;

DECLARE that the Defendants made the Misrepresentations negligently;

DECLARE that Sino, E&Y, BDO and Pöyry are vicariously liable for the acts and/or omissions of the Individual Defendants;

CONDEMN Defendants to pay to the Members of the Group compensatory damages in the amount of \$386 million, or such other sum as this Court finds appropriate for all monetary losses;

GRANT the class action of the Petitioners on behalf of all the Members of the Group;

ORDER the treatment of individual claims of each Member of the Group in accordance with articles 1037 to 1040 C.C.P.;

THE WHOLE with interest and additional indemnity provided for in the *Civil Code of Québec* and with full costs and expenses including expert fees and notice fees;

DECLARE that all Members of the Group that have not requested their exclusion from the Group in the prescribed delay to be bound by any judgement to be rendered on the class action to be instituted;

FIX the delay of exclusion at 30 days from the date of the publication of the notice to the Members of the Group;

ORDER the publication of a notice to the Members of the Group in accordance with article 1006 C.C.P.;

THE WHOLE with costs [...], including the costs of all publications of notices.

Québec, [...] October 1st, 2012

SISKINDS, DESMEULES, S.E.N.C.R.L.
Lawyer for the Petitioners

SCHEDULE 1**NOTICE TO DEFENDANT**

Take notice that the plaintiff has filed this action or application in the office of the Superior Court of the judicial district of Québec.

To file an answer to this action or application, you must first file an appearance, personally or by advocate, at the courthouse of Québec located at 300, boul. Jean-Lesage, Québec, G1K 8K6 within 10 days of service of this motion.

If you fail to file an appearance within the time limit indicated, a judgment by default may be rendered against you without further notice upon the expiry of the 10 day period.

If you file an appearance, the action or application will be presented before the court on November 23, 2012, at 9h00 a.m., in room 3.14 of the courthouse. On that date, the court may exercise such powers as are necessary to ensure the orderly progress of the proceeding or the court may hear the case, unless you have made a written agreement with the plaintiff or the plaintiff's advocate on a timetable for the orderly progress of the proceeding. The timetable must be filed in the office of the court.

These exhibits are available on request.

Québec, [...] October 1st, 2012

SISKINDS, DESMEULES, S.E.N.C.R.L.
Lawyers for the Petitioners

**CANADA
PROVINCE OF QUEBEC
DISTRICT OF QUÉBEC
NO: 200-06-000132-111**

**(Class Action)
SUPERIOR COURT**

GUINING LIU

Petitioner;

and

CONDEX WATTCO INC.

Petitioner;

and

Ian Toledano

Designated Person

V.

SINO-FOREST CORPORATION & ALS.

Defendants;

LIST OF EXHIBITS

EXHIBIT P-1: Particulars of the Petitioner's Liu.
EXHIBIT P-2: Particulars of CW.

Québec, [...] October 1st, 2012

SISKINDS, DESMEULES, S.E.N.C.R.L.
Lawyers for the Petitioners

TAB 22

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 W. JUDSON MARTIN
(Motions Returnable October 9-10, 2012)
(Sworn October 3, 2012)**

I, W. Judson Martin, of the City of Hong Kong, Special Administrative Region, People's Republic of China, **MAKE OATH AND SAY:**

1. I am the Vice-Chairman and Chief Executive Officer of Sino-Forest Corporation ("SFC"). I therefore have personal knowledge of the matters set out below, except where otherwise stated. Where I do not possess personal knowledge, I have stated the source of my information and I believe such information to be true.

2. I swear this affidavit in support of SFC's motion for a stay extension order and in response to the motions brought by the Ad Hoc Committee of Purchasers of the Applicant's Securities, including the plaintiffs in the proposed Ontario class action bearing court file number CV-11-431153CP and the plaintiffs in the proposed Quebec class action bearing court file number 200-06-0001320111 (the "Class Action Plaintiffs") seeking an order (i) lifting the stay of proceedings

for pending motions and petition in the proposed class actions; (ii) directing the production of confidential documents for use in the proposed class actions; (iii) appointing the Class Action Plaintiffs as the representatives for the classes proposed in the proposed class actions; and (iv) granting the Class Action Plaintiffs the right to vote (if necessary) on SFC's plan of compromise and reorganization. It is SFC's intention to oppose these motions.

3. Capitalized terms not defined in this affidavit are as defined in my affidavit sworn March 30, 2012 (the "Initial Order Affidavit"). A copy of my Initial Order Affidavit (without exhibits) is attached hereto as Exhibit "A".

BACKGROUND

4. On March 30, 2012, this Honourable Court made an Initial Order granting the CCAA stay of proceedings against SFC and certain of its subsidiaries (the "CCAA Stay") and appointing FTI Consulting Canada Inc. as the Monitor in the CCAA proceedings. A copy of the Initial Order is attached as Exhibit "B".

5. On May 31, 2012, this Honourable Court extended the CCAA Stay to September 28, 2012 (the "May 31 Stay Extension Order"). On September 28, 2012, this Honourable Court extended the CCAA Stay to October 10, 2012 (the "September 28 Stay Extension Order"). Copies of the May 31 Stay Extension Order and September 28 Stay Extension Order are attached as Exhibits "C" and "D" respectively.

DEVELOPMENTS SINCE SEPTEMBER 24, 2012**i. Developments in the CCAA Proceedings**

6. My September 24, 2012 affidavit, sworn in connection with the motion for the September 28 Stay Extension Order, describes developments in the CCAA proceedings and other developments affecting SFC since the May 31 Stay Extension Order. A copy of my affidavit sworn September 24, 2012 (without exhibits) is attached as Exhibit "E".

7. I describe below additional developments affecting SFC that occurred after I swore my September 24, 2012 affidavit.

ii. Ontario Securities Commission

8. On September 25, 2012, SFC received a second "Enforcement Notice" from staff ("Staff") of the Ontario Securities Commission (the "OSC"). In sending the Enforcement Notice to SFC's counsel, Staff asserted that the contents of the Enforcement Notice were protected from disclosure pursuant to sections 16 and 17 of the Ontario *Securities Act*.

9. On September 26, 2012, SFC issued a press release announcing receipt of the Enforcement Notice. As described in the press release, the Enforcement Notice adds a further allegation, similar in nature to the allegations in the Statement of Allegations in relation to SFC and others that was posted on the OSC's website on May 22, 2012. A copy of the press release is attached as Exhibit "F".

iii. David Horsley

10. David Horsley ("Horsley") ceased to be employed by SFC on September 27, 2012.

11. As I have previously advised the Court, Horsley was the Senior Vice President and Chief Financial Officer of SFC from October 2005 until April 2012. In April 2012, Horsley resigned as Chief Financial Officer, at SFC's request, following the receipt by SFC and certain of its former officers, including Horsley, of Enforcement Notices from Staff.

12. On May 22, 2012, together with SFC and others, Horsley was named as a respondent in an enforcement proceeding commenced by Staff. Horsley continued at SFC after resigning as Chief Financial Officer until he ceased to be employed by SFC on September 27, 2012.

13. On September 27, 2012, SFC issued a press release announcing that Horsley had ceased to be employed by SFC. A copy of this press release is attached as Exhibit "G".

PROPOSED EXTENSION OF THE STAY PERIOD

14. In its motion, SFC is seeking to extend the stay of proceedings to December 3, 2012. December 3, 2012 is the first business day following November 30, 2012 which, pursuant to SFC's proposed plan of compromise and restructuring (the "Plan"), is the outside date for Plan ratification.

15. The extension of the CCAA Stay through December 3, 2012 is necessary in order to provide stability to Sino-Forest's business while SFC, with the assistance of its advisors and the Monitor, works diligently on completing the steps necessary to enable the mailing of meeting materials to creditors and voting on the Plan as required by the Plan Filing and Meeting Order, issued by this Honourable Court on August 31, 2012.

16. I understand that the Monitor's Ninth Report, which will be filed with this Honourable Court in connection with SFC's motion, will set out updated cash flows. The updated cash

forecast will show that SFC has sufficient funds to fund the proceedings through the proposed stay extension period.

17. Since swearing my September 24, 2012 affidavit, SFC has acted and continues to act in good faith and with due diligence.

18. I do not believe that any creditor will suffer any material prejudice if the CCAA Stay is extended.

SFC OPPOSES LIFTING THE STAY OF PROCEEDINGS

19. The Class Action Plaintiffs are moving to lift the CCAA Stay to bring motions for class action certification and for leave to proceed with statutory secondary market claims in the proposed class actions.

20. There has been a significant reduction in Sino-Forest management personnel since the commencement of SFC's CCAA proceeding, arising both from attrition and from company-initiated departures.

21. SFC's management resources are limited and are fully engaged effecting SFC's restructuring in a very tight time frame. Members of SFC's Board of Directors also are actively involved in these efforts. SFC's ability to continue forward with its restructuring in the best interests of SFC's stakeholders could be significantly affected if the time and efforts of its management, directors and advisors are diverted from the restructuring at this critical time.

22. Moreover, the Plan calls for the release of SFC and the named directors listed therein from certain claims arising from the proposed class actions. It is a waste of SFC's limited resources to

compel SFC and the named directors to respond to proposed motions in the class actions until it is known from which of the claims they will ultimately be released.

23. Many of the defendants in the class actions seek to be indemnified by SFC for their costs and liabilities in these class actions. Such indemnification claims are advanced by SFC's former auditors and underwriters as well as its current and former officers and directors, and are purported to be founded in contract, common law and statutory claim over provisions. The relevant indemnification clauses are described in my affidavit sworn April 23, 2012. A copy of that affidavit (without exhibits) is attached as Exhibit "H".

SFC OPPOSES PRODUCTION OF SFC'S CONFIDENTIAL DOCUMENTS

24. Pursuant to a consent order issued by this Honourable Court on July 25, 2012, a copy of which is attached as Exhibit "I", the parties to the Canadian class action proceedings participated in a two-day mediation. That mediation was conducted by the Honourable Justice Newbould, and was held at the offices of Bennett Jones LLP on September 4 and 5, 2012. The mediation did not result in a settlement, although informal settlement discussions between the parties have continued and are expected to continue.

25. In connection with that mediation, SFC consented to certain relief sought by class counsel (the "Mediation Documents Order"). A copy of the Mediation Documents Order of this Honourable Court dated July 30, 2012 is attached as Exhibit "J".

26. The relief sought involved the production of otherwise confidential SFC documents to the parties to the mediation for the purpose of use in that mediation and pursuant to the terms and conditions set out in non-disclosure agreements executed by each of the parties to the mediation.

27. SFC consented to the Mediation Documents Order and made these documents available to the mediating parties upon the understanding that these confidential documents were to be used by the parties in a good faith effort to resolve the issues in the proposed class actions through a mediated settlement.

28. Each of the mediating parties was required to sign a non-disclosure agreement prior to being able to access these confidential documents. A copy of a sample non-disclosure agreement signed by the mediating parties is attached as Exhibit "K".

29. I am advised by counsel that 18,295 documents were made available by SFC in the data room pursuant to the Mediation Documents Order. The documents contain information regarding Sino-Forest's business processes and internal workings that has not been publicly disclosed.

30. SFC has publicly disclosed, and the Monitor has reported, that SFC has experienced difficulties in connection with the collection of accounts receivable and in its relationships with some contracting parties. SFC is working actively, with assistance from legal counsel in Hong Kong and the People's Republic of China ("PRC"), to enforce its rights in relation to these difficulties and relationships.

31. The information disclosed to the mediating parties includes information identifying parties with which SFC has done and continues to do business in the PRC, and SFC's relationships with those parties.

32. To avoid interference with SFC's commercial relationships, which could be prejudicial to SFC's efforts to enforce its rights, and prejudicial to the interests of SFC's creditors, SFC has

kept confidential the identity of most of its contracting parties in the PRC. SFC does not want litigation parties sending investigators or other representatives to SFC's contracting parties, as SFC believes this could impair SFC's efforts to enforce its legal rights against those parties.

SWORN BEFORE ME at the City of Hong)
Kong, Special Administrative Region,)
People's Republic of China, this 3rd day of)
October, 2012)



A Commissioner of Oaths

Donald T. Zell



W. Judson Martin

**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

**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)

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

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