

**COURT OF APPEAL FOR ONTARIO**

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

APPLICATION UNDER THE *COMPANIES CREDITORS'*  
*ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

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**MOTION RECORD OF THE APPELLANTS,  
INVESCO CANADA LTD.,  
NORTHWEST & ETHICAL INVESTMENTS L.P., AND  
COMITÉ SYNDICAL NATIONAL DE RETRAITE BÂTIRENTE INC.**

(Motion for Leave to Appeal from Sanction Order)

**VOLUME 1 OF 2**

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January 28, 2013

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**TO: THE SERVICE LIST**

COURT OF APPEAL FOR ONTARIO

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R.S.C. 1985, c. c-36, AS AMENDED

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OF SINO-FOREST CORPORATION

APPLICATION UNDER THE *COMPANIES CREDITORS'*  
*ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

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# **Tab 1**

Court of Appeal File No.:  
S.C.J. Court File No.: CV-12-9667-00CL

**COURT OF APPEAL FOR ONTARIO**

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

APPLICATION UNDER THE *COMPANIES CREDITORS'*  
*ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

**NOTICE OF MOTION FOR LEAVE TO APPEAL**

**THE APPELLANTS**, Invesco Canada Ltd., Northwest & Ethical Investments L.P., and Comité Syndical National de Retraite Bâtirente Inc. ("Appellants"), seek leave to appeal to a Panel of three judge of the Court of Appeal from the order dated December 10, 2012 ("Sanction Order") of the Honourable Mr. Justice Morawetz sanctioning Article 11 of the Plan of Compromise and Reorganization (the "Plan").

**THE APPELLANTS ASK** that leave be granted to appeal from sections 40 and 41 of the Sanction Order which sanctioned Article 11 of the Plan.

**PROPOSED METHOD OF HEARING:**

The motion will be heard in writing, 36 days after service of the moving party's motion record, factum and transcripts, if any, or on the filing of the moving party's reply factum, if any, whichever is earlier, pursuant to Rule 61.03.1(1) of the *Rules of Civil Procedure*.

**THE GROUNDS FOR THE MOTION ARE:**

1. Justice Morawetz erred in sanctioning Article 11 of the Plan which would operate to eliminate statutory opt out rights of putative class members under section 9 of the *Class Proceedings Act, 1992*, S.O. 1992, c. 6 (“CPA”).
2. Justice Morawetz erred in sanctioning Article 11 of the Plan which provides for releases to Named Third Party Defendants as listed in Schedule A to the Plan (“Named Third Party Defendants”), from the claims of any person including claims arising from the class action styled *Trustees of the Labourers’ Pension Fund of Central and Eastern Canada v. Sino-Forest Corp.*, Court File No. CV-11-431153-00CP, without any showing that such releases are reasonably connected and necessary to the restructuring of the applicant, Sino-Forest, and the appeal is therefore meritorious;
3. Justice Morawetz erred in sanctioning Article 11 of the Plan, which provides for the release of the Named Third Party Defendants, as fair and reasonable without affording the Appellants adequate time and notice to object;
4. the proposed appeal will not unduly hinder the progress of the *CCAA* proceeding;
5. the *CCAA*, and, in particular, sections 6, 13, and 14 thereof;
6. section 6(1)(a) of the *Courts of Justice Act*;
7. rule 61 of the *Rules of Civil Procedure*; and,
8. such further and other grounds as counsel may advise and this Honourable Court may permit.

**THE FOLLOWING DOCUMENTS WILL BE USED AT THE HEARING OF THE MOTION:**

1. The motion materials filed below on the hearing before Justice Morawetz and orders made and the Monitor's reports filed in the *CCAA* proceedings; and,
2. such other documents as counsel may advise and this Honourable Court may permit.

December 27, 2012

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**TO: THE SERVICE LIST**



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

Court of Appeal File No  
Court File No: CV-12-9667-00CL

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

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***COURT OF APPEAL FOR ONTARIO***

(Proceeding Commenced at Toronto)

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**NOTICE OF MOTION FOR LEAVE TO APPEAL**

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# **Tab 2**

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

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

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

**AFFIDAVIT OF ERIC J. ADELSON  
(Sworn December 6, 2012)**

I, ERIC J. ADELSON, of the City of Toronto, in the Province of Ontario, MAKE  
OATH AND SAY:

1. I am the Senior Vice President, Secretary and Head of Legal of Invesco Canada Ltd. ("Invesco"). Invesco, through the funds it manages, owned 3,085,786 common shares of Sino-Forest Corporation ("Sino-Forest") on June 2, 2011, and accordingly suffered substantial losses after the market in Sino-Forest shares collapsed after public issuance on that day of a securities analyst's report alleging that the company's assets and operations were permeated by fraud. I have personal knowledge of the matters to which I depose in this affidavit.

2. Invesco was established in 1981 and is one of Canada's largest investment management companies, with \$24 billion in assets under management. Invesco's parent company, Invesco Ltd., is a leading independent global investment manager with approximately \$683 billion in assets under management.

3. Sino-Forest was, until its demise, one of Canada's largest forestry companies, and its TSX-listed securities were purchased and held by thousands of small and large investors, including many of our leading pension funds and institutional investors.
4. The bulwark against fraud at companies like this -- particularly when their operations are largely overseas -- has been the assurances by impartial outside professionals that they have conducted examinations according to professional standards and can give assurances that corporate operations and financial affairs have been accurately described to the public.
5. In the case of Sino-Forest, those professionals include the auditors (Ernst & Young LLP and BDO Limited) who published audit reports, and underwriters who made due diligence representations in connection with Sino-Forest's securities offerings.
6. Following the publication of the report by the securities analyst firm Muddy Waters LLC on June 2, 2011, calling into question the integrity of Sino-Forest's reporting of its business, operations, and assets, Sino-Forest's share price collapsed. Class actions against the company, certain of its directors and officers, the auditors, the underwriters, and other expert firms were commenced. On January 6, 2012, Justice Perell of the Ontario Superior Court of Justice granted carriage of the Class Action to Koskie Minsky LLP and Siskinds LLP ("Class Counsel"). The class has not been certified, proposed class members have not been given their statutory right to opt out of any certified class, and Class Counsel do not represent any investors other than their four clients who are named plaintiffs in the case. Class Counsel do not represent Invesco.
7. On March 30, 2012, Sino-Forest applied for protection of its creditors pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 as amended ("*CCAA*").

A stay of proceedings was imposed, essentially preventing the Class Action from moving forward.

8. On December 3, 2012, Class Counsel and E&Y announced that they had entered into a settlement by which E&Y would pay \$117 million into a "Trust" formed as part of the *CCAA* proceedings, in return for releases of all claims that could be brought against E&Y by any person in connection with Sino-Forest.

9. Also on December 3, 2012, an amended Plan of Compromise and Reorganization (the "Plan") was issued in the present proceeding. For the first time in the *CCAA* proceedings, this Plan contained provisions for settlement of claims against third party defendants (Article 11), including specific provisions concerning the settlement by and releases for Ernst & Young, and also allowing other third party defendants to avail themselves of similar provisions for unspecified settlements and releases in the future.

10. Also on December 3, 2012, the Ontario Securities Commission issued a Statement of Allegations against E&Y, where it alleged that E&Y failed to perform its audit work on Sino-Forest's financial statements in accordance with generally accepted auditing standards, in violation of sections 78(2), 78(3) and 122(1)(b) of the Ontario *Securities Act*, R.S.O. 1990, c. S-5, as amended

#### Reasons for Request to Adjourn the Parties' Present Application

11. I submit this affidavit, first, to support the request by Invesco's outside counsel that the Court adjourn the parties' application for approval of the Plan of Compromise and Reorganization (the "Plan") and entry of the Sanction Order in this matter. Counsel for E&Y advised Invesco's counsel on Wednesday evening that the parties had decided not to

request this Court's approval of the proposed E&Y settlement at the hearings scheduled for December 7 and 10, 2012. However, as described more fully below and in the Objections being submitted on behalf of Invesco and other investors, the provisions of the Plan, even apart from the E&Y settlement, appear to affect the legal and practical ability of Invesco and other investors to seek adjudication of their claims against defendants in the Sino-Forest litigation on the merits, so it is important that sufficient time be provided to understand the present matters fully.

12. As an example of the unduly hasty approach taken by the proponents of the Plan, I note that the Minutes of Settlement between E&Y and Class Counsel in the securities class action involving Sino-Forest, *Labourers' Pension Fund of Central and Eastern Canada v. Sino-Forest Corporation*, Court file No. 11-CV-431153CP (the "Class Action"), were not furnished to Invesco's counsel in this matter until late Wednesday afternoon, despite repeated requests by counsel over the preceding days. How the Plan is intended to operate, or at least may operate, with respect to rights of investors to opt out of a Class Action settlement, and with respect to releases of Third Party Defendants in that context, cannot be understood satisfactorily without reference to the Minutes of Settlement. It appears that there are mutually inconsistent provisions in the Plan with respect to some of these provisions. Given the parties' delays in furnishing these materials, Invesco cannot properly present its views to the Court on the present schedule. The proponents of the Plan have not given any reason for the abbreviated schedule they propose.

13. I accordingly request that this Court adjourn the present applications in order to allow Invesco's counsel, and counsel for other investors covered by the Class Action, to make an orderly review and submissions concerning the matters at issue.

Preliminary Reasons for Objecting to the Plan's Release Provisions

14. I also offer the following preliminary views concerning the apparent operation of the Plan with respect to releases and opt out rights.

15. If the effect of the Plan is to allow a Third Party Defendant (such as E&Y) to settle its liability to investors in connection with Sino-Forest through a settlement agreement with Class Counsel, and to bind the investors to that settlement without giving them the opportunity to opt out and pursue their claims on the merits outside the Class Action, then Invesco would strenuously object and oppose approval of such an arrangement.


16. The Class Action has not been certified, so Invesco does not view Class Counsel, with whom we have no other relationship, as authorized to represent its interests in connection with Sino-Forest. Our views have not been heard and our interests have not been represented in connection with the Plan and the proposed settlement. It is my understanding that Invesco, as an investor with claims against Sino-Forest and the other defendants in the Class Action, is not a "creditor" with respect to the Plan. Invesco accordingly submits that it would be contrary to its rights to bind it to a release or a settlement involving Third Party Defendants unless Invesco directly participated in proceedings or unless in certified class proceedings it was given the opportunity to opt out. We do not understand the *CCAA* to authorize releases of third parties, that is, parties

other than the applicant and certain officers and directors under certain circumstances, as part of a Sanction Order. Invesco objects to any such provisions or results in this matter.

17. If the Plan operates as described above, so that investors in Invesco's position would effectively lose the ability to opt out and seek adjudication of claims against Third Party Defendants in litigation outside the Class Action, then this would have the perverse consequence of irretrievably damaging investors' trust in the integrity of our capital markets, and thus would in the long run impair the proper functioning of those markets themselves.

18. Because counsel for E&Y has indicated that the proposed E&Y settlement will not be presented for Court consideration at the hearings on December 7 and 10, 2012, I do not address the substance of that proposal or the attendant procedures. I do note that Invesco deems it of vital importance that, if such a proposed settlement is offered, full details of the reasons are provided, and investors be given the right to opt out to pursue their claims independently. Invesco will seriously consider exercising that right.

SWORN before me at the City of )  
 Toronto, in the Province of Ontario, )  
 this 6<sup>th</sup> day of December, 2012. )

  
 \_\_\_\_\_  
 A Commissioner for taking affidavits. )



ERIC J. ADELSON





**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

**AFFIDAVIT OF ERIC J. ADELSON**

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Lawyers for Invesco Canada Ltd., Northwest &  
Ethical Investments L.P. and Comité Syndical  
National de Retraite Bâtirente Inc.

# Tab 3

Court of Appeal File No. M42068  
S.C.J. Court File No. CV-12-9667-00CL

**COURT OF APPEAL FOR ONTARIO**

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

APPLICATION UNDER THE *COMPANIES CREDITORS'*  
*ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

**AFFIDAVIT OF YONATAN ROZENSZAJN**  
(Sworn January 28, 2013)

I, Yonatan Rozenszajn, of the City of Hamilton, in the Province of Ontario,  
MAKE OATH AND SAY:

1. I am an associate at Kim Orr Barristers P.C. ("Kim Orr") and as such have personal knowledge of the matters to which I depose in this affidavit. Where I do not have personal knowledge, I have stated the source of my information and I believe that information to be true.
2. On or about March 30, 2012, Sino-Forest Corporation ("Sino-Forest") brought an application pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, C. C-36 ("CCAA") seeking to file a plan of compromise and reorganization. As a result of this application, proceedings in the putative class action titled *Labourers' Pension Fund of Central and Eastern Canada v. Sino-Forest Corporation*, Court file No. 11-CV-431153CP (the "Class Action") were stayed.

3. Two of the Appellants, Northwest & Ethical Investments L.P. and Comité Syndical National de Retraite Bâtirente Inc., are plaintiffs in an action against Sino-Forest that was stayed due to an order granting carriage to the Class Action. Attached hereto and marked as Exhibit "A" is the Amended Statement of Claim in *Northwest & Ethical Investments L.P. v. Sino-Forest Corporation*, Court File No. CV0-11-43582600CP dated September 26, 2011.

4. It is my information and belief, based on a review of the Court orders and decisions in this matter and the website of counsel to the Plaintiffs in the Class Action ("Class Counsel"), that a motion to certify the Class Action has not yet been brought, except as against defendant Pöyry (Beijing) Consulting Company Ltd. ("Pöyry") as discussed below. It is also my information and belief that in April 2012 the Class Action Plaintiffs brought a motion seeking a representation order in the *CCAA* proceedings to act on behalf of the Class proposed in the Ontario Class Action. The proposed representation order contained an opt-out form; however, the motion never proceeded and was adjourned *sine die*. Attached hereto and marked as Exhibits "B" and "C" are true copies of the proposed representation order and the Order of the Honourable Mr. Justice Morawetz adjourning the motion for representation.

5. It is my information and belief, based on a review of the Court orders in this matter, that a proposed settlement was reached between the Class Action Plaintiffs and Pöyry, and the settlement received the approval of the Class Action Court during the period when Sino-Forest was subject to *CCAA* protection. The stay was lifted in the *CCAA* proceedings to allow the settlement to proceed, and approval of the settlement was received under the *Class Proceedings Act, 1992*. Class members were given the right to

opt out of the settlement. Attached hereto and marked as Exhibits “D” and “E” are true copies of the Endorsement of the Honourable Mr. Justice Morawetz lifting the stay and the Order of the Honourable Mr. Justice Perell approving the settlement with Pöyry and providing opt out rights to Class Members.

6. On December 7, 2013, the Honourable Mr. Justice Morawetz of the Ontario Superior Court of Justice heard a motion brought by Sino-Forest to sanction its Plan of Compromise and Reorganization. Kim Orr represented Invesco Canada Ltd., Northwest & Ethical Investments L.P. and Comité Syndical National de Retraite Bâtirente Inc. (the “Appellants”) at the motion.

7. The Appellants are part of a group of six investors represented by Kim Orr who opted out of the Poyry settlement, which the notice indicated also meant they opted out of the Class Action. These six investors include the Appellants as well as Matrix Asset Management Inc., Gestion Férique and Montrusco Bolton Investments Inc. Attached hereto and marked as Exhibits “F” to “K” are true copies of the opt-out forms (without trading records) of Invesco Canada Ltd., Comité Syndical National de Retraite Bâtirente Inc., Northwest & Ethical Investments L.P., Matrix Asset Management Inc., Gestion Férique and Montrusco Bolton Investments Inc.

8. Based on a review of the documents posted on the website of FTI Consulting, the Monitor appointed under the Sino-Forest *CCAA* proceedings, I believe that the creditors’ meeting to approve the Plan of Compromise and Reorganization (“Plan”) was initially scheduled to take place on November 29, 2012. However, the Plan was amended on November 28, 2012 largely to insert provisions on the creation of Newco II and to insert

provisions on Litigation Trust Claims and reserve amounts. The meeting was rescheduled. The Supplemental Report to the Thirteenth Report of the Monitor, dated December 4, 2012, confirms that the creditors' meeting was held on December 3, 2012 – which is the date on which the Plan was substantially revised, to include the third party release provisions in Article 11 (“Release”). Attached hereto and marked as Exhibit “L” is a true copy of the amended Plan of Sino-Forest dated November 28, 2012. The Plan of Sino-Forest dated December 3, 2012 is attached as Schedule A to the Sanction Order of the Honourable Mr. Justice Morawetz dated December 10, 2012.

9. Sino-Forest filed two affidavits of W. Judson Martin, sworn August 14, 2012 and November 29, 2012, in support of earlier versions of the Plan. Based on my review of the Plan as at the date of each affidavit, I believe that the Plan at those times did not make any provision for third party releases of E&Y or other Named Third Party Defendants. Attached hereto and marked as Exhibits “M” and “N” are true copies the Affidavit of W. Judson Martin sworn August 14, 2012 and the Affidavit of W. Judson Martin sworn November 29, 2012.

10. Also on December 3, 2012, the Ontario Securities Commission (“OSC”) released allegations against E&Y claiming that the auditor had breached the Ontario *Securities Act* and generally accepted auditing standards in carrying out its audits of Sino-Forest. Attached hereto and marked as Exhibit “O” is the Statement of Allegations of the Ontario Securities Commission dated December 3, 2012.

11. Previously, on May 22, 2012, the OSC released allegations concerning the conduct of management at Sino-Forest. Based on those allegations, the OSC’s news

release dated December 3, 2012, and the OSC website, I believe that Mr. Allen T.Y. Chan (“Chan”), one of the co-founders of Sino-Forest, and Mr. David J. Horsley (“Horsley”), a former director and Senior Vice President and Chief Financial Officer of Sino-Forest, are subject to ongoing investigation by the OSC. As set out in the May 2012 Statement of Allegations, the OSC has alleged that Chan “engaged in a complex fraudulent scheme to inflate the assets and revenue of Sino-Forest”, and that Horsley authorized, permitted or acquiesced in what it termed Sino-Forest’s “Standing Timber Fraud”. Both Chan and Horsley are individual defendants in the Class Action. Attached hereto and marked as Exhibit “P” is a true copy of the Ontario Securities Commission Statement of Allegations dated May 22, 2012. Attached hereto and marked as Exhibit “Q” is a copy of the Ontario Securities Commission News Release dated December 3, 2012.

12. As of December 10, 2012, the date on which the Plan was sanctioned by Justice Morawetz, the Named Third Party Defendants in Schedule A of the Plan included Ernst & Young LLP, BDO Limited, and the underwriters of Sino-Forest Corporation’s securities and offerings.

13. On January 11, 2013, the Monitor announced that two of the co-founders of Sino-Forest, Chan and Mr. Kai Kit Poon, had been added as Named Third Party Defendants and thus became eligible to receive a Release under Article 11.2 of the Plan, without opt outs. Attached as Exhibits “R”, “S” and “T” are true copies of the letters from Ms. Jennifer Stam to the Service List dated January 11, 2013, the response from Kim Orr Barristers P.C., dated January 11, 2013, and the reply dated January 12, 2013, respectively.

14. On January 21, 2013, the Monitor announced that Horsley had been added as a Named Third Party Defendant, with the same effect. Attached as Exhibit "U" is a true copy of the letter from Ms. Jennifer Stam to the Service List dated January 21, 2013.

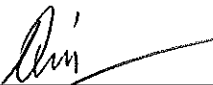
15. It is my information and belief, from reviewing the Plan Implementation Order and attending a hearing on January 21, 2013 before Justice Morawetz, that Sino-Forest is taking final steps towards implementation of the Plan, including receiving Court approval to facilitate the transfer of shares between a Sino-Forest subsidiary and Newco II. Attached as Exhibit "V" is a true copy of the Plan Implementation Order of the Honourable Mr. Justice Morawetz dated January 21, 2013.

16. On or about December 17, 2012, Counsel in the New York Class Action (*Leopard et al. v. Chan et al.*, 1:12-cv-01726-VM) wrote a letter to Class Counsel raising concerns about a settlement between the Plaintiffs in the Class Action and Ernst & Young LLP (the "E&Y Settlement"). Attached hereto and marked as Exhibit "W" is true copy of the letter from Mr. Richard Spiers to Mr. A. Dimitri Lascaris dated December 17, 2012.



17. I believe that on or about December 31, 2012, Class Counsel sent a memorandum to institutional investors discussing the E&Y Settlement. Attached hereto and marked as Exhibit "X" is the Memorandum of Siskinds LLP dated December 31, 2012.

SWORN before me at the City of )  
Toronto, in the Province of Ontario, )  
this 28<sup>th</sup> day of January, 2013. )  
)  
)  
)  
)  
)

  
\_\_\_\_\_  
A Commissioner for taking affidavits. )  
)

  
\_\_\_\_\_  
YONATAN ROZENSZAJN

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

Court of Appeal File No: M42068  
Court File No: CV-12-9667-00CL

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

***COURT OF APPEAL FOR ONTARIO***

(Proceeding Commenced at Toronto)

**AFFIDAVIT OF YONATAN ROZENSZAJN**  
sworn January 28, 2013

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**Michael C. Spencer** (LSUC #59637F)

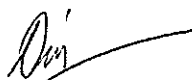
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Lawyers for Invesco Canada Ltd., Northwest &  
Ethical Investments L.P. and Comité Syndical  
National de Retraite Bâtirente Inc.

# **Tab A**

This is Exhibit "A" to the affidavit of Yonatan Rozenszajn,  
sworn before me at the City of Toronto, in the Province  
of Ontario, this 28<sup>th</sup> day of January, 2013.



---

A Commissioner for taking affidavits.

Court File No. CV-11-43582600CP

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

B E T W E E N

NORTHWEST & ETHICAL INVESTMENTS L.P.;  
COMITÉ SYNDICAL NATIONAL DE RETRAITE BÂTIRENTE INC.;  
BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

Plaintiffs

and

SINO-FOREST CORPORATION;

ALLEN T.Y. CHAN; W. JUDSON MARTIN; KAI KIT POON; DAVID J. HORSLEY;  
HUA CHEN; WEI MAO ZHAO; ALFRED C.T. HUNG; ALBERT IP; GEORGE HO;  
THOMAS M. MARADIN; WILLIAM E. ARDELL; JAMES M.E. HYDE; SIMON MURRAY;  
GARRY J. WEST; JAMES P. BOWLAND; EDMUND MAK; PETER WANG;  
KEE Y. WONG; THE ESTATE OF JOHN LAWRENCE; SIMON YEUNG;

ERNST &amp; YOUNG LLP;

BDO LIMITED;

PÖYRY FOREST INDUSTRY PTE LIMITED;  
PÖYRY (BEIJING) CONSULTING COMPANY LIMITED;  
JP MANAGEMENT CONSULTING (ASIA-PACIFIC) PTE LTD.;

DUNDEE SECURITIES CORPORATION; UBS SECURITIES CANADA INC.;  
HAYWOOD SECURITIES INC.; CREDIT SUISSE SECURITIES (CANADA) INC.;  
TD SECURITIES INC.; RBC DOMINION SECURITIES INC.; SCOTIA CAPITAL INC.;  
CIBC WORLD MARKETS INC.; MERRILL LYNCH CANADA, INC.;  
CANACCORD FINANCIAL LTD.; MAISON PLACEMENTS CANADA INC.;  
MORGAN STANLEY & CO. INCORPORATED;  
CREDIT SUISSE SECURITIES (USA), LLC; ~~BANK OF AMERICA MERRILL LYNCH;~~  
MERRILL LYNCH, PIERCE, FENNER, & SMITH, INC.

Defendants

Proceeding under the *Class Proceedings Act, 1992*

**AMENDED STATEMENT OF CLAIM**

TO THE DEFENDANT

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the plaintiff. The claim made against you is set out in the following pages.

IF YOU WISH TO DEFEND THIS PROCEEDING, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the Rules of Civil Procedure, serve it on the plaintiff's lawyer or, where the plaintiff does not have a lawyer, serve it on the plaintiff, and file it, with proof of service in this court office, WITHIN TWENTY DAYS after this statement of claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your statement of defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form 18B prescribed by the Rules of Civil Procedure. This will entitle you to ten more days within which to serve and file your statement of defence.

IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO DEFEND THIS PROCEEDING BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

IF YOU PAY THE PLAINTIFFS' CLAIM, and \$5000.00 for costs, within the time for serving and filing your statement of defence you may move to have this proceeding dismissed by the court. If you believe the amount claimed for costs is excessive, you may pay the plaintiffs' claim and \$500.00 for costs and have the costs assessed by the court.

Date September 26, 2011

Issued by .....

Local registrar

Address of Court Office:

393 University Avenue  
10<sup>th</sup> Floor  
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M5G 1E6

TO: SINO-FOREST CORPORATION  
90 Burnhamthorpe Road West, Suite 1208  
Mississauga, Ontario L5B 3C3

AND TO: ALLEN T.Y. CHAN  
39 FA PO Street  
Village Garden  
Kowloon Tong, Kowloon  
Hong Kong China

AND TO: W. JUDSON MARTIN  
77 Avenue Road, PH 6  
Toronto, Ontario M5R 3R8

AND TO: KAI KIT POON  
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AND TO: DAVID J. HORSLEY  
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AND TO: HUA CHEN  
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- AND TO: BDO LIMITED  
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- AND TO: PÖYRY FOREST INDUSTRY PTE LIMITED  
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- AND TO: PÖYRY (BEIJING) CONSULTING COMPANY LIMITED  
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- AND TO: JP MANAGEMENT CONSULTING (ASIA-PACIFIC) PTE LTD.  
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- AND TO: TD SECURITIES INC.  
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AND TO: RBC DOMINION SECURITIES INC.  
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AND TO: SCOTIA CAPITAL INC.  
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AND TO: CIBC WORLD MARKETS INC.  
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AND TO: MERRILL LYNCH CANADA, INC.  
BCE Place, Wellington Tower  
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AND TO: CANACCORD FINANCIAL LTD.  
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AND TO: MAISON PLACEMENTS CANADA INC.  
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United States of America

AND TO: CREDIT SUISSE SECURITIES (USA), LLC  
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New York, NY 10010-3629  
United States of America

~~AND TO: BANK OF AMERICA MERRILL LYNCH  
Corporate Headquarters  
Bank of America  
Corporate Center~~

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Charlotte, North Carolina 28255  
United States of America~~

AND TO: MERRILL LYNCH, PIERCE, FENNER, & SMITH, INC.  
4 World Financial Center  
North Tower  
New York, NY 10080  
United States of America

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**DEFINITIONS**

The following definitions apply for the purpose of this Statement of Claim:

- (a) “Annual Report” means a Sino-Forest annual report prepared in accordance with the Securities Act and includes the Annual Information Form, Annual Audited Financial Statements and Annual MD&A as defined within the Securities Act.
- (b) “Audit Report” means an audit report prepared by an Auditor Defendant concerning Sino-Forest.
- (c) “Auditor Defendants” means the Defendants Ernst & Young and BDO.
- (d) “Class” and “Class Members” means purchasers of shares or notes of Sino-Forest during the period from August 17, 2004 through June 2, 2011, except Excluded Persons as defined herein.
- (e) “Class Period” means August 17, 2004 through June 2, 2011.
- (f) “company” and “Sino-Forest” means the Defendant Sino-Forest Corporation.
- (g) “Core Documents” has the same meaning as defined in s. 138.1 of the Securities Act.
- (h) “Excluded Persons” means the Defendants; Sino-Forest’s past and present subsidiaries and affiliates; the past and present officers and directors of Sino-Forest and its subsidiaries and affiliates; members of the immediate family of any excluded person; the legal representatives, heirs, successors, and assigns of any excluded person or entity; and any entity in which any excluded person or entity has or had a controlling interest.

- (i) “Independent Committee” means the board committee established on June 6, 2011 by Sino-Forest to investigate the allegations made in the Muddy Waters Report.
- (j) “Individual Defendants” means the Defendants Chan, Martin, Poon, Horsley, Chen, Zhao, Hung, Ip, Ho, Maradin, Ardell, Hyde, Murray, West, Bowland, Mak, Wang, Wong, Lawrence, and Yeung.
- (k) “Integrity Representation” means the representation in substance that Sino-Forest’s overall reporting of its business operations and financial statements was fair, complete, accurate, and in conformity with international standards and the requirements of the Securities Act and National Instrument 51-102, and that its accounts of its growth and success could be trusted.
- (l) “MD&A” means Sino-Forest’s Management Discussion and Analysis published on SEDAR.
- (m) “Misrepresentations” means the false, misleading, or deceptive statements and omissions made by the Defendants as particularized herein. The Misrepresentations include the Integrity Representation; the Audit Reports, including representations that the company’s financial statements were presented in accordance with GAAP and had been audited in accordance with GAAS; the Pöyry Valuation Reports; the imprimaturs and representations of the Underwriter Defendants and the Note Distributor Defendants in connection with share and note offerings; Sino-Forest’s financial statements, including figures and descriptions concerning the company’s assets, revenues, cash flows, equity, and net income, disclosures of related-party transactions, and other reported financial

metrics derived from company financial data. The Misrepresentations all had the common import of describing Sino-Forest as a successful and growing company whose descriptions of operations and financial reporting could be trusted as substantially accurate, fair, and complete.

- (n) “Non-Core Documents” has the same meaning as defined in s. 138.1 of the Securities Act.
- (o) “Note Distributor Defendants” means the Defendants Morgan Stanley, Credit Suisse USA, TD Securities, ~~Bank of America ML~~, and Merrill Lynch.
- (p) “Note Offerings” means the note offerings by the company in August 2004, July 2008, July 2009, December 2009, February 2010, and October 2010.
- (q) “Offering Memorandum” means an offering memorandum issued by the company in relation to a Note Offering as defined in s. 1 of the Securities Act.
- (r) “OSC” means the Ontario Securities Commission.
- (s) “Pöyry Defendants” means the Defendants JP Management, Pöyry Forest, and Pöyry Beijing.
- (t) “Prospectus” means a prospectus issued by the company in relation to a Share Offering as defined in Part XXIII of the Securities Act.
- (u) “Securities” means shares and notes issued by Sino-Forest.
- (v) “Securities Act” means the *Securities Act*, R.S.O. 1990, c. S.5, as amended.
- (w) “securities legislation in other provinces and territories in Canada” means 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 V01.1, 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.

- (x) “SEDAR” means the System for Electronic Document Analysis and Retrieval.
- (y) “Share Offering” means the share offerings by the company in June 2007, June 2009, and December 2009.
- (z) “TSX” means the Toronto Stock Exchange (formerly TSE).
- (aa) “Underwriter Defendants” means the Defendants Dundee Securities, UBS, Haywood, Credit Suisse, TD Securities, RBC, Scotia Capital, CIBC, Merrill Lynch Canada, Canaccord, and Maison Placements.
- (bb) “Valuation Report” means a report prepared by a Pöyry Defendant on Sino-Forest.

**CLAIM FOR RELIEF**

1. The Plaintiffs claim the following relief on their own behalf and on behalf of the other

Class Members:

- (a) an order pursuant to the *Class Proceedings Act, 1992*, S.O. 1992 (“CPA”) certifying this action as a class proceeding and appointing the Plaintiffs as representative plaintiffs;
- (b) a declaration that the Defendants are liable for the Misrepresentations made and on the claims as asserted herein;
- (c) a declaration, as may apply to a claim requiring a state of mind, that the Misrepresentations were made by a Defendant with knowledge, fraudulently, recklessly, or negligently;
- (d) a declaration that each Defendant that is an entity is vicariously liable for the acts and omissions of its agents, employees, directors, officers, or managers, including Sino-Forest’s vicarious liability for the acts and omissions of the Individual Defendants;
- (e) an order granting leave to the Plaintiffs to amend this Statement of Claim to commence the claim provided for in Part XXIII.1 of the Securities Act, and if necessary under the comparable provisions of securities legislation in other provinces and territories in Canada;
- (f) an award of damages in the amount of \$5,300,000,000 or such other amount or on such other basis as this Court finds appropriate at the trial of the common issues or at a reference or references;
- (g) an award of punitive damages in the amount of \$500,000,000;

- (h) an order directing a reference or giving such other directions as may be necessary to determine issues not determined in the trial of the common issues;
- (i) an order appointing a receiver or granting an injunction preventing Sino-Forest, the Individual Defendants, or any other person with notice, from dissipating or removing its assets in such a way that might impair the ability of the Plaintiffs and the other Class Members to recover damages in this proceeding;
- (j) an award of pre-judgment interest and post-judgment interest, compounded or pursuant to ss. 128 and 129 of the *Courts of Justice Act*, R.S.O.1990, c. 43;
- (k) an award for costs of the action on a full indemnity basis or in an amount that provides substantial indemnity;
- (l) an award of costs of notice and of administering the plan to distribute the recovery in this action, pursuant to s. 26(9) of the CPA, plus applicable taxes; and
- (m) such further and other relief as this Honourable Court deems just.

### **INTRODUCTION**

2. Sino-Forest was incorporated in Ontario in 1994 and obtained a listing on the Toronto Stock Exchange (TSX) in 1995 using a “reverse merger” (merging its operations and identity into a defunct company that already had securities listed on the exchange). Since 1995 Sino-Forest has been traded on the TSX under the symbol “TRE”. Sino-Forest reports itself to be a “leading commercial forest plantation operator” in the People’s Republic of China. It describes its business as manufacturing, cultivating, harvesting, and selling timber and timber products. It claims to hold the “plantation rights” to certain forests, meaning the right to harvest existing trees standing on the land and then to replant and cultivate new trees on the same land.

It also claims to hold rights to standing timber, meaning mature trees that are ready for harvesting. Sino-Forest's timber holdings consist primarily of plantation rights and standing timber in China. Its company website states that its registered office and "corporate head office" is in Mississauga, Ontario, and its "executive head office" is in Hong Kong.

3. During the first ten years of its operations, the company reported quick expansion of its activities and assets, principally through reported joint venture operations and reinvestment of earnings. It started public equity financing in 1996 and public debt financing in 2004. In its 2003 Annual Report, dated May 20, 2004, the company reported that it had achieved a 33% compound average annual growth rate since 1994, giving it net income of \$30.2 million and assets of \$418.9 million in 2003. The company was headed by co-founders Allen T.Y. Chan, an entrepreneur, who was chairman and chief executive officer, and Kai Kit Poon, an engineer and former forestry bureau official in Guangdong province in China, who was president. Its auditors were Ernst & Young LLP, who consistently issued "clean" (unqualified) audit reports stating its opinion that Sino-Forest's consolidated financial statements "present fairly, in all material respects, the financial position of the company as at [the relevant period end-dates] and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles."

4. Starting in 2004, Sino-Forest began a program of substantial equity and debt financing. Since August 2004, it has brought three common stock offerings to market, raising about \$906 million in equity. The company also raised over \$2.1 billion in note offerings since 2004. Sino-Forest was represented by leading Bay Street firms for these financings. Those firms acted as underwriters for the equity offerings and as managers and initial purchasers for the note offerings and accordingly performed due diligence on the company. Equity and credit analysts employed

by some of the firms (particularly Richard Kelertas of Dundee and Paul Quinn of RBC) provided generally very favorable coverage to Sino-Forest. Without the imprimatur of these leading financial firms, Sino-Forest could not have brought its share and note offerings to market.

5. In August 2005, Sino-Forest adopted a series of policies designed to assure public investors of the company's supposed commitment to good corporate governance, transparency, and adherence to international standards of corporate conduct. The policies were written, occasionally updated, and posted on the company's website; they are still in force. In addition to formalizing its board structure and functions, Sino-Forest adopted a Code of Business Conduct dealing with "responsibility and accountability toward employees, business partners, shareholders, competitors, governments, conflicts of interest, reporting violations and other matters." The code provides that company senior managers "are expected to lead according to high standards of ethical conduct in both words and actions. . . . Managers must be diligent in looking for indications that unethical or illegal conduct has occurred." "Honest and accurate recording and reporting of information is essential in order to make responsible business decisions. All financial books, records and accounts of the Corporation must accurately reflect transactions and events, and conform both to the applicable accounting principles as well as to the internal controls of the Corporation." The code states that company officers, directors, and employees must act in the best interests of all shareholders; must not use corporate opportunities for personal gain; must use assets for approved company business purposes and never for illegal purposes; must not trade in company securities based on non-public information; must ensure that all business records and communications are truthful and accurate; must avoid conflicts of interest; must comply with all applicable laws and regulations; and must report any violations of the code, including concerns regarding "accounting, financial statement disclosure, internal

accounting or disclosure controls or auditing matters. . . .” At the same time, the company adopted a Disclosure Policy of commitment to “full, true and plain public disclosure of all ‘material’ information in a timely manner, in order to keep shareholders and all members of the investing public equally informed about the corporation’s operations. . . .” The company has also adopted an extensive Corporate Governance Committee Charter concerning implementation of “superior standards of corporate governance practices” and oversight over adherence to corporate policies and board activities; and an Audit Committee Charter governing the composition and activities of the Audit Committee of the board of directors.

6. The company brought on BDO McCabe Lo Limited (now known by its successor name, BDO Limited), the Hong Kong member of BDO International Limited, the world’s fifth-largest network of public accounting and auditing firms, for its 2005 and 2006 audits; and then reverted to Ernst & Young. BDO issued unqualified Audit Reports for Sino-Forest. The company also made extensive use of reports attesting to the company’s valuations of its timber assets, prepared by units of the leading Finnish forestry consultant Pöyry PLC and its Jaakko Pöyry Consulting business. Ernst & Young, BDO, and Pöyry specifically authorized Sino-Forest to use their reports in its public reports and offering documents.

7. By 2010, as reported in the 2010 Annual Report issued on May 10, 2011, Sino-Forest had net income of \$395.4 million and assets of \$5.729 billion. Its year-end market capitalization was approximately \$5.7 billion, with approximately 246 million common shares outstanding. It reported a 41% compound average annual growth rate in revenues for the period 1994-2010. In addition to Mr. Chan, who remained as chairman and CEO, the company reported that William (Bill) Ardell had taken over as “Lead Director” from W. Judson Martin; and David J. Horsley

served as senior vice president and chief financial officer. Ernst & Young remained as auditor and continued to issue unqualified Audit Reports on the company.

8. To outward public appearance, therefore, Sino-Forest was a thriving, growing company operating in the world's hottest economy, with financials that had been blessed by a Big Four auditor and a Hong Kong-based international audit firm, with forestry asset valuations attested to by a leading international consulting firm, with an express commitment to integrity and transparent reporting, and with the support of the Bay Street banking and finance community. Its per-share market price hit a high of \$25.30 on March 31, 2011. Reflecting the company's reported success, and based on its reported assets and earnings, its Canadian incorporation, and its TSX listing, Sino-Forest was widely viewed by the investing public as Canada's leading forestry company.

9. On Thursday, June 2, 2011, a small Hong Kong investment firm, Muddy Waters LLC, "initiated overage" on Sino-Forest and disseminated a 39-page "research report" containing shocking allegations that the company was vastly overstating its assets and revenues and amounted to a "Ponzi scheme" in operation since its TSX listing in 1995. Sino-Forest's CEO, Mr. Chan, immediately and vehemently denied the accusations, but the market was merciless. On Wednesday, June 1, 2011, the shares had closed at \$18.21 on the TSX; by mid-day Thursday, the price fell to \$14.46, at which point trading was halted. When trading resumed on Friday, the share price fell to \$5.23 at close, a decline of 71.3% from two days before, representing vanished market capitalization of about \$3.2 billion. Market prices of the notes, which were listed on the Singapore Exchange or on TRACE (a system for reporting over-the-counter transactions in fixed-income securities in the U.S.), also fell precipitously.

10. The Muddy Waters report provided enough credible content to sustain the devastating effect. For the ten days starting with June 3, the mean closing price of TRE on the TSX was \$4.49. The share price had not been that low since before December 1, 2005. Note prices also remained severely depressed.

11. The Muddy Waters report's assertions, which caused the meltdown in share and note market prices, included the following:

- (a) In support of its assertion that Sino-Forest's reported revenue figures were fabricated, the report focused on the company's use of "authorized intermediaries" ("AIs") to effectuate its purchase and sale transactions indirectly, which the company described as necessary in order to process tax payments that could not be handled by a foreign company. The report asserted: "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." The report noted that Sino-Forest refused "for competitive reasons" to disclose the identities of all but one of its AIs, and alleged that the one disclosed AI was in fact a related party to Sino-Forest. The report asserted that a company-reported sale of \$231.1 million in timber in Yunnan Province was largely fabricated since the amount exceeded Sino-Forest's actual timber holdings in the province and exceeded harvesting quotas sixfold.
- (b) On the asset side, the report declared that Muddy Waters had "smoking gun evidence" that Sino-Forest had overstated its standing timber purchases in Yunnan Province since 2006 by over \$800 million (out of \$2.891 billion reported).
- (c) The report also noted that Sino-Forest had engaged in substantial transactions with undisclosed related parties, including Jiangxi Zhonggan Industrial Development Company Ltd ("Zhonggan"), which was incorporated just months before Sino-Forest entered into an approximately \$700 million contract with it in June 2009. According to Muddy Waters, Zhonggan's 2008 and 2009 audit report "shows numerous large transactions" among it, Sino-Forest, and other parties,



none of which is forestry-related. Muddy Waters also identified Huaihua Yuda Wood Company Ltd. as “an undisclosed TRE subsidiary that has been receiving massive amounts of money from TRE’s subsidiaries.”

- (d) The Muddy Waters report noted the crucial role of expert firms in confirming Sino-Forest’s financial and business reporting, particularly Pöyry’s Valuation Reports and Ernst & Young’s Audit Reports.

12. The effect of the Muddy Waters report was to destroy investors’ trust in the integrity of Sino-Forest’s reports of its business operations and its financial statements. The report contradicted the fundamental representation made by the company and its directors and officers during the Class Period that Sino-Forest’s overall reporting of its business operations and financial statements was fair, complete, accurate, and in conformity with international standards and the requirements of the Securities Act and National Instrument 51-102, and that its accounts of its growth and success could be trusted (herein referred to as the “Integrity Representation”). The effect of participation in Sino-Forest’s financings and business and financial reporting by the company’s auditors, forestry experts, and financial firms handling the share and note offerings amounted to those parties’ confirmation of, or at least their failure to disclose the material falsity of, the Integrity Representation. The Muddy Waters report also contradicted representations during the Class Period that Sino-Forest’s financial reporting -- including its reported assets, revenues, cash flows, equity, net income, and disclosures of related-party transactions -- was true, fair, accurate, and presented without material overstatement, and that the company’s financial statements conformed to GAAP and its outside audits had been performed in accordance with GAAS.

13. To try to substantiate CEO Chan’s denials of the Muddy Waters allegations, Sino-Forest promised to disclose exculpatory information, including signed copies of contracts and master

framework agreements evidencing its timber holdings. However, the company has disclosed documents concerning only Yunnan Province (although it claims to have timber holdings in nine provinces in China), and the Muddy Waters allegations have not been viewed as significantly refuted by the documents.

14. On June 6, 2011, Sino-Forest announced the appointment of an “Independent Committee” of directors to investigate the Muddy Waters allegations. The Independent Committee in turn retained legal counsel, and then retained the international accounting firm PricewaterhouseCoopers (PwC) to assist, with an interim report by the Committee expected within six to eight weeks. Also on June 6, the company invited analysts to tour its operations in China in the near future as a means of establishing that its timber holdings were in accordance with its representations.

15. On June 18 and 20, 2011, the Globe and Mail published articles based on a two-week investigative trip its East Asia correspondent had taken to visit Sino-Forest offices, properties, and partners in southeast China. The articles reported, among other things, statements by Yunnan Province forestry officials that the company’s claim that it controls almost 200,000 hectares there did not match their records.

16. On the evening of June 20, 2011, the large New York hedge fund Paulson & Co., whose affiliates had comprised Sino-Forest’s largest shareholder, revealed that it had liquidated its positions; analysts estimated that Paulson’s mark-to-market losses exceeded US \$560 million.

17. On July 6, 2011, Sino-Forest canceled the proposed tour for analysts, supposedly because many analysts had “been precluded from resuming coverage” of the company. On August 15, Sino-Forest announced that the results of the Independent Committee and PricewaterhouseCoopers investigation would be delayed and could be expected only “prior to the

Company's year end" due to the lengthy time "required for gathering and commencing analysis of vast amounts" of data and documents.

18. On August 26, 2011, the Ontario Securities Commission (OSC) suspended trading in Sino-Forest's securities and issued an order stating in pertinent part:

11. The Independent Committee of Sino-Forest has also been conducting an investigation into the activities and business of Sino-Forest and its subsidiaries and their management. As a result, Sino-Forest has recently suspended Ho, Hung and Yeung temporarily and curtailed Ip's duties.
12. Sino-Forest, through its subsidiaries, appears to have engaged in significant non-arm's length transactions which may have been contrary to Ontario securities laws and public interest;
13. Sino-Forest and certain of its officers and directors appear to have misrepresented some of its revenue and/or exaggerated some of its timber holdings by providing information to the public in documents required to be filed or furnished under Ontario securities laws which may have been false or misleading in a material respect contrary to section 122 or 126.2 of the Act and contrary to the public interest;
14. Sino-Forest and certain of its officers and directors including Chan appear to be engaging or participating in acts, practices or a course of conduct related to its securities which it and/or they know or reasonably ought to know perpetuate a fraud on any person or company contrary to section 126.1 of the Act and contrary to the public interest. . . .

The OSC also ordered that Messrs. Chan, Ip, Hung, Ho, and Yeung cease all trading in securities.

19. Regulatory documents filed by the company that day revealed that company insiders had sold \$83 million of company stock since 2006. On Sunday, August 28, 2011, Mr. Chan resigned and three other employees took leaves after "certain information was uncovered" by the Independent Committee. Following previous downgrades, Standard & Poor's withdrew its credit rating on Sino-Forest entirely, and Moody's reduced its rating to a junk level indicating "very high credit risk."

20. On September 3, 2011, the Globe and Mail published a follow-up to its earlier investigative articles, based on further visits and interviews by its correspondents in China. The September 3 article reported: (a) Sino-Forest reported more than \$60 million in sales of fibre board in 1994-1997 from a joint venture with Leizhou Forestry Bureau, but a former company executive insisted that the sales never occurred, stating: ““We didn’t produce a log. There was no warehouse or factory”” -- before asking to retract his statements a week later after receiving irate calls from company officials; (b) Mandra Forestry Holdings Limited, a company acquired by Sino-Forest in February 2010 for \$9 million for stock and assumption of \$187 million of debt, was losing money and had missed an interest payment on its bonds in May 2009; and (c) Homix Limited, which was acquired by Sino-Forest in January 2010 for \$7.1 million, reportedly due to the value of its research and development capabilities and patent rights, was losing money; its patents appeared to be of marginal value; and Hua Chen, Sino-Forest’s senior vice president of administration and finance, was an officer and had a 30 percent ownership interest in a major Homix subsidiary, but that relationship had not been disclosed despite Sino-Forest’s policy against related-party transactions. Mr. Chan refused to be interviewed for the article despite repeated requests.

21. On September 8, 2011, after a hearing, the OSC continued its cease-trading order until January 25, 2012. The OSC order issued that day observed that OSC staff had “presented evidence of conduct that may be harmful to investors and the public interest.”

22. As of mid-September 2011, the full truth about Sino-Forest remains shrouded. No one has yet been able to reliably verify or refute the substance of the Muddy Waters allegations. At this juncture, however, there exists ample basis to allege that the Defendants named in this lawsuit have, at least since 2004, made material Misrepresentations concerning Sino-Forest,

including the Integrity Representation; reports of the company's financial position and results, including its assets, revenues, cash flows, equity, net income, and related-party transactions; and the information reflected in the expert forestry reports, securities offering due diligence, and audit reports about the company.

23. The Plaintiffs' basis for their claims herein includes the following facts:

- (a) Sino-Forest's inability to produce credible evidence refuting major portions of the Muddy Waters report, even though the report was issued months ago;
- (b) Discrepancies in Sino-Forest's reported business and operations as disclosed in the Globe and Mail articles in June 2011 and the follow-up article in September 2011, and Sino-Forest's inability to produce credible evidence refuting those allegations.;
- (c) The dramatic adverse effect of the disclosures in the Muddy Waters report on the market prices of Sino-Forest's shares and notes.;
- (d) Sino-Forest's largest shareholder's liquidation of its entire equity position within one month after the Muddy Waters report was issued;
- (e) Conclusions reached by the OSC, including the cease-trade order and the statements concerning fraud at the company, apparently based on preliminary disclosures to the OSC by the Sino-Forest board's Independent Committee and other investigations by OSC staff.;
- (f) The Independent Committee's delay in reporting, and its apparent inability immediately to refute the Muddy Waters allegations;
- (g) Reported insider sales by Sino-Forest senior managers and officers;
- (h) The resignation by CEO Chan and leaves taken by the three other executives;
- (i) Withdrawal of ratings or downgrades by credit rating agencies;
- (j) Inconsistencies in the company's business and financial reporting concerning its use of Authorized Intermediaries for a large part of its business operations, and the prevalence of undisclosed related-party transactions at the company, as further described herein; and

- (k) The company's acknowledgement in its 2010 Annual Report that the design and effectiveness of its disclosure controls and procedures and its internal controls over financial reporting were "ineffective" due to specified weaknesses, as further described below.

24. The Plaintiffs have instituted this class proceeding on behalf of purchasers of shares or notes of Sino-Forest during the period from August 17, 2004, through June 2, 2011 (the Class Period), except Excluded Persons. The starting date of the Class Period is the date Sino-Forest closed on its offering of US\$300,000,000 guaranteed senior notes, pursuant to an Offering Memorandum dated August 10, 2004. Those were the earliest Sino-Forest notes outstanding when the Muddy Waters report was issued on June 2, 2011 (the notes matured and were paid on August 17, 2011). Any holder of those notes as of June 2, 2011 who sold them prior to maturity suffered a loss on the sale. Holders of later-issued notes as of June 2, 2011 have suffered losses as well, putting aside any value that may be realized from the notes at maturity or default.

25. This Statement of Claim asserts claims under Part XXIII of the Securities Act, and if necessary under comparable provisions of the securities legislation in other provinces and territories in Canada; and claims for common law fraud, negligence (simpliciter), and negligent misrepresentation. The Plaintiffs intend to seek leave to commence a claim under Part XXIII.1 of the Securities Act, and if necessary under comparable provisions of the securities legislation in other provinces and territories in Canada.

#### **THE PLAINTIFFS**

26. The Plaintiff Northwest & Ethical Investments L.P. ("NEI Investments") is an Ontario limited partnership registered with the OSC and the British Columbia Securities Commission as a portfolio manager and with the OSC as an investment funds manger.

27. NEI Investments, through the funds it manages and on behalf of the funds' beneficiaries, purchased shares of Sino-Forest during the Class Period and is a member of the Class. Some of those purchases were made during the period of distribution of an offering.

28. The Plaintiff Comité Syndical National de Retraite Bâtirente Inc. ("Bâtirente") is a non-profit organization entrusted by the Confederation of National Trade Unions to set up and promote a workplace retirement system for its affiliated unions. Bâtirente is registered as a financial services firm with the Financial Services Authority.

29. Bâtirente, through the funds it manages and on behalf of the funds' beneficiaries, purchased shares of Sino-Forest during the Class Period and is a member of the Class.

30. The Plaintiff British Columbia Investment Management Corporation ("bcIMC") is an investment management corporation incorporated under a special statute of the Province of British Columbia: the *Public Sector Pension Plans Act*. bcIMC manages a globally diversified investment portfolio for its public sector clients.

31. bcIMC, through the funds it manages and on behalf of the funds' beneficiaries, purchased shares of Sino-Forest during the Class Period and is a member of the Class. Some of those purchases were made during the period of distribution of an offering.

## **THE DEFENDANTS**

### **SINO-FOREST**

32. The Defendant Sino-Forest was formed in 1994 under the Ontario Business Corporations Act upon the amalgamation of Mt. Kearsarge Minerals, Inc. and 1028412 Ontario, Inc. The amalgamation, commonly referred to as a "reverse merger," gave Sino-Forest a listing on the Alberta Stock Exchange, which it then converted to a listing on the TSX, which has allowed it to list and actively trade shares on the TSX under the symbol TRE since 1995. In 2002, the

company filed articles to continue under the Canada Business Corporations Act. The company's registered office is in Mississauga, Ontario. As of July 29, 2011, Sino-Forest had over 246 million shares and over \$2 billion in face value of long-term notes outstanding. Its shares were listed and traded on the TSX and also are listed and/or traded on other markets worldwide, and its notes are traded on markets worldwide.

33. Sino-Forest is a reporting issuer in Ontario and, as such, pursuant to the Securities Act, Sino-Forest is:

- (a) required to file on SEDAR and deliver to the company's security holders:
  - (i) Annual financial statements and MD&A within 90 days from the end of its last financial year, pursuant to ss. 78 and 79 of the Securities Act and ss. 4.1-4.2 and 5.1 of National Instrument 51-102, as the case may be; and
  - (ii) quarterly interim financial statements and MD&A within 45 days of the end of each interim period pursuant to ss. 4.3-4.4 and 5.1 of National Instrument 51-102; and
- (b) subject to the continuous disclosure provisions of Part XVIII of the Securities Act in accordance with s. 1(1) of the Securities Act.

34. Sino-Forest is also a "responsible issuer" in accordance with s. 138.1(1) of the Securities Act and is therefore subject to civil liability provisions for secondary market disclosure under Part XXIII.1 of the Securities Act.

35. Sino-Forest has over 150 subsidiaries, the majority of which are registered in the BVI and China (the "Sino-Forest Subsidiaries").

36. Sino-Forest is vicariously liable for the acts and omissions of its directors, officers, and employees.

## **THE INDIVIDUAL DEFENDANTS**



37. The Defendant Allen T.Y. Chan, also known as Tak Yuen Chan, is a co-founder of the company, and was the Chairman and Chief Executive Officer from 1994 until his resignation on August 28, 2011. He has been a director since 1994.

38. The Defendant W. Judson Martin has been Vice Chairman of Sino-Forest since June 23, 2010 and has been a director since February 1, 2006. On August 29, 2011, the Defendant Martin succeeded the Defendant Chan as Chief Executive Officer.

39. The Defendant Kai Kit (K.K.) Poon, also a co-founder of the company, has been the President of Sino-Forest since 1994. He was a director from 1994 to May 25, 2009.

40. The Defendant David J. Horsley has been Senior Vice President and Chief Financial Officer of Sino-Forest since October 10, 2005. He was a director from 2004 until January 31, 2006.

41. The Defendant Hua Chen is the Senior Vice President of Administration and Finance of Sino-Forest. She joined the company in 2002.

42. The Defendant Wei Mao Zhao is the Senior Vice President of Development and Operations (South and East China) of Sino-Forest. He joined the company in 2002.

43. The Defendant Alfred C.T. Hung has been Senior Vice President of Planning and Banking of Sino-Forest. He joined the company in 1999. As a result of the investigation by the Independent Committee, Sino-Forest has temporarily suspended the Defendant Hung.

44. The Defendant Alfred Ip's title is Senior Vice President of Development and Operations (North East and South West China) of Sino-Forest. He joined the company in 1997. As a result of the investigation undertaken by the Independent Committee, Sino-Forest has curtailed the Defendant Ip's duties and responsibilities.

45. The Defendant George Ho has been Vice President of Finance (China) of Sino-Forest. He joined the company in October 2007. As a result of the investigation by the Independent Committee, Sino-Forest has temporarily suspended the Defendant Ho.

46. The Defendant Thomas M. Maradin is Vice President of Finance (Corporate) of Sino-Forest. He joined the company on September 1, 2005. The Defendant Maradin is a former partner of Ernst & Young.

47. The Defendant William (Bill) E. Ardell has been a director of Sino-Forest since January 18, 2010, and is designated the company's "Lead Director." On August 29, 2011, the Defendant Ardell succeeded Chan as Chairman of the company.

48. The Defendant James M.E. Hyde has been a director of Sino-Forest since 2004 and is chair of the Audit Committee. The Defendant Hyde is a former partner of Ernst & Young.

49. The Defendant Simon Murray has been a director of Sino-Forest since 1999.

50. The Defendant Garry J. West has been a director of Sino-Forest since February 23, 2011. The Defendant West is a former partner of Ernst & Young.

51. The Defendant James P. Bowland has been a director of Sino-Forest since February 23, 2011.

52. The Defendant Edmund Mak, also known as Woon Wah Mak, has been a director of Sino-Forest since 1994.

53. The Defendant Peter Wang, also known as Dong Hong Wang, has been a director of Sino-Forest since August 21, 2007.

54. The Defendant Kee Y. Wong was the Chief Financial Officer of Sino-Forest from 1999 until October 5, 2005.

55. The Defendant John Lawrence was a director of Sino-Forest from 1997 until June 5, 2006.

56. The Defendant Simon Yeung has been Vice President - Operations of Sino-Panel (Asia) Inc., a Sino-Forest Subsidiary. As a result of the investigation by the Independent Committee, Sino-Forest has temporarily suspended the Defendant Yeung.

57. By virtue of their positions as senior executive officers and directors, the Individual Defendants had actual, implied or apparent authority to act and speak on Sino-Forest's behalf. The Individual Defendants, also by virtue of their high-level positions with the company, directly participated in the management of the company, were directly involved in the day-to-day operations of the company at the highest levels, and were privy to confidential proprietary information concerning the company. As stated above, Sino-Forest is vicariously liable for the acts and omissions of each Individual Defendant.

#### **THE AUDITOR DEFENDANTS**

58. The Defendant Ernst & Young LLP ("Ernst & Young") is a public accounting and auditing firm with offices in Toronto, Ontario, and elsewhere. Ernst & Young served as the company's external auditor, and issued unqualified reports on the company, since the company was formed, except for the years 1998 and 1999, when Arthur Andersen LLP was auditor, and 2005 and 2006, when BDO Limited was auditor. During the Class Period, Ernst & Young issued unqualified audit reports on Sino-Forest for the years 2004, 2007, 2008, 2009, and 2010. It received substantial fees for its audit, audit-related, and tax-related services, for example amounting to about \$2.5 million in 2010. During the Class Period, it issued its Audit Reports for 2004 and 2010 from Toronto, and for 2007, 2008, and 2009 from Vancouver.

59. Ernst & Young is vicariously liable for the acts and omissions of its partners, officers, managers, employees, and agents.

60. The Defendant BDO Limited (“BDO”), successor to and/or formerly known as BDO McCabe Lo Limited, is the Hong Kong member of BDO International Limited, the world’s fifth-largest network of public accounting and auditing firms. During the Class Period, BDO issued unqualified audit reports on Sino-Forest for the years 2005 and 2006. It also received substantial fees for its services.

61. BDO is vicariously liable for the acts and omissions of its partners, officers, managers, employees, and agents.

62. Ernst & Young and BDO knew that Sino-Forest would include their respective Audit Reports in the company’s public disclosure documents and offering materials, and consented thereto. The Audit Reports are documents that would reasonably be expected to affect the value of Sino-Forest Securities.

63. Ernst & Young and BDO are experts within the meaning of the s. 138.1 of the Securities Act.

#### **THE PÖYRY DEFENDANTS**

64. The Defendant Pöyry Forest Industry Pte Ltd. (“Pöyry Forest”), the Defendant Pöyry (Beijing) Consulting Company Limited (“Pöyry Beijing”), and the Defendant JP Management Consulting (Asia-Pacific) Pte. Ltd (“JP Management”) are wholly owned subsidiaries of Pöyry PLC, a publicly listed consulting firm based in Helsinki, Finland. They also do business under the name Jaakko Pöyry Consulting.

65. Each of the Pöyry Defendants is a management consultancy business focused on corporate, product, and marketing strategies, corporate finance, due diligence, business

intelligence services, and performance management. For substantial fees, each of the Pöyry Defendants provided asset valuation and other management consultancy services to Sino-Forest during the Class Period.

66. Among other things, since 2003, the Pöyry Defendants have provided annual Valuation Reports to Sino-Forest concerning its timber assets. With the Pöyry Defendants' knowledge and consent, Sino-Forest referred to and utilized the Valuation Reports in various public documents, regulatory filings, and offering materials. The Valuation Reports are documents that would reasonably be expected to affect the value of Sino-Forest Securities.

67. Each Pöyry Defendant is an expert as defined in s. 138.1 of the Securities Act. Each Pöyry Defendant is vicariously liable for the acts and omissions of its directors, managers, officers, employees, and agents.

#### **THE UNDERWRITER AND NOTE DISTRIBUTOR DEFENDANTS**

68. The Defendant Dundee Securities Corporation ("Dundee Securities") was an underwriter, as defined in s. 1.(1) of the Securities Act, in relation to the June 2007, June 2009, and December 2009 Share Offerings.

69. The Defendant UBS Securities Canada Inc. ("UBS") was an underwriter in relation to the June 2007 Share Offering.

70. The Defendant Haywood Securities Inc. ("Haywood") was an underwriter in relation to the June 2007 Share Offering.

71. The Defendant Credit Suisse Securities (Canada), Inc. ("Credit Suisse") was an underwriter in relation to the June 2007, June 2009, and December 2009 Share Offerings.

72. The Defendant TD Securities, Inc. ("TD Securities") was an underwriter in relation to the June 2009 and December 2009 Share Offerings.

73. The Defendant RBC Dominion Securities Inc. (“RBC”) was an underwriter in relation to the December 2009 Share Offering.
74. The Defendant Scotia Capital Inc. (“Scotia Capital”) was an underwriter in relation to the June 2009 and December 2009 Share Offerings.
75. The Defendant CIBC World Markets Inc. (“CIBC”) was an underwriter in relation to the June 2007 and December 2009 Share Offerings.
76. The Defendant Merrill Lynch Canada, Inc. (“Merrill Lynch Canada”) was an underwriter in relation to the June 2007, June 2009, and December 2009 Share Offerings.
77. The Defendant Canaccord Financial Ltd. (“Canaccord”) was an underwriter in relation to the December 2009 Share Offering.
78. The Defendant Maison Placements Canada Inc. (“Maison Placements”) was an underwriter in relation to the December 2009 Share Offering.
79. During the Class Period, the Underwriter Defendants sold approximately \$906 million of Sino-Forest equity Securities to public investors pursuant to various Prospectuses. In doing so, the Underwriter Defendants certified that each Prospectus “constitutes full, true and plain disclosure of all material facts relating to the securities offered . . . as required by the securities legislation” of all the provinces. The certifications, the representations, and the imprimaturs of the Underwriter Defendants in the Prospectuses and on the share offerings were false and misleading.
80. The Underwriter Defendants received in total approximately \$35 million in commissions for the underwritings.

81. The Defendant Morgan Stanley & Co. Incorporated (“Morgan Stanley”) was a Note Distributor in the August 2004 Note Offering. “Note Distributor” means a manager of the note offering and/or an initial purchaser who resold the notes.

82. The Defendant Credit Suisse Securities (USA), LLC (“Credit Suisse USA”) was a Note Distributor in the 2008 Note Offering, 2009 Exchange Offering, and the 2009 Note Offering.

83. TD Securities was a Note Distributor in the 2009 Note Offering.

~~84. The Defendant Bank of America Merrill Lynch (“Bank of America ML”) was a Note Distributor in the 2009 Note Offering.~~

85. The Defendant Merrill Lynch, Pierce, Fenner & Smith, Inc. (“Merrill Lynch”) was a Note Distributor in the 2008 Note Offering and the 2009 Note Offering.

86. The Note Distributor Defendants performed due diligence on their respective note offerings. The Note Distributor Defendants omitted to disclose the Misrepresentations contained in the Offering Memorandums, and their imprimaturs on the note offerings were false and misleading.

87. Each of the Underwriter Defendants and the Note Distributor Defendants has an office in Toronto, Ontario.

### **CLASS ALLEGATIONS**

88. The Plaintiffs bring this action on its own behalf and as a class action on behalf of a Class consisting of purchasers of shares or notes of Sino-Forest during the period from August 17, 2004 through June 2, 2011 inclusive (the “Class Period”). Excluded from the Class are: the Defendants; Sino-Forest’s past and present subsidiaries and affiliates; the past and present officers and directors of Sino-Forest and its subsidiaries and affiliates; members of the immediate family of any excluded person; the legal representatives, heirs, successors, and

assigns of any excluded person or entity; and any entity in which any excluded person or entity has or had a controlling interest (the “Excluded Persons”).

89. Throughout the Class Period, Sino-Forest’s outstanding shares were actively traded on the TSX. The average daily trading volume of shares during the Class Period was over 910,332 shares. Throughout the Class Period, Sino-Forest’s outstanding notes were listed on the Singapore Exchange and on TRACE.

### **STATEMENT OF FACTS**

90. Sino-Forest describes itself as “a leading commercial forest plantation operator in China.” According to the company’s 2010 Annual Report, its “principal businesses include the ownership and management of plantation forests, the sale of standing timber and wood logs and the complementary manufacturing of downstream engineered-wood products.” In selling and acquiring timber assets (both timber plantation rights and standing timber), Sino-Forest claimed, beginning in 2003, to utilize a number of “authorized intermediaries” (AIs) to act on its behalf, purportedly because these authorized intermediaries were licensed by the appropriate Chinese authorities to purchase trees and timber assets in China. Sino-Forest has disclosed the identity of only one AI.

91. Sino-Forest claims that between 2004 and the present, acting on its behalf, the AIs have purchased plantation rights and standing timber from the company and then subsequently sold those timber assets to the ultimate customers. According to Sino-Forest, the AIs then owe the company the balance of the sale proceeds after deducting all expenses and fees (including the costs of the raw material, processing and management fees, and applicable taxes). Instead of remitting the sale proceeds to Sino-Forest, the AIs, at Sino-Forest’s direction, purportedly



provide the proceeds to a third-party “purchasing agent” to buy additional timber assets for the company.

92. The use of AIs in the manner described by the company, if true, would have the effect of camouflaging both the cash flows associated with the alleged operations of the company (revenues and expenses resulting from the purchase and sale of timber assets) and the timber assets allegedly acquired (which were held by purchasing agents, not the company). Sino-Forest also reported that it used AIs for payment of all taxes due to Chinese authorities in connection with its operations, thus removing company tax records as a means for auditing, confirming, or measuring its activities.

93. Therefore, Sino-Forest’s assertions that it used AIs in the manner described gave it virtually free rein to claim that it engaged in substantial business activity, without requiring it to show on its own books and in its own accounts the cash flows associated with that activity. This meant that only company insiders, and those auditors, experts, and due diligence examiners who were required and in a position to insist on obtaining access to records sufficient to verify Sino-Forest’s claimed activities, operations, and financial results, were able to review and (if appropriate) confirm the integrity and accuracy of the company’s reports.

94. In the 2011 First Quarter Earnings Release Conference Call on June 14, 2011, the Defendant Chan explained the use of AIs in some detail, including the following steps:

Fourth, the AI pay the proceeds from the timber sales to the end users to a Sino-Forest designated purchasing agent rather than direct back to the BVI company [a Sino-Forest Subsidiary]. The AI pays under the terms of the contract, but since the BVI Subsidiary cannot hold a bank account in China, cash is not exchanged.

In the fifth step, the purchasing agent utilizing the money from the AI, purchases more parcels whose ownership is transferred to the BVI company. Sino-Forest directs the AI to use the proceeds from the sales, which is receivable to Sino-Forest, to purchase new plantation assets through an agent on behalf of Sino-Forest that had already been identified by Sino-Forest.

95. According to that account, Sino-Forest does not itself recognize *any* cash flow from these transactions, because all transactions occur at the AI level. Nevertheless, according to its financial statements, Sino-Forest generated \$4.3 billion in revenues from its standing timber business during the period 2003-2010, and it reported approximately \$4 billion in corresponding operating cash flows. Based on the Defendant Chan's description of the company's use of AIs, the majority of those cash flows never occurred, or at least were materially overstated.

96. Sino-Forest claimed it was required to use the AIs because Chinese laws and regulations prohibited non-Chinese entities from holding Chinese currency bank accounts and conducting certain wood business in connection with Sino-Forest's activities. However, belying those claims, for the (at least) six years prior to Sino-Forest's reported use of AIs, one of its subsidiaries did obtain the requisite licensing and approval from Chinese regulators to produce and sell wood products. For reasons the company did not explain, in 1993 it stopped using the subsidiary (which ceased operations) in favor of its extensive reported reliance on AIs for all phases of its business.

97. The Defendant Chan, in the 2011 First Quarter Earnings Release Conference Call, also claimed the AIs are necessary because "the BVI Subsidiary cannot hold [a bank account] in China" (brackets in original). That statement is false: since 2003 Chinese regulations have enabled foreign companies, like the Sino-Forest BVI Subsidiaries, to maintain bank accounts in China.

98. The only AI whose identity Sino-Forest has disclosed to the public is Shenzhen Hongji Enterprises (Holdings) Ltd. ("Shenzhen"). Sino-Forest introduced Shenzhen's President, Lei Guangyu, to analysts in April 2011. Shenzhen is a related entity to Sino-Forest (the 2007 audit report for a Sino-Forest Subsidiary stated that Shenzhen is also a subsidiary of Sino-Forest). Lei

Guangyu has been a counter-party to numerous transactions with Sino-Forest that did not involve Shenzhen (Lei Guangyu has acted as a signatory for two Sino-Forest Subsidiaries, Fortune Universe Ltd. and Spirit Land Ltd).

99. Even in the face of the recent widespread allegations of fraud involving its use of AIs, Sino-Forest has not disclosed the identity of any other AI.

100. Sino-Forest's claim that it used AIs purportedly to comply with Chinese tax laws is also suspect. Under both the pre-2008 and 2008 income tax regimes in China, foreign companies could pay required income tax by registering with tax authorities or by withholding by clients of the foreign companies. According to Sino-Forest's financial statements, during 2003-2010, the company's standing timber business generated \$4.316 billion in revenues and approximately \$1.930 billion in net income, resulting in corresponding income tax liabilities (using the lowest possible tax rates) of \$426 million, plus \$85 million in interest and penalties ranging from \$136 million to over \$1 billion if the taxes had not been paid.

101. The response of the Defendant Horsley to an analyst inquiry concerning income taxes during the June 14, 2011 First Quarter Earnings Release Conference Call made clear that the company did not have appropriate controls in place to assure compliance with Chinese tax obligations, and was unclear as to the status of those obligations:

<Q - Richard Kelertas>: Final question, then, is, Dave, on the tax liabilities and the provisions that you've made in your annual report, can you discuss how that works with the AI's and how that is recorded?

<A - David J. Horsley>: Sure. As Allen said in the previous section of the conference call, under the agreement, the AI's are responsible for paying all of the tax income back and other taxes. From an accounting point of view, Sino-Forest provides a contingency in the event that those taxes have not been paid. Since we can't confirm one way or another, we take a conservative approach and we provide for income tax contingency in our balance sheet. Currently we have a liability of about \$190 million accrued on our financial statements in the event that those taxes were[n't] paid and Sino-Forest has to pay them.

<Q - Richard Kelertas>: And that would amount to, on a percentage basis for these AIs, approximately what per year?

<A - David J. Horsley>: Well, we provide for 100% of the income taxes that are earned by Sino-Forest, but should have been paid tax by the AI for three years plus the current year.

102. Moreover, in its 2010 Annual Report, Sino-Forest offered this admission that its internal controls were *ineffective*:

[T]he design and effectiveness of internal controls over financial reporting was assessed as of December 31, 2010. Based on that evaluation, *the company concluded that the design and effectiveness of the company's DC&P [Disclosure Controls and Procedures] and ICFR [Internal Controls over Financial Reporting] were ineffective due to the weakness discussed below with respect to ICFR.*

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 plantations fibre contracts and the settlement of accounts receivable and accounts payable associated with plantations 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. (Emphasis added.)

103. This supports the allegations in the Muddy Waters report that Sino-Forest's reporting of its assets and revenues is unreliable, and that its Integrity Representation is false.

104. In its 2010 annual information form, Sino-Forest claimed to own at least 190,000 hectares of plantation rights through agreements with Gengma Dai and Wa Tribes Autonomous Region Forestry Co Ltd. ("Gengma Forestry"), in Yunnan Province. However, in its investigative article on Sino-Forest published on June 20, 2011, the Globe and Mail reported: "Senior forestry officials in the province ... said their records showed Sino-Forest manages far less than that. . . ." Xie Hongting, the Chairman of Gengma Forestry, told the Globe and Mail correspondent that the "transactions carried out so far by Sino-Forest amounted to less than 14,000 hectares." According to Gengma Forestry, Sino-Forest's registered forestry area in

Gengma Dai Autonomous Region is just 13,333 hectares -- only about 7% of the holdings Sino-Forest claims to have.

105. Sino-Forest also has claimed in its public documents that it has purchased \$2.891 billion in timber assets since 2006, supposedly through 230 individual purchases made under six master framework agreements. The details of only one of the master framework agreements have been publicly disclosed. As to that agreement, the Muddy Waters report alleged that the value of the asset purchases was overstated by \$800 million; and Sino-Forest has not offered any refutation of that assertion.

106. Sino-Forest has also consistently claimed that its master agreements for the acquisition of plantation rights give it the right to replant, cultivate, and harvest timber on the plantation land after it harvests existing standing trees. Land use regulations require Sino-Forest to register any acquisitions of plantation rights with the forest transfer centre of each Chinese county forestry bureau. Sino-Forest has not produced any records of its claimed acquisitions of plantation rights owned by its BVI Subsidiaries that have sold standing timber through AIs and bought plantations through purchase agents. These disparities call into question all of Sino-Forest's plantation right valuations.

107. Sino-Forest has also claimed that it did not enter into undisclosed related-party transactions as part of its business. However:

- (a) In June 2009, Sino-Forest entered into a \$700 million agreement purportedly to purchase forestry plantations from Jiangxi Zhonggan Industrial Development Company ("Jiangxi Zhonggan"), which had been incorporated just a few months earlier in January 2009. The President of Jiangxi Zhonggan, Lam Hon Chiu, was also a senior executive officer of the Sino-Forest subsidiary Sino-Wood (Asia)

Limited. Jiangxi Zhonggan is a related party to Sino-Forest. Sino-Forest did not disclose that the acquisition agreement was a related-party transaction.

- (b) In January 2010, Sino-Forest acquired Homix Limited (“Homix”), a purported wood-products research and development and engineering company, for \$7.1 million. The Defendant Chen, a senior executive officer of Sino-Forest, had an indirect 30 per cent shareholding in Homix. Accordingly, the acquisition was also a related-party transaction. At no time did Sino-Forest disclose that the acquisition of Homix was a related-party transaction.
- (c) Another undisclosed Sino-Forest subsidiary, Huaihua Yuda Wood Company Ltd., has received substantial amounts of money from other Sino-Forest subsidiaries. In 2007, Huaihua Yuda received a prepayment of RMB 92.0 million from Sino Panel (Hezhou) and another payment of RMB 81.0 million from Sino Panel (Gengma).

108. Based upon the irregularities and discrepancies stated above, the Plaintiffs allege that all figures reporting and descriptions of Sino-Forest’s assets, revenues, cash flows, equity, net income, and related-party transactions during the Class Period were unreliable and were materially overstated.

## **PARTICULARIZATION OF THE MISREPRESENTATIONS IN COMPANY REPORTS, EXPERT REPORTS, AND SECURITIES OFFERING DOCUMENTS**

### **OFFERING DOCUMENTS**

109. Each of the Prospectuses and Offering Memorandums is a document that would reasonably be expected to affect the value of Sino-Forest Securities (both the Securities covered by the Prospectus or Offering Memorandum and the other Securities being traded at the time).

### **The August 2004 Note Offering**

110. On August 17, 2004, Sino-Forest closed an offering (the “2004 Note Offering”) of US\$300,000,000 9.125% guaranteed senior notes maturing on August 17, 2011 (the “2011 Notes”). The 2004 Note Offering was made pursuant to a confidential Offering Memorandum dated August 10, 2004 (the “2004 Note Offering Memorandum”). The 2004 Note Offering Memorandum was filed with SEDAR as a Material Change Report on August 19, 2004. The notes matured and were paid on or about August 17, 2011. The 2011 Notes were listed on the Singapore Exchange and TRACE.

111. All statements in the 2004 Note Offering Memorandum were representations by Sino-Forest. Sino-Forest told prospective purchasers of the 2011 Notes: “We are providing it solely for the purpose of enabling you to consider a purchase of the Notes and for the listing of the Notes on the SGX-ST. You should read this offering memorandum before making a decision whether to purchase the Notes.”

112. The 2004 Note Offering Memorandum contained the Integrity Representation, which was materially false.

113. The 2004 Note Offering Memorandum contained Sino-Forest financial statements for the years ended 2000, 2001, 2002, and 2003. The financial statements contained figures for and descriptions of Sino-Forest’s assets, revenues, cash flows, equity, net income, and related-party transactions, among other things. It also stated:

As of October 31, 2003, our purchased tree plantations and planted tree plantations consisted of approximately 113,000 hectares and 34,000 hectares, respectively. We have rights under our agreements with our joint venture partners and other parties to increase our plantations to a maximum of approximately 616,000 hectares of planted tree plantations.

The figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

114. The 2004 Note Offering Memorandum incorporated a Valuation Report issued by JP Management (one of the Pöyry Defendants) entitled "Review of Sino-Wood Partners Limited & Sino-Panel Holdings Limited," dated June 30, 2004 (the "2004 Pöyry Valuation Report"). The 2004 Pöyry Valuation Report stated:

Jaakko Pöyry Consulting has completed a valuation of the Sino-Wood forest assets as at October 31, 2003 and determined the value of the resources to be USD 344.5 million using a 13% discount rate applied to real, pre-tax cash flows. Jaakko Pöyry Consulting has not valued the 7,400 hectares of Sino-Panel forest assets.

Jaakko Pöyry Consulting has also prepared a forest valuation that includes the revenues and costs of re-establishing and maintaining the total existing plantation forest area of 152,917 hectares for a 50-year period (perpetual valuation). Jaakko Pöyry Consulting has determined the valuation of the Sino-Wood forest assets based on a perpetual rotation to be USD 436.0 million using a real pre-tax discount rate of 13%.

Those statements were materially false.

115. Pöyry Forest knew the 2004 Pöyry Valuation Report would be used in Sino-Forest's 2004 Note Offering Memorandum. The 2004 Note Offering Memorandum states the 2004 Valuation Report "has been included herein with the consent of and in reliance of the authority of the firm [JP Management] as experts in valuing forest assets."

116. The 2004 Note Offering Memorandum contained Ernst & Young's unqualified Audit Reports on the 2000, 2001, 2002, and 2003 financial statements. The Audit Reports stated that Ernst & Young had performed its audit in accordance with GAAS, and that Sino-Forest's consolidated balance sheets and consolidated statements of income and retained earnings and cash flows (financial statements), in Ernst & Young's opinion, "present fairly, in all material respects, the financial position of the Company" at year-end of those years "and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally



accepted accounting principles.” The reports were materially false in that Ernst & Young’s audits were not performed in accordance with GAAS, the financial statements were not presented in accordance with GAAP, and the figures for and descriptions of Sino-Forest’s assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

117. Ernst & Young consented to the inclusion of its Audit Reports in the 2004 Note Offering Memorandum, and made the following statement therein:

We have read the offering Memorandum of Sino-Forest (the “Company”) dated August 10, 2004 relating to the issue and sale of 9 1/8% guaranteed senior notes due 2011 of the Company. We have complied with Canadian generally accepted standards for an auditor’s involvement with offering documents.

We consent to the use in the above-mentioned offering memorandum of our reports to the directors and shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2003, 2002, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flows for each of the years in the four-years period ended December 31, 2003. Our reports are dated April 8, 2004 for the consolidated financial statements as at and for the years ended December 31, 2003 and 2002, dated April 30 2003 for the consolidated financial statements as at the and for the years ended December 31, 2002 and 2001 and dated April 5, 2002 for the consolidated financial statements as at and for the years ended December 31, 2001 and 2000, respectively through incorporation by reference in the Prospectus, of our report dated March 13, 2009 to the shareholders of the Company on the following financial statements”

118. The Defendant Morgan Stanley was the initial purchaser of the 2011 Notes in the 2004 Note Offering.

119. The 2004 Note Offering would not have proceeded, securities regulators likely would not have allowed the offering, and the 2011 Notes would not have been purchased by investors, if the material falsity of the Integrity Representation, the financial statements, the Valuation Report, and the Audit Reports, as described above, had been publicly disclosed.

### **The June 2007 Share Offering**

120. On June 5, 2007, Sino-Forest commenced an offering of 13,900,000 common shares of Sino-Forest at \$12.65 per share (the “June 2007 Share Offering”). The shares were offered for sale pursuant to a short form prospectus (the “June 2007 Prospectus”), which was filed with SEDAR. The June 2007 Share Offering closed on June 12, 2007.

121. The June 2007 Prospectus was issued for the specific purpose of guiding individual investors in deciding whether to purchase the shares.

122. The June 2007 Prospectus contained the Integrity Representation, which was materially false.

123. The June 2007 Prospectus contained Sino-Forest financial statements for the years ended 2003, 2004, 2005, and 2006. The financial statements contained figures for and descriptions of Sino-Forest’s assets, revenues, cash flows, equity, net income, and related-party transactions, among other things. It also stated:

As of December 31, 2006, the Corporation had approximately 58,000 hectares of planted tree plantations. As of December 31, 2006, the Corporation also had approximately 294,000 hectares of purchased tree plantations and it expects additional purchased tree plantations in the future. Under the Corporation’s agreements for its purchased tree plantations, it has an option to require the transfer of the plantation land use rights through a long term lease for a maximum period of up to 30 to 50 years, subject to negotiation of a price for the transfer of the plantation land use rights and receipt of relevant government approvals, and satisfaction of registration requirements.

The figures for and descriptions of Sino-Forest’s assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

124. The Defendant Chan as Chief Executive Officer, the Defendant Horsley as Chief Financial Officer, and the Defendants Hyde and Mak on behalf of the entire Board of Directors signed a certificate required by s. 58(1) of the Securities Act and thereby certified that the June

2007 Prospectus, and the documents incorporated therein, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

125. The Underwriter Defendants Merrill Lynch Canada, UBS, Haywood, Credit Suisse, Dundee Securities, and CIBC also signed a certificate required by s. 59(1) of the Securities Act and thereby certified that, to the best of their knowledge, information and belief, the June 2007 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.

126. The June 2007 Prospectus incorporated by reference a Valuation Report prepared by Pöyry Forest (one of the Pöyry Defendants), entitled “Valuation of China Forest Assets As at 31 December 2006,” and dated March 15, 2007 (the “2006 Pöyry Valuation Report”). The Pöyry 2006 Valuation Report stated:

[Pöyry] has determined the valuation of the Sino-Forest assets as at 31 December 2006 to be \$919.0 million. This is the result of a valuation of the existing planted area and uses an 11.5% discount rate applied to real, pre-tax cash flows.

Pöyry has also prepared an existing forest valuation that includes the revenues and costs of re-establishing and maintaining the plantation forests for a 50 – year period (perpetual valuation). However, to date Sino-Forest only has an option to lease the land under the purchased trees for future rotations, the terms of which have yet to be agreed. Sino-Forest is embarking on a 400 000 ha expansion of its estate in Hunan. Pöyry has determined the valuation of the Sino-Forest forest assets based on a perpetual rotation (including the planned expansion in Hunan) using a real pre-tax discount rate of 11.5% to be \$1,427.6 million as at 31 December 2006.

127. Pöyry Forest knew its 2006 Pöyry Valuation Report would be used in the June 2007 Prospectus. It issued a letter to regulators stating:

We consent to the incorporation by reference in the Prospectus of our report, entitled “Valuation of China Forest Assets as at 31 December 2006” dated March 15, 2007 (the “Report”). We further consent to the use of our name in the Prospectus under the heading “Interest of Experts” and elsewhere in the Prospectus.

We report that we have read the Prospectus and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the

Report which we have prepared or that is within our knowledge as a result of the services we performed in connection with the Report.

128. The 2007 Prospectus contained BDO's unqualified Audit Reports on the 2005 and 2006 financial statements. The Audit Reports stated that BDO had performed its audit in accordance with GAAS, and that Sino-Forest's consolidated balance sheets and consolidated statements of income and retained earnings and cash flows (financial statements), in BDO's opinion, "present fairly, in all material respects, the financial position of the Company" at year-end of those years "and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles." The reports were materially false in that BDO's audit were not performed in accordance with GAAS, the financial statements were not presented in accordance with GAAP, and figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

129. In a letter dated June 5, 2007 to the OSC and other provincial regulators, BDO consented to the inclusion of its Audit Report in the Prospectus and stated:

We report that we have read the short form prospectus and all information specifically incorporated by reference therein and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the financial statements upon which we have reported or that are within our knowledge as a result of our audits of such financial statements.

130. The June 2007 Share Offering would not have proceeded, securities regulators likely would not have issued a receipt for the 2007 Prospectus, and the shares would not have been purchased by investors, if the material falsity of the Integrity Representation, the financial statements, the Valuation Report, and the Audit Reports, as described above, had been publicly disclosed.

### **The July 2008 Note Offering**

131. On July 23, 2008, Sino-Forest closed an offering (the “2008 Note Offering”) of US\$300,000,000 (and an additional \$45,000,000 in over allotments) 5% senior convertible notes maturing on August 1, 2013 (the “2013 Notes”). The 2008 Note Offering was made pursuant to a confidential Offering Memorandum dated July 17, 2008 (the “2008 Note Offering Memorandum”). The 2008 Note Offering Memorandum was filed on SEDAR as part of a Material Change Report dated July 25, 2008. The 2008 Note Offer closed on or about July 23, 2008. The 2013 Notes were listed on TRACE.

132. All statements in the 2008 Note Offering Memorandum were representations by Sino-Forest. Sino-Forest told prospective purchasers of the 2013 Notes: “You should rely only on the information contained in this Offering Memorandum” and “We are providing it solely for the purpose of enabling you to consider a purchase of the Notes.”

133. The 2008 Note Offering Memorandum contained the Integrity Representation, which was materially false.

134. The 2008 Note Offering Memorandum contained Sino-Forest financial statements for the years ended 2004, 2005, 2006, and 2007. The financial statements contained figures for and descriptions of Sino-Forest’s assets, revenues, cash flows, equity, net income, and related-party transactions, among other things. It also stated:

As of March 31, 2008, we had approximately 328,000 hectares of tree plantations under management located in six provinces of the PRC and we have entered into long-term agreements that give us the right to acquire, subject to contractual conditions and other factors, up to approximately 653,000 additional hectares of plantation trees.

The figures for and descriptions of Sino-Forest’s assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

135. The 2008 Note Offering Memorandum incorporated by reference a Valuation Report prepared by Pöyry Forest, entitled “Sino Forest Corporation Valuation of China Forest Assets as

of 31 December 2007,” and dated March 14, 2008 (the “2007 Pöyry Valuation Report”). The 2007 Pöyry Valuation Report stated:

Pöyry has determined the valuation of the Sino-Forest assets as at 31 December 2007 to be USD 1 245.3 million. This is the result of a valuation of the existing planted area and uses an 11.5% discount rate applied to real, pre-tax cash flows.

Pöyry has also prepared an existing forest valuation that includes the revenues and costs of re-establishing and maintaining the plantation forests for a 60 – year period (perpetual valuation). However, to date Sino-Forest only has an option to lease the land under the purchased trees for future rotations, the terms of which have yet to be agreed. Sino-Forest is embarking on a 750 000 ha expansion of its estate in Hunan, Yunnan and Guangxi Provinces. Pöyry has determined the valuation of the Sino-Forest forest assets based on a perpetual rotation (including the planned expansion in Hunan, Yunnan and Guangxi) using a real pre-tax discount rate of 11.5% to be USD3 205.2 million as at 31 December 2007.

136. Pöyry Forest knew the 2007 Pöyry Valuation Report would be used in Sino-Forest’s 2008 Note Offering Memorandum. In a letter to Sino Forest dated March 14, 2008, Pöyry Forest consented to: “The inclusion of the [2007 Pöyry Valuation] Report and/or a summary thereof (explicitly or by incorporation by reference) in, and/or any reference to the Report at any time by the Corporation or any subsidiaries thereof in, . . . [a]ny document pursuant to which any securities of the Corporation or any subsidiary are offered for sale.”

137. The 2008 Note Offering Memorandum contained BDO’s unqualified Audit Reports on the 2005 and 2006 financial statements and Ernst & Young’s unqualified Audit Report on the 2007 financial statements. The Audit Reports stated that the respective Auditor Defendants had performed their audits in accordance with GAAS, and that Sino-Forest’s consolidated balance sheets and consolidated statements of income and retained earnings and cash flows (financial statements), in the Auditor Defendants’ opinions, “present fairly, in all material respects, the financial position of the Company” at year-end of those years “and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted

accounting principles.” The reports were materially false in that the Auditor Defendants’ respective audits were not performed in accordance with GAAS, the financial statements were not presented in accordance with GAAP, and figures for and descriptions of Sino-Forest’s assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

138. The 2008 Note Offering Memorandum states the audited financial statements “have been included herein with the consent of and in reliance upon the reports of BDO McCabe Lo Limited and Ernst & Young LLP, as applicable.”

139. The Defendants Merrill Lynch and Credit Suisse USA were the dealer managers and initial purchasers of the 2013 Notes in the 2008 Note Offering.

140. The 2008 Note Offering would not have proceeded, securities regulators likely would not have allowed the offering, and the 2013 Notes would not have been purchased by investors, if the material falsity of the Integrity Representation, the financial statements, the Valuation Report, and the Audit Reports, as described above, had been publicly disclosed.

#### **The June 2009 Share Offering**

141. On June 1, 2009 Sino-Forest commenced an offering of 30,000,000 common shares of Sino-Forest at \$11.00 per share (the “June 2009 Share Offering”). The shares were offered for sale pursuant to a short form prospectus dated June 1, 2009 (the “June 2009 Prospectus”). The June 2009 Prospectus was filed on SEDAR. The offering closed on June 8, 2009.

142. The June 2009 Prospectus contained the Integrity Representation, which was materially false.

143. The June 2009 Prospectus contained Sino-Forest financial statements for the years ended 2005, 2006, 2007, and 2008. The financial statements contained figures for and descriptions of

Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions, among other things. It also stated:

As of March 31, 2008, we had approximately 328,000 hectares of tree plantations under management located in six provinces of the PRC and we have entered into long-term agreements that give us the right to acquire, subject to contractual conditions and other factors, up to approximately 653,000 additional hectares of plantation trees. . . .

The figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

144. The Defendant Chan as Chief Executive Officer, the Defendant Horsley as Chief Financial Officer, and the Defendants Martin and the Defendant Hyde on behalf of the entire Board of Directors signed a certificate required by s. 58(1) of the Securities Act and thereby certified that the June 2009 Prospectus, and the documents incorporated therein, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

145. Merrill Lynch Canada, Credit Suisse, Dundee Securities, TD Securities, and Scotia Capital also signed a certificate required by s. 59(1) of the Securities Act and thereby certified that, to the best of their knowledge, information and belief, the June 2009 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.

146. The June 2009 Prospectus incorporated by reference a Valuation Report prepared by Pöyry Forest entitled "Valuation of China Forest Crop Assets As at 31 December 2008," dated April 1, 2009 (the "2008 Pöyry Valuation Report"). The 2008 Valuation Report stated: "Pöyry has estimated the market value of Sino-Forest's tree crop assets, as at 31 December 2008, to be USD 1,644.6 million." That statement was materially false.

147. Pöyry Forest knew the 2008 Pöyry Valuation Report would be used in the June 2009 Prospectus. In a letter to regulators it stated:



We consent to the incorporation by reference in the Prospectus of our report, entitled “Valuation of China Forest Crop Assets as at 31 December 2008” dated 01 April 2009 (the “Report”). We further consent to the use of our name in the Prospectus under the heading “Interest of Experts” and elsewhere in the Prospectus.

We report that we have read the Prospectus and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the Report which we have prepared or that is within our knowledge as a result of the services we performed in connection with the Report.

148. The June 2009 Prospectus contained Ernst & Young’s unqualified Audit Reports on the 2007 and 2008 financial statements. The Audit Reports stated that Ernst & Young had performed its audit in accordance with GAAS, and that Sino-Forest’s consolidated balance sheets and consolidated statements of income and retained earnings and cash flows (financial statements), in Ernst & Young’s opinion, “present fairly, in all material respects, the financial position of the Company” at year-end of those years “and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.” The reports were materially false in that Ernst & Young’s audit were not performed in accordance with GAAS, the financial statements were not presented in accordance with GAAP, and the figures for and descriptions of Sino-Forest’s assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

149. In a letter dated June 1, 2009 to the OSC and other provincial regulators, Ernst & Young consented to the inclusion of its audited financial statements in the Prospectus and stated:

We have read the short form prospectus (“Prospectus”) of the Company dated June 1, 2009 relating to the issue and sale of 30,000,000 common Shares of the Company.

We consent to the use through incorporation by reference in the Prospectus, of our report dated March 13, 2009 to the shareholders of the Company on the following financial statements:

Consolidated balance sheets as at December 31, 2008 and 2007;

Consolidated statements of income and retained earnings, comprehensive income and cash flows for the years ended December 31, 2008 and 2007.

We report that we have read the Prospectus and all information specifically incorporated by reference therein and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the financial statements upon which we have reported or that are within our knowledge as a result of our audit of such financial statements.

150. The June 2009 Share Offering would not have proceeded, securities regulators likely would not have issued a receipt for the 2009 Prospectus, and the shares would not have been purchased by investors, if the material falsity of the Integrity Representation, the financial statements, the Valuation Report, and the Audit Reports, as described above, had been publicly disclosed.

#### **The July 2009 Exchange Note Offering**

151. On July 27, 2009, Sino-Forest closed an offering (the “2009 Exchange Note Offering”) to exchange any and all outstanding 2011 Notes, referred to above in connection with the 2004 Note Offering, for the same principal amount of newly issued Sino-Forest 10.25% guaranteed senior notes maturing on August 1, 2014 (the “2014 Exchange Notes”). The 2009 Exchange Note Offering was made pursuant to a confidential Offering Memorandum dated June 24, 2009, as amended by a supplementary Offering Memorandum dated July 9, 2009 (the “Exchange Offering Memorandum”). The Exchange Offering Memorandum was filed on SEDAR in a material change report dated June 25, 2009. The 2009 Exchange Note Offering closed on July 22, 2009. Sino-Forest issued US\$212,330,000 of 2014 Exchange Notes pursuant to the 2009 Exchange Note Offering. The 2014 Exchange Notes were listed on the Singapore Stock Exchange and TRACE.

152. All statements in the Exchange Offering Memorandum were representations by Sino-Forest. Sino-Forest told prospective purchasers of the 2014 Exchange Notes: “In making a

decision on whether to participate in the Exchange Offer, eligible holders should rely on the information contained in this Memorandum.”

153. The Exchange Offering Memorandum contained the Integrity Representation, which was materially false.

154. The Exchange Offering Memorandum contained Sino-Forest financial statements for the years ended 2005, 2006, 2007, and 2008. The financial statements contained figures for assets, revenue, and net income, among other figures. It also stated:

As of March 31, 2009, we had approximately 410,000 hectares of tree plantations under management located in eight provinces of the PRC. In addition, we have entered into long-term master agreements in Hunan, Yunnan, Guangxi, Jiangxi and Fujian that give us the right to acquire, subject to contractual conditions and other factors, up to approximately 855,000 to 1,005,000 hectares. . . .

The figures for and descriptions of Sino-Forest’s assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

155. The Exchange Offering Memorandum referred to the 2008 Pöyry Valuation Report prepared by Pöyry Forest. The 2008 Pöyry Valuation Report stated: “Pöyry has estimated the market value of Sino-Forest’s tree crop assets, as at 31 December 2008, to be USD 1,644.6 million.” That statement was materially false.

156. Pöyry Forest knew the 2008 Pöyry Valuation Report would be used in Sino-Forest’s Exchange Offering Memorandum. In a letter to Sino Forest dated April 1, 2009, Pöyry Forest consented to: “[T]he inclusion of the [2008 Pöyry Valuation] Report and/or a summary thereof (explicitly or by incorporation by reference) in, and/or any reference to the Report at any time by the Corporation or any subsidiaries thereof in, . . . [a]ny document pursuant to which any securities of the Corporation or any subsidiary are offered for sale.”

157. The Exchange Offering Memorandum contained the BDO's unqualified Audit Reports on the 2005 and 2006 financial statements and Ernst & Young's unqualified Audit Reports on the 2007 and 2008 financial statements. The Audit Reports stated that the respective Auditor Defendants had performed their audits in accordance with GAAS, and that Sino-Forest's consolidated balance sheets and consolidated statements of income and retained earnings and cash flows (financial statements), in the Auditor Defendants' opinions, "present fairly, in all material respects, the financial position of the Company" at year-end of those years "and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles." The reports were materially false in that the Auditor Defendants' audits were not performed in accordance with GAAS, the financial statements were not presented in accordance with GAAP, and the figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

158. In an annex to the Exchange Offering Memorandum, dated June 24, 2009, BDO consented to the inclusion of its audited financial statements in the Exchange Memorandum and stated:

We consent to the incorporation by reference in the exchange offer memorandum dated June 24, 2009 relating to the offers to exchange 10.25% Guaranteed Senior Notes due 2014 for any and all outstanding US\$300,000,000 9.125% Guaranteed Senior Notes due 2011 issued by Sino-Forest Corporation (the "Company"), of our report dated March 19, 2007 to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2006 and 2005 and the consolidated statements of income and retained earnings and cash flows for the two years then ended.

159. In an annex to the Exchange Offering Memorandum, dated June 24, 2009, Ernst & Young consented to the inclusion of its audited financial statements in the Exchange Offering Memorandum and stated:

We have read the exchange offer memorandum of Sino-Forest Corporation (the “Company”) dated June 24, 2009 relating to the offer to exchange any and all outstanding US\$300,000,000 9.125% Guaranteed Senior Notes Due 2011 issue by the Company. We have complied with Canadian generally accepted standards for an auditor’s involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned exchange offer memorandum of our report to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2008 and 2007 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the years the ended; our report is dated March 13, 2009. We also consent to the incorporation by reference in the above-mentioned exchange offer memorandum of our report to the directors of the Company on the consolidated balance sheet of the Company as at December 31, 2007; our report is dated March 12, 2008 except as to notes 2, 18 and 23 which are as of July 17, 2008.

160. The Defendant Credit Suisse USA was the “Dealer-Manager” of the 2009 Exchange Note Offering.

161. The 2009 Exchange Note Offering would not have proceeded, securities regulators likely would not have allowed the offering, and the 2014 Exchange Notes would not have been purchased by investors, if the material falsity of the Integrity Representation, the financial statements, the Valuation Report, and the Audit Reports, as described above, had been publicly disclosed.

#### **The December 2009 Share Offering**

162. On December 11, 2009, Sino-Forest commenced an offering of 19,000,000 common shares of Sino-Forest at \$16.80 per share (the “December 2009 Share Offering”). The shares were offered for sale pursuant to a short form prospectus dated December 10, 2009 (the “December 2009 Prospectus”). The December 2009 Prospectus was filed on SEDAR. The 2009 Share Offering closed on December 17, 2009.

163. The December 2009 Prospectus was issued for the specific purpose of guiding individual investors in deciding whether to purchase the shares.

164. The December 2009 Prospectus contained the Integrity Representation, which was materially false.

165. The December 2009 Prospectus contained Sino-Forest financial statements for the years ended 2005, 2006, 2007, and 2008. The financial statements contained figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions, among other things. It also stated:

The Corporation is a leading commercial forest plantation operator in the People's Republic of China ("PRC"), with approximately 474,000 hectares of tree plantations under management located in eight provinces of the PRC as of September 30, 2009. . . . [T]he Corporation has entered into long-term master agreements in the provinces of Hunan, Yunnan, Guangxi, Jiangxi and Fujian that give the corporation the right to acquire up to approximately 1.1 million hectares to 1.3 million hectares of tree plantations. As of September 30, 2009, the Corporation has acquired approximately 348,000 hectares under these agreements. . . . For the year ended December 31, 2008 and for the nine month period ended September 30, 2009, the Corporation's total revenue was US\$901.3 million and US\$768.6 million, respectively.

The figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

166. The Defendant Chan as Chief Executive Officer, the Defendant Horsley as Chief Financial Officer, and the Defendants Martin and the Defendant Hyde on behalf of the entire Board of Directors signed a certificate required by s. 58(1) of the Securities Act and thereby certified that the June 2009 Prospectus, and the documents incorporated therein, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

167. Credit Suisse, TD Securities, Dundee Securities, RBC, Scotia Capital, CIBC, Merrill Lynch Canada, Canaccord, and Maison Placements also signed a certificate required by s. 59(1) of the Securities Act and thereby certified that, to the best of their knowledge, information and belief, the December 2009 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.

168. The December 2009 Prospectus incorporated by reference the 2008 Valuation Report prepared by Pöyry Forest. As noted above, the 2008 Valuation report stated: “Pöyry has estimated the market value of Sino-Forest’s tree crop assets, as at 31 December 2008, to be USD1 644.6 million.” That statement was materially false.

169. Pöyry Forest knew the 2008 Pöyry Valuation Report would be used in Sino-Forest’s December 2009 Prospectus. In a letter to regulators it stated:

We consent to the incorporation by reference in the Prospectus of our report, entitled “Valuation of China Forest Crop Assets as at 31 December 2008” dated 01 April 2009 (the “Report”). We further consent to the use of our name in the Prospectus under the heading “Interest of Experts” and elsewhere in the Prospectus.

We report that we have read the Prospectus and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the Report which we have prepared or that is within our knowledge as a result of the services we performed in connection with the Report.

170. The December 2008 Prospectus contained BDO’s unqualified Audit Reports on the 2005 and 2006 financial statements and Ernst & Young’s unqualified Audit Reports on the 2007 and 2008 financial statements. The Audit Reports stated that the respective Auditor Defendants had performed their audits in accordance with GAAS, and that Sino-Forest’s consolidated balance sheets and consolidated statements of income and retained earnings and cash flows (financial statements), in the Auditor Defendants’ opinion, “present fairly, in all material respects, the financial position of the Company” at year-end of those years “and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.” The reports were materially false in that the respective Auditor Defendants’ audits were not performed in accordance with GAAS, the financial statements were

not presented in accordance with GAAP, and the figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

171. In a letter dated December 10, 2009 to the OSC and other provincial regulators, Ernst & Young consented to the inclusion of its Audit Report in the Prospectus and stated:

We refer to the short form prospectus ("Prospectus") of the Company dated December 10, 2009 relating to the issue and sale of 19,000,000 common shares of the Company.

We consent to the use through incorporation by reference in the Prospectus, of our report dated March 13, 2009 to the shareholders of the Company on the following financial statements:

Consolidated balance sheets as at December 31, 2008 and 2007;

Consolidated statements of income and retained earnings, comprehensive income and cash flows for the years ended December 31, 2008 and 2007.

We report that we have read the Prospectus and all information specifically incorporated by reference therein and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the financial statements upon which we have reported or that are within our knowledge as a result of our audit of such financial statements.

172. BDO also consented to the incorporation by reference of its Audit Reports for the years 2005 and 2006 and in a letter dated December 10, 2011 to the OSC and other provincial regulators stated:

We report that we have read the Prospectus and all information specifically incorporated by reference therein and have no reason to believe that there are any misrepresentations in the information contained therein that are derived from the financial statements upon which we have reported or that are within our knowledge as a result of our audits of such financial statements.

173. The December 2009 Share Offering would not have proceeded, securities regulators likely would not have issued a receipt for the December 2009 Prospectus, and the shares would not have been purchased by investors, if the material falsity of the Integrity Representation, the



financial statements, the Valuation Report, and the Audit Reports, as described above, had been publicly disclosed.

### **The December 2009 Note Offering**

174. On December 17, 2009, Sino-Forest closed an offering (the “2009 Note Offering”) of US\$400,000,000 (and an additional \$45,000,000 in over allotments) 5% senior convertible notes maturing on December 15, 2016 (the “2016 Convertible Notes”). The 2009 Note Offer was a private placement made pursuant to a confidential Offering Memorandum dated December 10, 2009 (the “2009 Note Offering Memorandum”). The 2009 Offering Memorandum was filed on SEDAR on December 11, 2009. The 2009 Note Offer closed on or about December 17, 2009. The 2016 Convertible Notes were listed on TRACE.

175. All statements in the 2009 Note Offering Memorandum were representations by Sino-Forest. Sino-Forest told prospective purchasers of the 2016 Convertible Notes: “You should rely only on the information contained in this Offering Memorandum” and “We are providing it solely for the purpose of enabling you to consider a purchase of the Notes.”

176. The 2009 Note Offering Memorandum contained the Integrity Representation, which was materially false.

177. The 2009 Note Offering Memorandum contained Sino-Forest financial statements for the years ended 2005, 2006, 2007, and 2008. The financial statements contained figures for and descriptions of Sino-Forest’s assets, revenues, cash flows, equity, net income, and related-party transactions, among other things. It also stated:

We are a leading commercial forest plantation operator in the PRC, with approximately 474,000 hectares of tree plantations under management . . . In addition, we have entered into long-term master agreements . . . that gives us the right to acquire up to approximately 1.1million to 1.3 million hectares of tree plantations. As of September 30, 2009, we have acquired approximately 348,000 hectares under these agreements.

The figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

178. The 2009 Note Offering Memorandum specifically incorporated by reference the 2008 Pöyry Valuation Report: "The Pöyry Reports, filed with the provincial securities commissions or similar commissions or similar authorities in Canada, are also specifically incorporated by reference in and form an integral part of this Offering Memorandum." As noted above, the 2008 Pöyry Valuation Report stated: "Pöyry has estimated the market value of Sino-Forest's tree crop assets, as at 31 December 2008, to be USD1 644.6 million." That statement was materially false.

179. Pöyry Forest knew the 2008 Pöyry Valuation Report would be used in Sino-Forest's 2009 Offering Memorandum. As noted above, in a letter to Sino Forest dated April 1, 2009, Pöyry Forest consented to: "The inclusion of the [2008 Valuation] Report and/or a summary thereof (explicitly or by incorporation by reference) in, and/or any reference to the Report at any time by the Corporation or any subsidiaries thereof in, . . . [a]ny document pursuant to which any securities of the Corporation or any subsidiary are offered for sale."

180. The 2009 Note Offering Memorandum contained BDO's unqualified Audit Reports on the 2005 and 2006 financial statements and Ernst & Young's unqualified Audit Reports on the 2007 and 2008 financial statements. The Audit Reports stated that the respective Auditor Defendants had performed their audits in accordance with GAAS, and that Sino-Forest's consolidated balance sheets and consolidated statements of income and retained earnings and cash flows (financial statements), in the Auditor Defendants' opinion, "present fairly, in all material respects, the financial position of the Company" at year-end of those years "and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles." The reports were materially false in that the

respective Auditor Defendants' audits were not performed in accordance with GAAS, the financial statements were not presented in accordance with GAAP, and the figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

181. In an annex to the 2009 Note Offering Memorandum, dated June 24, 2009, BDO consented to the inclusion of its audited financial statements in the Exchange Memorandum and stated:

We consent to the incorporation by reference in the exchange offer memorandum dated June 24, 2009 relating to the offers to exchange 10.25% Guaranteed Senior Noted due 2014 for any and all outstanding US\$300,000,000 9.125% Guaranteed Senior Notes due 2011 issued by Sino-Forest Corporation (the "Company"), of our report dated March 19, 2007 to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2006 and 2005 and the consolidated statements of income and retained earnings and cash flows for the two years then ended.

182. In an annex to the 2009 Note Offering Memorandum, dated June 24, 2009, Ernst & Young consented to the inclusion of its audited financial statements in the Exchange Memorandum and stated:

We have read the exchange offer memorandum of Sino-Forest Corporation (the "Company") dated June 24, 2009 relating to the offer to exchange any and all outstanding US\$300,000,000 9.125% Guaranteed Senior Notes Due 2011 issue by the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned exchange offer memorandum of our report to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2008 and 2007 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the years the ended; our report is dated March 13, 2009. We also consent to the incorporation by reference in the above-mentioned exchange offer memorandum of our report to the directors of the Company on the consolidated balance sheet of the Company as at December 31, 2007; our report is dated March 12, 2008 except as to notes 2, 18 and 23 which are as of July 17, 2008."

183. The Defendants Credit Suisse USA, ~~Bank of America ML~~, and TD Securities were the “joint book-runners” in the 2009 Note Offering and Merrill Lynch, Credit Suisse, and TD Securities were also the “initial purchasers” of the 2016 Convertible Notes.

184. The 2009 Note Offering would not have proceeded, securities regulators likely would not have allowed the offering, and the 2016 Convertible Notes would not have been purchased by investors, if the material falsity of the Integrity Representation, the financial statements, the Valuation Report, and the Audit Reports, as described above, had been publicly disclosed.

#### **The February 2010 Exchange Note Offering (Mandra Forestry)**

185. In connection with its purchase of Mandra Forestry Holdings Limited (Mandra Holdings), on February 5, 2010, Sino-Forest completed an exchange with holders of 99.7% of the US \$195 million 12% guaranteed senior notes due 2013 issued by Mandra Forestry Finance Limited and 96.7% of warrants issued by Mandra Holdings, for new guaranteed Sino-Forest 10.25% senior notes in the aggregate principal amount of US \$187,177,375 maturing July 28, 2014. On February 11, 2010, the holders of the latter notes exchanged all such notes for additional 2014 Notes, referred to above in connection with the 2009 Exchange Note Offering.

186. The disclosure documents referred to above applied to this offering and the same allegations are incorporated here.

#### **The October 2010 Note Offering**

187. On October 21, 2010, Sino-Forest closed an offering (the “2010 Note Offering”) of US\$600,000,000 6.25% guaranteed senior convertible notes, maturing on October 21, 2017 (the “2017 Notes”). The 2010 Note Offering was a private placement made pursuant to a confidential Offering Memorandum dated October 14, 2010 (the “2010 Note Offering Memorandum”). The 2017 Notes were listed on the Singapore Exchange and TRACE.

188. The 2010 Note Offering Memorandum was issued for the specific purpose of guiding individual investors in deciding whether to purchase the 2017 Notes.

189. The 2010 Note Offering Memorandum contained the Integrity Representation, which was materially false.

190. The 2010 Note Offering Memorandum contained Sino-Forest financial statements for the years ended 2006, 2007, 2008, and 2009. The financial statements contained figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions, among other things. Those figures and descriptions were materially overstated or misstated.

191. The 2010 Note Offering Memorandum incorporated by reference a Valuation Report prepared by Pöyry Beijing (one of the Pöyry Defendants), entitled "Sino Forest Corporation Valuation of China Forest Crop Assets as of 31 December 2009," dated April 23, 2010 (the "2010 Pöyry Valuation Report").

192. The 2010 Pöyry Valuation Report stated: "Pöyry has estimated the market value of Sino-Forest's tree crop assets, as at 31 December 2009, to be USD 2,297.5 million." That statement was materially false.

193. Pöyry Forest knew the 2010 Pöyry Valuation Report would be used in Sino-Forest's 2010 Note Offering Memorandum. In a letter to Sino Forest dated April 30, 2010, Pöyry Management Consulting (Australia) Pty Ltd., purportedly on behalf of Pöyry Beijing, consented to: "[T]he inclusion of the [2008 Pöyry Valuation] Report and/or a summary thereof (explicitly or by incorporation by reference) in, and/or any reference to the Report at any time by the Corporation or any subsidiaries thereof in, . . . [a]ny document pursuant to which any securities of the Corporation or any subsidiary are offered for sale."

194. The 2010 Note Offering Memorandum contained Ernst & Young's unqualified Audit Reports on the 2008 and 2009 financial statements. The Audit Reports stated that Ernst & Young had performed its audit in accordance with GAAS, and that Sino-Forest's consolidated balance sheets and consolidated statements of income and retained earnings and cash flows (financial statements), in Ernst & Young's opinion, "present fairly, in all material respects, the financial position of the Company" at year-end of those years "and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles." The reports were materially false in that Ernst & Young's audits were not performed in accordance with GAAS, the financial statements were not presented in accordance with GAAP, and the figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions were materially overstated or misstated.

195. Ernst & Young consented to the inclusion of its Audit Report in the 2010 Note Offering Memorandum.

196. The 2010 Note Offering would not have proceeded, securities regulators likely would not have allowed the offering, and the 2017 Notes would not have been purchased by investors, if the material falsity of the Integrity Representation, the financial statements, the Valuation Report, and the Audit Reports, as described above, had been publicly disclosed.

#### **OTHER SINO-FOREST DOCUMENTS**

197. The following documents were issued and disseminated by Sino-Forest. Some also contained statements by a Pöyry Defendant, an Individual Defendant, and/or an Auditor Defendant as identified in the documents, in which cases such Defendant consented to the

dissemination by Sino-Forest. In each document, Sino-Forest's revenues and/or timber assets were materially overstated, as follows:

<b>Document</b>	<b>Date of Filing</b>	<b>Claimed Revenue (in \$000)</b>	<b>Claimed Timber Assets (in \$000)</b>
2003 Year End Results News Release	04/14/04	265,739	(not reported)
2003 Audited Annual Financial Statements	04/21/04	265,739	232,516
2003 MD&A	04/21/04	265,700	(not reported)
2004 Q-1 Interim Financial Statements	05/05/04	40,783	(not reported)
2004 Q-1 MD&A	05/05/04	40,783	(not reported)
2004 Q-1 News Release	05/05/04	40,783	(not reported)
Final Short Form Prospectus (includes 2003 audited financial statements)	05/07/04	265,739	232,516
Final Short Form Prospectus (includes 10/31/03 Jaakko Pöyry Valuation)	05/07/04	(not applicable)	344,500
2004 Q-1 Report	05/14/04	40,783	(not reported)
2003 Annual Report	05/18/04	265,739	232,516
2003 Annual Information Form	05/19/04	265,739	(not reported)
2004 Q-2 News Release	07/28/04	64,818	(not reported)
2004 Q-2 Interim Financial Statements	08/13/04	64,818	(not reported)
2004 Q-2 MD&A	08/13/04	64,818	(not reported)
2004 Q-3 News Release	11/09/04	94,715	(not reported)
2004 Q-3 Interim Financial Statements	11/15/04	94,715	(not reported)
2004 Q-3 MD&A	11/15/04	94,715	(not reported)
2004 Year End Results News Release	03/22/05	330,945	359,607
2004 Asset Valuation News Release	03/24/05	(not applicable)	566,000
2004 Other - Jaakko Pöyry Valuation Report	03/28/05	(not applicable)	565,600
2004 Annual Information Form	03/31/05	330,900	(not reported)
2004 MD&A	03/31/05	330,945	359,600
2004 Audited Annual Financial Statements	03/31/05	330,945	359,607
2004 Audited Annual Financial Statements	04/11/05	330,945	359,607
2004 Annual Report	04/25/05	330,945	359,607
2005 Q-1 News Release	05/06/05	75,645	422,074
2005 Q-1 MD&A	05/12/05	75,645	(not reported)
2005 Q-1 Interim Financial Statements	05/12/05	75,645	422,074
2005 Q-2 News Release	08/08/05	102,886	449,947
2005 Q-2 Interim Financial Statements	08/09/05	102,886	449,947
2005 Q-2 MD&A	08/11/05	102,886	(not reported)
2005 Q-2 Interim Financial Statements	08/11/05	102,886	449,947
2005 Q-3 News Release	11/07/05	144,359	478,227
2005 Q-3 Interim Financial Statements	11/14/05	144,359	478,227
2005 Q-3 MD&A	11/14/05	144,359	(not reported)
2005 Technical Report -Jaakko Pöyry Valuation	03/08/06	(not applicable)	728,500

2005 Asset Valuation News Release	03/08/06	<i>(not applicable)</i>	728,500
2005 Year End Results News Release	03/31/06	493,301	513,412
2005 Year End Results News Release	03/31/06	493,301	513,412
2005 Annual Information Form	03/31/06	493,000	<i>(not reported)</i>
2005 MD&A	03/31/06	493,301	513,400
2005 Audited Annual Financial Statements	03/31/06	493,301	513,412
2006 Q-1 MD&A	05/11/06	98,864	<i>(not reported)</i>
2006 Q-1 Interim Financial Statements	05/11/06	98,864	565,806
2006 Q-1 News Release	05/11/06	98,864	565,806
2006 Q-1 News Release	05/11/06	98,864	565,806
2005 Annual Report	05/12/06	493,301	513,412
2006 Q-2 News Release	08/10/06	107,274	590,333
2006 Q-2 Interim Financial Statements	08/10/06	107,274	590,333
2006 Q-2 MD&A	08/10/06	107,274	<i>(not reported)</i>
2006 Q-3 News Release	11/09/06	188,535	667,146
2006 Q-3 MD&A	11/13/06	188,535	<i>(not reported)</i>
2006 Q-3 Interim Financial Statements	11/13/06	188,535	667,146
2006 Q-3 Report	11/15/06	188,535	667,146
2006 Year End Results News Release	03/19/07	644,979	752,783
2006 MD&A	03/19/07	644,979	752,800
2006 Audited Annual Financial Statements	03/19/07	644,979	752,783
2006 Other - Pöyry Valuation Report	03/28/07	<i>(not applicable)</i>	919,000
2006 Asset Valuation News Release	03/28/07	<i>(not applicable)</i>	919,000
2006 Annual Report	05/04/07	644,979	752,783
2007 Q-1 News Release	05/14/07	119,949	814,136
2007 Q-1 Interim Financial Statements	05/14/07	119,949	814,136
2007 Q-1 MD&A	05/14/07	119,949	<i>(not reported)</i>
2007 Q-1 Report	05/23/07	119,949	814,136
Preliminary Short Form Prospectus (reference to 2005 audited financial statements)	05/28/07	493,301	513,412
Preliminary Short Form Prospectus (reference to 2006 audited financial statements)	05/28/07	644,979	752,783
Final Short Form Prospectus (reference to 2005 audited financial statements)	06/05/07	493,301	513,412
Final Short Form Prospectus (reference to 2006 audited financial statements)	06/05/07	644,979	752,783
2007 Q-2 News Release	08/13/07	128,764	879,530
2007 Q-2 Interim Financial Statements	08/13/07	128,764	879,530
2007 Q-2 MD&A	08/13/07	128,764	<i>(not reported)</i>
2007 Q-2 Report	08/22/07	128,764	879,530
2007 Q-3 News Release	11/12/07	161,475	1,026,698
2007 Q-3 MD&A	11/12/07	161,475	<i>(not reported)</i>
2007 Q-3 Interim Financial Statements	11/12/07	161,475	1,026,698
2007 Q-3 Report	11/27/07	161,475	1,026,698
2007 MD&A	03/18/08	713,866	<i>(not reported)</i>



2007 Audited Annual Financial Statements	03/18/08	713,866	1,174,153
2007 Year End Results News Release	03/18/08	713,866	1,174,153
2007 Technical Report - Pöyry Valuation Report	03/31/08	<i>(not applicable)</i>	1,245,284
2007 Asset Valuation News Release	03/31/08	<i>(not applicable)</i>	1,200,000
2007 Annual Report	05/06/08	713,866	1,174,153
2008 Q-1 Interim Financial Statements	05/13/08	136,137	1,271,686
2008 Q-1 MD&A	05/13/08	136,137	<i>(not reported)</i>
2008 Q-1 News Release	05/13/08	136,137	1,271,686
2008 Q-2 MD&A	08/12/08	187,125	<i>(not reported)</i>
2008 Q-2 Interim Financial Statements	08/12/08	187,125	1,369,700
2008 Q-2 News Release	08/12/08	187,125	1,369,700
2008 Q-2 Interim Financial Statements	08/12/08	187,125	1,369,700
2008 Q-2 MD&A	08/12/08	187,125	<i>(not reported)</i>
2008 Q-3 Interim Financial Statements	11/13/08	295,548	1,465,336
2008 Q-3 News Release	11/13/08	295,548	1,465,336
2008 Q-3 MD&A	11/13/08	295,548	<i>(not reported)</i>
2008 Year End Results News Release	03/16/09	901,295	1,653,306
2008 Audited Annual Financial Statements	03/16/09	901,295	1,653,306
2008 MD&A	03/16/09	901,295	<i>(not reported)</i>
2008 Other - Pöyry Valuation Report	04/02/09	<i>(not applicable)</i>	1,644,602
2008 Asset Valuation News Release	04/02/09	<i>(not applicable)</i>	1,640,000
2008 Annual Report	05/04/09	901,295	1,653,306
2009 Q-1 News Release	05/11/09	177,234	1,839,829
2009 Q-1 Interim Financial Statements	05/11/09	177,234	1,839,829
2009 Q-1 MD&A	05/11/09	177,234	<i>(not reported)</i>
Preliminary Short Form Prospectus (reference to 2007 audited financial statements)	05/22/09	713,866	1,174,153
Preliminary Short Form Prospectus (reference to 2008 audited financial statements)	05/22/09	901,295	1,653,306
Final Short Form Prospectus (reference to 2007 audited financial statements)	06/01/09	713,866	1,174,153
Final Short Form Prospectus (reference to 2008 audited financial statements)	06/01/09	901,295	1,653,306
2009 Q-2 News Release	08/10/09	224,419	1,921,781
2009 Q-2 Interim Financial Statements	08/10/09	224,419	1,921,781
2009 Q-2 MD&A	08/10/09	224,419	<i>(not reported)</i>
2009 Q-3 Interim Financial Statements	11/12/09	366,962	2,065,752
2009 Q-3 News Release	11/12/09	366,962	2,065,752
2009 Q-3 MD&A	11/12/09	366,962	<i>(not reported)</i>
Preliminary Short Form Prospectus (reference to 2007 audited financial statements)	12/01/09	713,866	1,174,153
Preliminary Short Form Prospectus (reference to 2008 audited financial statements)	12/01/09	901,295	1,653,306
Final Short Form Prospectus (reference to 2007 audited financial statements)	12/11/09	713,866	1,174,153

Final Short Form Prospectus (reference to 2008 audited financial statements)	12/11/09	901,295	1,653,306
2009 MD&A	03/16/10	1,238,185	(not reported)
2009 Audited Annual Financial Statements	03/16/10	1,238,185	2,183,489
2009 Year End Results News Release	03/16/10	1,238,185	2,183,489
2009 Technical Report - Pöyry Valuation Report	04/30/10	(not applicable)	2,297,474
2009 Asset Valuation News Release	04/30/10	(not applicable)	2,300,000
2009 Annual Report	05/11/10	1,238,185	2,183,489
2010 Q-1 MD&A	05/12/10	251,015	(not reported)
2010 Q-1 Interim Financial Statements	05/12/10	251,015	2,589,362
2010 Q-1 News Release	05/12/10	251,015	2,589,362
2010 Q-2 MD&A	08/10/10	305,758	(not reported)
2010 Q-2 Interim Financial Statements	08/10/10	305,758	2,746,883
2010 Q-2 News Release	08/10/10	305,758	2,746,883
2010 Q-3 MD&A	11/10/10	599,490	(not reported)
2010 Q-3 Interim Financial Statements	11/10/10	599,490	2,992,447
2010 Q-3 News Release	11/10/10	599,490	2,992,447
2010 Audited Annual Financial Statements	03/15/11	1,923,536	3,122,517
2010 MD&A	03/15/11	1,923,536	3,122,517
2010 Year End Results News Release	03/15/11	1,923,536	3,122,517
2010 Annual Report	05/10/11	1,923,536	3,122,517

198. According to each such document issued during or relating to the Class Period, signed by the Defendant Chan as Chief Executive Officer and the Defendant Horsley or the Defendant Mak as Chief Financial Officer:

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the Annual Report is consistent with the consolidated financial statements.

Management maintains a system of internal accounting and administrative controls to provide reasonable assurance as to the reliability of the financial records and the safeguarding of the Company's assets.

*See, e.g., 2008 Annual Report.* In truth, the company's financial statements were not reliable and had not been prepared in accordance with Canadian GAAP, but instead contained material overstatements or misstatements of figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions.

199. Each such Sino-Forest document contained the Integrity Representation, which was materially false.

200. Each such Sino-Forest document would reasonably be expected to affect the value of Sino-Forest Securities.

### **PÖYRY VALUATION REPORTS**

201. Sino-Forest engaged JP Management, for substantial fees, to prepare Valuation Reports for the years ended December 31, 2003, 2004, and 2005. The 2003, 2004, and 2005 Valuation Reports included statements of Sino-Forest's timber asset holdings that were material overstatements. The Valuation Reports prepared by JP Management were incorporated by reference in Core Documents relating to the years ended December 31, 2003, 2004, and 2005. The 2003, 2004, and 2005 Valuation Reports also were posted on the company website at [www.sinoforest.com](http://www.sinoforest.com) under "Investor Relations, Filings" and also were filed on SEDAR. JP Management knew of and consented to Sino-Forest's use of the 2003, 2004, 2005 Valuation Reports in its Core Documents during the Class Period.

202. Sino-Forest engaged Pöyry Forest, for substantial fees, to prepare Valuation Reports for the years ended December 31, 2006, 2007, and 2008. The 2006, 2007, and 2008 Valuation Reports included statements of Sino-Forest's timber asset holdings that were material overstatements. The Valuation Reports prepared by Pöyry Forest were incorporated by reference in Core Documents relating to the years ended December 31, 2006, 2007, and 2008. The 2006, 2007, and 2008 Valuation Reports also were posted on the company website at [www.sinoforest.com](http://www.sinoforest.com) under "Investor Relations, Filings" and also were filed on SEDAR. Pöyry Forest knew of and consented to Sino-Forest's use of the 2006, 2007, and 2008 Valuation Reports in its Core Documents during the Class Period.

203. Sino-Forest engaged Pöyry Beijing, for substantial fees, to prepare Valuation Reports for the years ended December 31, 2009 and 2010. The 2009 and 2010 Valuation Reports included statements of Sino-Forest's timber asset holdings that were material overstatements. The Valuation Reports prepared by Pöyry Beijing were incorporated by reference in Core Documents relating to the years ended December 31, 2009 and 2010. The 2009 and 2010 Valuation Reports also were posted on the company website at [www.sinoforest.com](http://www.sinoforest.com) under "Investor Relations, Filings" and also were filed on SEDAR. Pöyry Beijing knew of and consented to Sino-Forest's use of the 2009 and 2010 Valuation Reports in its Core Documents during the Class Period.

204. The Valuation Reports are also Core Documents and would reasonably be expected to affect the market price of Sino-Forest Securities.

205. In early 2011, recognizing the impact the Pöyry Defendants' flawed Valuation Reports were having on the market, Pöyry belatedly sought to restrict the public disclosure of the Valuation Reports. The 2010 Fourth Quarter Earnings Release dated March 15, 2011 revealed:

Sino-Forest has engaged Pöyry Consulting, an international forestry firm with forestry expertise, to provide an annual independent valuation of our forest plantation assets. Pöyry is currently in the process of completing the 2010 year end valuation report which is expected to be finalized by the end of April 2011.

However, Pöyry has changed its disclosure policy so as to no longer allow its clients to make its detailed valuation reports publicly available.

In correspondence, received from Pöyry, Doug Parsonson, Vice-President, Asia-Pacific Management Consulting said, "An internal risk assessment has been conducted throughout Pöyry's Management Consulting Business Group in 2010. On the basis of this risk assessment, it has inter alia been resolved throughout the business group that Pöyry's valuation reports (and similar) may no longer be made available in the public domain for certain markets. Specific markets identified in the initial assessment include North America (USA and Canada), Australia, and Mainland China. *In accordance with this group internal assessment, the reports covering the valuation services performed by Pöyry for Sino-Forest Corporation may no longer be posted on the internet as had been the practice, or in any other manner be made publicly available.*"

Pöyry and Sino-Forest have separately agreed upon the manner in which parts of Pöyry's valuation report may, on a non-reliance basis, be communicated to Sino-Forest's stakeholders.

(Emphasis added).

206. The Valuation Reports each contained the Integrity Representation, which was materially false.

### **AUDIT REPORTS**

207. The Core Documents also included, incorporated by reference, or referred to the Audit Reports. During the Class Period, Ernst & Young issued Audit Reports for 2004, 2007, 2008, 2009, and 2010; and BDO issued Audit Reports for 2005 and 2006. The Audit Reports stated that for each year the respective Auditor Defendant had "audited the consolidated balance sheets of Sino-Forest Corporation as at [year-end] . . . and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the years then ended. . . ." The Auditor Defendants represented:

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion . . . .

208. Each year the respective Auditor Defendant issued an unqualified Audit Report for Sino-Forest, assuring investors:

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at [year end] . . . and results of its operations and its cash flows for the years ended in accordance with Canadian generally accepted accounting principles.

209. In fact, Sino-Forest's financial statements did not comply with GAAP. The financial statements were not "free of material misstatements," but rather they materially overstated Sino-Forest's assets, revenues, cash flows, equity, and net income, and contained inadequate disclosures of related-party transactions. GAAP deficiencies included (without limitation): incomplete note disclosure of related-party transactions; overstatements of cash flows and revenues from operations; failures to make clear separations among operating activities, investing activities, and financing activities in consolidated statements of cash flows; and misclassifications of assets, particularly with respect to separation of current and non-current assets.

210. In auditing Sino-Forest's financial statements and issuing clean Audit Reports, the Auditor Defendants did not comply with GAAS. The Auditor Defendants failed to exercise due care and appropriate professional skepticism in their audits of Sino-Forest's financial statements; failed to obtain sufficient and appropriate evidence on which to base their audit opinions; failed to obtain a proper understanding of Sino-Forest and its internal controls; failed to properly identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; and failed to obtain sufficient appropriate audit evidence relating to related-party transactions and ownership of assets. Had the Auditor Defendants exercised due care and complied with the GAAS, they would not have issued unqualified Audit Reports or consented to their use in documents disseminated to the investing public by Sino-Forest.

211. The Audit Reports each contained the Integrity Representation, which was materially false.

**THE RELATIONSHIP BETWEEN THE MISREPRESENTATIONS  
AND THE PRICE OF SINO-FOREST'S SECURITIES**

212. Throughout the Class Period, Sino-Forest shares were publicly traded on the TSX, which is a highly efficient and automated market. Any and all public information regarding Sino-Forest was promptly incorporated into and had a direct effect upon the price of the shares. As such, the price of the shares was directly and promptly affected by the Prospectuses, Offering Memorandums, press releases, conference calls, quarterly reports, annual reports, MD&A, the Auditors' Reports, the Valuation Reports, and other public statements and documents discussed herein.

213. The documents and statements referenced above, and all the information contained therein, including the Misrepresentations, were promptly disseminated to the investing public, including Class Members, financial analysts, and the financial press. The Defendants knew:

- (a) the documents were filed with SEDAR and the TSX and were accessible immediately by the public;
- (b) Sino-Forest provided copies of the documents, or links to them, on its public website;
- (c) The Defendants regularly communicated with the investing public and financial analysts, and the media, through press releases on newswire services and other established market communication mechanisms; and
- (d) pursuant to the Securities Act, purchasers of company's shares and notes in the various offerings referred to herein were provided, prior to their purchases, with the respective Prospectus or Offering Memorandum.

214. Therefore, the Misrepresentations caused the price of the shares and notes to be artificially inflated during the Class Period.

**CERTAIN INDIVIDUAL DEFENDANTS' PROFITS  
FROM THE MISREPRESENTATIONS**

215. Certain Individual Defendants profited from the Misrepresentations by selling shares during the Class Period at artificially high prices. The Individual Defendants sold shares as follows:

<b>The Defendant</b>	<b>Number of Shares sold</b>	<b>Value of Shares Sold</b>
Chan	182,000	\$3,003,200
Chen	167,320	\$2,982,023
Ho	132,922	\$3,150,544
Horsley	531,431	\$11,157,963
Hung	131,000	\$2,477,431
Hyde	162,222	\$2,493,148
Ip	151,100	\$2,991,933
Mak	295,000	\$5,529,285
Maradin	60,000	\$1,048,550
Martin	30,000	\$474,300
Murray	576,445	\$10,807,240
Poon	3,037,900	\$30,054,387
Zhao	179,800	\$3,544,031
<b>Total Defendants</b>	<b>5,637,140</b>	<b>\$79,714,035</b>

**CLAIMS**

**VIOLATIONS OF PART XXIII OF THE SECURITIES ACT**



216. With respect to each of the June 2009 Prospectus and the December 2009 Prospectus, on behalf of those Class Members who, during the period of distribution, purchased shares to which the Prospectus related, the Plaintiff asserts the right of action for damages provided for in s. 130 of the Securities Act and, if necessary, the comparable provisions of the securities legislation in other provinces and territories in Canada, against Sino-Forest; each Underwriter Defendant who was required to sign the certificate required by s. 59, as alleged above; every Individual Defendant who was a director of Sino-Forest at the time the Prospectus was filed, as alleged above; every Defendant who consented to the disclosure of information in the Prospectus; and every other Defendant who signed the Prospectus, as alleged above.

217. As particularized herein, each of the June 2009 Prospectus and the December 2009 Prospectus contained material Misrepresentations concerning Sino-Forest.

218. With respect to each of the offering memorandums issued by Sino-Forest, including the 2008 Note Offering Memorandum, the Exchange Offering Memorandum, the 2009 Note Offering Memorandum, and the 2010 Note Offering Memorandum, the Plaintiffs assert the right of action for damages provided for in s. 130.1 of the Securities Act and, if necessary, the comparable provisions of the securities legislation in other provinces and territories in Canada, on behalf of those Class Members who, during the period of distribution, purchased Securities to which the Offering Memorandum related, against Sino-Forest.

219. As particularized herein, each of the 2008 Note Offering Memorandum, the Exchange Offering Memorandum, the 2009 Note Offering Memorandum, the February 2010 Exchange Offering Memorandum, and the 2010 Note Offering Memorandum contained material Misrepresentations concerning Sino-Forest.

220. The Plaintiffs and the other Class Members suffered substantial damages in connection with their purchase of Sino-Forest Securities during the Period as a result of the Defendants' wrongful conduct.

**VIOLATIONS OF PART XXIII.1 OF THE SECURITIES ACT,  
SUBJECT TO LEAVE OF COURT**

221. The Plaintiffs intend to deliver a notice of motion seeking, among other things, leave to commence the statutory claim under Part XXIII.1 of the Securities Act and, if necessary, the comparable provisions of the securities legislation in other provinces and territories in Canada, and, if leave is granted, to so amend this Statement of Claim.

222. Sino-Forest is the "responsible issuer" within the meaning of s. 138.3 of the Securities Act.

223. Each of the Individual Defendants was a director and/or an officer of Sino-Forest at the time one or more material Misrepresentations complained of herein was made. Each of the Individual Defendants authorized, permitted, or acquiesced in the release of some or all of such Misrepresentations.

224. Each of the Auditor Defendants and the Pöyry Defendants is an expert within the meaning of s. 138.1 of the Securities Act. Those Defendants consented to the use of their reports, statements, and opinions in documents disseminated to the public during the Class Period, as particularized herein.

225. As particularized herein, during the Class Period, Sino-Forest, the Individual Defendants, the Auditor Defendants, and the Pöyry Defendants released and disseminated documents that contained material Misrepresentations.

226. With respect to any documents that might be determined to be Non-Core Documents, those Defendants knew, at the time the document was released, that the document contained

Misrepresentations; deliberately avoided acquiring knowledge that the document contained Misrepresentations; or were, through action or failure to act, guilty of gross misconduct in connection with the release of the document.

227. The Plaintiffs and the other Class Members suffered damages in connection with their purchases of Sino-Forest Securities during the Class Period as a result of those Defendants' Misrepresentations.

### **FRAUD**

228. Acting knowingly and deliberately or with reckless disregard for the truth, each of the Defendants misrepresented material facts concerning Sino-Forest in documents, statements, financial statements, prospectuses, offering memoranda, and filings they issued and disseminated to the investing public during the Class Period, as particularized herein. Defendants' fraudulent Misrepresentations had the purpose and effect of enabling Sino-Forest and the respective Underwriter and Note Distributor Defendants to sell over \$3 billion of Sino-Forest Securities to the public, allowing certain Individual Defendants to sell almost \$80 million of Sino-Forest shares from their personal holdings, supporting the secondary market for Sino-Forest Securities, and artificially inflating the trading price of Sino-Forest Securities during the Class Period.

229. In purchasing Sino-Forest Securities during the Class Period, the Plaintiffs and the other Class Members relied on such publicly disseminated documents, statements, financial statements, prospectuses, offering memoranda, and filings, directly or indirectly or through the operation of the markets on which the Securities traded.

230. The Plaintiffs and the other Class Members suffered substantial damages in connection with their purchase of Sino-Forest Securities during the Class Period as a result of the Defendants' wrongful conduct. But for the Defendants' wrongful conduct, the Plaintiffs and the

other Class Members would not have purchased Sino-Forest Securities or paid the artificially inflated prices they paid.

**NEGLIGENCE (SIMPLICITER)**

231. All the Defendants owed the Plaintiffs and the other Class Members a duty of care to ensure that Sino-Forest implemented and maintained adequate internal controls, procedures, and policies to ensure that the company's assets were protected and its activities conformed to all legal requirements. In addition, the Underwriter and Note Distributor Defendants, the Auditor Defendants, and the Pöyry Defendants owed the purchasers of Sino-Forest shares and notes a duty to perform their professional responsibilities in connection with Sino-Forest with appropriate care and diligence.

232. The Auditor Defendants and the Pöyry Defendants owed the purchasers of Sino-Forest shares and notes a duty of care, based in part on their consents to the inclusion of their reports and information provided by them in the share and note offering documents. Sino-Forest, the Individual Defendants, and the Underwriter Defendants owed the purchasers of shares a duty of care based in part on their issuing and signing the certificates required, respectively, by ss. 58 and 59 of the Securities Act. The Underwriter Defendants and the Note Distributor Defendants owed the purchasers of shares and notes, respectively, a duty of care based in part on their allowing the imprimatur of their association with the offerings and on their due diligence in connection with their underwriting of shares and their distribution and resale of notes.

233. The Defendants were negligent and violated the standard of care owed to the Plaintiffs and the other Class Members, including the purchasers of Sino-Forest shares and notes pursuant to the various offerings during the Class Period. It was reasonably foreseeable to the Defendants that their negligence and breach of their duty of care would cause damage to such persons.

234. With respect to each offering of Sino-Forest Securities during the Class Period, but for the Defendants' negligent acts and omissions and failures to exercise due care, the offering would not have proceeded, and the Securities would not have been issued and traded in the primary or secondary markets.

235. In connection with their purchase of Sino-Forest shares and notes, whether on an offering or on the secondary market, the Plaintiffs and the other Class Members sustained substantial damages caused by the Defendants' negligent acts and omissions and breach of their duty of care.

#### **NEGLIGENT MISREPRESENTATION**

236. It was reasonably foreseeable to the Defendants that the Plaintiffs and the other Class Members would rely on the publicly disseminated documents and statements complained of herein, which contained and reflected the statements and imprimaturs of the Defendants, in making decisions with respect to the purchase of Sino-Forest Securities, whether through an offering or on the secondary market. The Defendants owed a duty to the Plaintiffs and the other Class Members to exercise appropriate care and diligence to ensure that the documents and statements disseminated to the public about Sino-Forest were complete, truthful, and accurate.

237. The Defendants knew that the Prospectuses and Offering Memorandums referred to herein were prepared and issued for the specific purpose of inducing members of the investing public to purchase Sino-Forest Securities. The Defendants also knew that the information contained in the documents and statements disseminated to the investing public would promptly be incorporated into, and have a direct effect upon, the trading price of Sino-Forest Securities.

238. As detailed herein, each of the Prospectuses and Offering Memorandums released during the Class Period contained material Misrepresentations concerning Sino-Forest. As further

detailed herein, various other documents and statements the Defendants released during the Class Period contained material Misrepresentations about Sino-Forest.

239. All such Prospectuses, Offering Memorandums, and other documents and statements contained substantially the same Misrepresentations concerning Sino-Forest, including the Integrity Representation and the overstatement or misstatement of figures for and descriptions of Sino-Forest's assets, revenues, cash flows, equity, net income, and related-party transactions.

240. Such material Misrepresentations were the result of the Defendants' negligence and breach of their duty to exercise due care.

241. In connection with their purchase of Sino-Forest Securities during the Class Period, whether through an offering or on the secondary market, the Plaintiffs and the other Class Members reasonably relied on such Misrepresentations, directly or indirectly or through the operation of the markets in which Sino-Forest Securities traded.

242. The Plaintiffs and the other Class Members sustained substantial damages caused by the Defendants' negligence and breach of their duty to exercise due care.

### **DAMAGES**

243. During the Class Period, the Plaintiffs and the other Class Members purchased Sino-Forest Securities (shares and notes) at inflated prices relying upon the Misrepresentations, directly or indirectly or through the operation of the markets in which Sino-Forest traded. They continued to hold the Securities at inflated prices until the correction of the Misrepresentations, at which time the market adjusted the price of the Securities downward to reflect the true value of the Securities.

244. As a result of the facts pleaded above, the Plaintiffs and the other Class Members have suffered damages equivalent to the loss in market value that occurred when the truth emerged, correcting the Misrepresentations.

245. The Plaintiffs and the other Class Members are also entitled to recover, as damages or costs, in accordance with the Class Proceedings Act, the costs of administering the plan to distribute the recovery in this action.

246. The Defendants' misconduct was deliberate, intentional, high-handed, reckless, wanton, and entirely without care, and that the Defendants were motivated by economic self-interest. Such conduct renders the Defendants liable to pay punitive damages.

#### **REAL AND SUBSTANTIAL CONNECTION TO ONTARIO**

247. This action has a real and substantial connection to Ontario because, among other things:

- (a) Sino-Forest is a reporting issuer in Ontario and has its registered office in Ontario;
- (b) the shares of Sino-Forest trade on the TSX, which is located in Toronto;
- (c) the Misrepresentations were disseminated in Ontario; and
- (d) the Plaintiff NEI Investments resides in Ontario.

#### **SERVICE OUTSIDE OF ONTARIO**

248. This originating process may be served without court order outside Ontario in that the claim is:

- (a) in respect of a tort committed in Ontario (rule 17.02(g));
- (b) in respect of damages sustained in Ontario arising from a tort wherever committed (rule 17.02(h));

- (c) against a person outside Ontario who is a necessary or proper party to a proceeding properly brought against another person served in Ontario (rule 17.02(o)); and
- (d) against a person carrying on business in Ontario (rule 17.02(p)).

### **THE RELEVANT LEGISLATION**

249. The Plaintiffs plead and rely upon the Securities Act, the Courts of Justice Act, and the Class Proceedings Act, 1992, all as amended.

The Plaintiffs propose that this action be tried at the City of Toronto.

Date: September 26, 2011

KIM ORR BARRISTERS P.C.  
200 Front Street West, 23rd Floor  
P.O. Box 45  
Toronto, ON M5V 3K2

Won J. Kim P.C. (LSUC# 32918H)  
Michael C. Spencer (LSUC# 59637F)  
Megan B. McPhee P.C. (LSUC # 48351G)

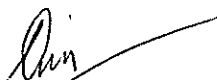
Tel: (416) 596-1414  
Fax: (416) 598-0601

Solicitors for the Plaintiffs



# **Tab B**

This is Exhibit "B" to the affidavit of Yonatan Rozenszajn,  
sworn before me at the City of Toronto, in the Province  
of Ontario, this 28<sup>th</sup> day of January, 2013.



---

A Commissioner for taking affidavits.

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

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

THE HONOURABLE MR.	)	FRIDAY, THE 13
	)	
JUSTICE MORAWETZ	)	DAY OF APRIL, 2012

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

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

**REPRESENTATION ORDER**

THIS MOTION made by the Trustees of the Labourers' Pension Fund of Central and Eastern Canada and the other plaintiffs (collectively, the "Ontario Plaintiffs") in the action commenced against Sino-Forest Corporation ("SFC" or the "Applicant") in the Ontario Superior Court of Justice, bearing (Toronto) Court File No. CV-11-431153-00CP (the "Ontario Class Action"), for an order appointing the Ontario Plaintiffs as representatives of those persons described in Appendix A hereto (collectively, the "Class Members"), for the purposes of these proceedings and any related or ensuing receivership, bankruptcy or other insolvency proceeding that has or may be brought before this Court in respect of the Applicant (the "Insolvency Proceedings"), was heard this day, on the Commercial List at the courthouse at 330 University Avenue, Toronto, Ontario,

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

1. **THIS COURT ORDERS** that further service of the Notice of Motion and Motion Record on any party not already served is hereby dispensed with, such that this motion was properly returnable April 13, 2012.

2. **THIS COURT ORDERS** that Ontario Plaintiffs are hereby appointed as representatives of Class Members in the Insolvency Proceedings, including, without limitation, for the purpose of settling or compromising claims by the Class Members in the Proceedings.
3. **THIS COURT ORDERS** that Koskie Minsky LLP, Siskinds LLP and Paliare Roland Rosenberg Rothstein LLP are hereby appointed as counsel for the Class Members in the Insolvency Proceedings for any issues affecting the Class Members in the Insolvency Proceedings.
4. **THIS COURT ORDERS** that SFC shall provide to the Ontario Plaintiffs and their counsel, without charge:
  - (a) the names, last known addresses and last known e-mail addresses (if any) of all the Class Members, subject to a confidentiality agreement and to only be used for the purposes of the Insolvency Proceedings; and
  - (b) upon request of the Ontario Plaintiffs and their counsel, such documents and data, as may be relevant to matters relating to the issues in the Insolvency Proceedings.
5. **THIS COURT ORDERS** that all reasonable legal, financial expert and advisory fees and all other incidental fees and disbursements, as may have been or shall be incurred by the Ontario Plaintiffs and their counsel, shall be paid out of any recovery made by the Ontario Plaintiffs and their counsel on behalf of the Class Members, whether as part of these proceedings or as part of the Ontario Class Action, in accordance with the applicable retainer agreements and as may be approved by this court, either as part of these proceedings or as part of the Ontario Class Action.
6. **THIS COURT ORDERS** that notice of the granting of this Order be provided to the Class Members by advertisement in the national edition of the Globe and Mail, the Wall Street Journal, and La Presse, at the expense of the Applicant, and under such other terms and conditions as to be agreed upon by the Ontario Plaintiffs, the Applicant and the Monitor.

7. **THIS COURT ORDERS** that the Ontario Plaintiffs, or their counsel on their behalf, are authorized to take all steps and to do all acts necessary or desirable to carry out the terms of this Order, including dealing with any Court, regulatory body and other government ministry, department or agency, and to take all such steps as are necessary or incidental thereto.
  8. **THIS COURT ORDERS** that any individual Class Member who does not wish to be bound by this Order and all other related Orders which may subsequently be made in these proceedings shall, within 30 days of publication of notice of this Order, notify the Monitor, in writing, by facsimile, mail or delivery, and substantially in the form attached as Appendix B hereto and shall thereafter not be bound and shall be represented themselves as an independent individual party to the extent they wish to appear in the Insolvency Proceedings.
  9. **THIS COURT ORDERS** that the Class Members bound by this Order specifically exclude the Excluded Persons as described in Appendix A.
  10. **THIS COURT ORDERS** that the Ontario Plaintiffs, Koskie Minsky LLP, Siskinds LLP and Paliare Roland Rosenberg Rothstein LLP shall have no liability as a result of their respective appointment or the fulfillment of their duties in carrying out the provisions of this Order from and after March 30, 2012, save and except for any gross negligence or unlawful misconduct on their parts.
  11. **THIS COURT ORDERS** that the Representatives shall be at liberty and are authorized at any time to apply to this Honourable Court for advice and directions in the discharge or variation of their powers and duties.
-

**APPENDIX A TO REPRESENTATION ORDER**  
**DEFINITION OF CLASS MEMBERS**

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

For the purposes of the foregoing:

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

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

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

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

**APPENDIX "B" TO REPRESENTATION ORDER**

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

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

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

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

**OPT-OUT LETTER**

FTI Consulting Inc.  
TD Waterhouse Tower  
79 Wellington Street West  
Suite 2010, P.O. Box 104  
Toronto, Ontario M5K 1G8

Attention: Greg Watson  
Tel: 416.649.8100  
Fax: 416.649.8101  
Email: greg.watson@fticonsulting.com

I, \_\_\_\_\_, am a Class Member, as defined in the Representation Order of Mr. Justice Morawetz dated April 13, 2012 (the "Order").

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

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

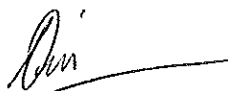
\_\_\_\_\_  
Date

\_\_\_\_\_  
Name:

# Tab C



This is Exhibit "C" to the affidavit of Yonatan Rozenszajn,  
sworn before me at the City of Toronto, in the Province  
of Ontario, this 28<sup>th</sup> day of January, 2013.



---

A Commissioner for taking affidavits.

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 Plaintiff's Relief has been determined - motion adjourned sine die, without costs*

*[Signature]*

*On an unopposed basis Oct 9 2012 adjourned to Oct 29 + 30, 2012 (2 days booked)*

*[Signature]*

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

PROCEEDING COMMENCED AT  
TORONTO

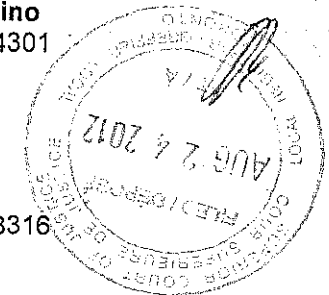
MOTION RECORD  
(Motion Returnable August 28, 2012)

**Paliare Roland Rosenberg Rothstein LLP**  
155 Wellington Street West, 35<sup>th</sup> Floor  
Toronto, ON M5V 3H1  
**Ken Rosenberg / Massimo Starnino**  
Tel: 416.646.4300 / Fax: 416.646.4301

**Koskie Minsky LLP**  
20 Queen Street West, Suite 900  
Toronto, ON M5H 3R3  
**Kirk Baert / Jonathan Bida**  
Tel: 416.977.8353 / Fax: 416.977.3316

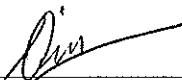
**Siskinds LLP**  
680 Waterloo Street  
London, ON N6A 3V8  
**A. Dimitri Lascaris / Charles M. Wright**  
Tel: 519.672.2121 / Fax: 519.672.6065

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 D**

This is Exhibit "D" to the affidavit of Yonatan Rozenszajn,  
sworn before me at the City of Toronto, in the Province  
of Ontario, this 28<sup>th</sup> day of January, 2013.



---

A Commissioner for taking affidavits.

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

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**COMMERCIAL LIST**

THE HONOURABLE MR.	)	TUESDAY, THE 8 <sup>th</sup>
	)	
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.



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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

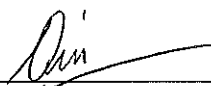
**Rob Stanley (LSUC # 27115J)**  
**Kevin Zych (LSUC #33129T)**  
**Derek Bell (LSUC #43420J)**  
**Jonathan Bell (LSUC #55457P)**

Lawyers for the Applicant



# **Tab E**

This is Exhibit "E" to the affidavit of Yonatan Rozenszajn,  
sworn before me at the City of Toronto, in the Province  
of Ontario, this 28<sup>th</sup> day of January, 2013.



---

A Commissioner for taking affidavits.

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

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

THE HONOURABLE ) TUESDAY, THE 25<sup>TH</sup> DAY  
JUSTICE PEREIL ) OF SEPTEMBER, 2012

BETWEEN:

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

Plaintiffs

- and -

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

Defendants

Proceeding under the *Class Proceedings Act, 1992*

**ORDER**

**THIS MOTION** made by the Plaintiffs for an Order i) certifying this action as a class proceeding for settlement purposes as against Pöyry (Beijing) Consulting Company Limited (the "Settling Defendant"); ii) approving the settlement agreement made as of March 20, 2012, between the plaintiffs and the Settling Defendant (the "Settlement Agreement"); iii) approving the form of notice to class members of the certification of this action and the approval of the

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

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

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

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

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

1. **THIS COURT ORDERS** that the plaintiffs are granted leave to bring this motion.
2. **THIS COURT DECLARES** that for the purposes of this Order the definitions set out in the Settlement Agreement apply to and are incorporated into this Order.

3. **THIS COURT ORDERS** that this proceeding be, and hereby is, certified as a class proceeding, for purposes of settlement only, pursuant to the *Class Proceedings Act, 1992*, SO 1992, c 6, ("*CPA*") sections 2 and 5.
4. **THIS COURT ORDERS** that the Settlement Class is defined as:
- all persons and entities, wherever they may reside, who acquired Sino-Forest Corporation common shares, notes, or other securities, as defined in the Ontario *Securities Act*, during the period from and including March 19, 2007 to and including June 2, 2011
- (a) by distribution in Canada or on the Toronto Stock Exchange or other secondary market in Canada, which includes securities acquired over-the-counter or
- (b) who are residents of Canada or were residents of Canada at the time of acquisition and who acquired Sino-Forest Corporation's securities outside of Canada,
- excluding the defendants, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any individual who is a member of the immediate family of an individual defendant;
5. **THIS COURT ORDERS AND DECLARES** that the Trustees of the Labourers' Pension Fund of Central and Eastern Canada, the Trustees of the International Union of Operating Engineers Local 793 Pension Plan for Operating Engineers in Ontario, Sjunde AP-Fonden, David Grant and Robert Wong be and hereby are appointed as the representative plaintiffs for the Settlement Class.
6. **THIS COURT ORDERS AND DECLARES** that the claims asserted on behalf of the Settlement Class as against the Settling Defendant are: (a) negligence in connection with Sino-Forest's share and note offerings during the class period; (b) the statutory cause of action in section 130 of the *Securities Act*, R.S.O. 1990, c.S.5 ("*OSA*") for alleged

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

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

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

8. **THIS COURT ORDERS** that NPT Ricepoint Class Action Services be and is hereby appointed as the Opt-Out Administrator for purposes of the proposed settlement and for carrying out the duties assigned to the Opt-Out Administrator under the Settlement Agreement.
9. **THIS COURT ORDERS** that any putative Settlement Class Member may opt out of the Settlement Class in accordance with section 4.1 of the Settlement Agreement.
10. **THIS COURT ORDERS** that any Settlement Class Member who validly opts out of the Settlement Agreement in accordance with paragraph 9 of this Order is not bound by the Settlement Agreement and may no longer participate in any continuation or settlement of the within action.
11. **THIS COURT ORDERS** that the Settlement Agreement, in its entirety (including the Recitals, the Definitions set out in Section 1, and the Schedules), forms part of this Order, shall be implemented in accordance with its terms subject to the terms of this Order, and is binding upon the Plaintiffs, the Settling Defendant, the Opt-Out Administrator and all

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

12. **THIS COURT ORDERS AND DECLARES** that any Settlement Class Member who does not validly opt out of the Settlement Class in accordance with paragraph 9 of this Order shall be deemed to have elected to participate in the settlement and be bound by the terms of the Settlement Agreement and all related court Orders.
13. **THIS COURT ORDERS AND DECLARES** that each Settlement Class Member who does not opt out of the Settlement Class in accordance with paragraph 9 of this Order shall consent and shall be deemed to have consented to the dismissal, without costs and with prejudice, of any other action the Settlement Class Member has commenced against the Releasees, or any of them, in relation to a Released Claim (an "Other Action").
14. **THIS COURT ORDERS AND DECLARES** that each Other Action commenced in Ontario by any Settlement Class Member who does not opt out of the Settlement Class in accordance with paragraph 9 of this Order is dismissed against the Releasees, without costs and with prejudice.
15. **THIS COURT DECLARES** that, subject to the terms of this Order, the settlement as set forth in the Settlement Agreement is fair, reasonable and in the best interests of the Settlement Class Members.



16. **THIS COURT ORDERS** that, subject to the terms of this Order, the Settlement Agreement be and is hereby is approved pursuant to s. 29 of the *CPA* and that it shall be implemented in accordance with its terms.
17. **THIS COURT ORDERS** that the form and content of the Long-Form Approval Notice, the Short-Form Approval Notice, and the opt out forms attached hereto as Schedules "B", "C", and "D" respectively, be and are hereby approved and shall be published, subject to the right of the plaintiff and the Settling Defendant to make minor non-material amendments to such forms, by mutual agreement, as may be necessary or desirable, or for the purpose of creating an online opt out form at the Opt-Out Administrator's website.
18. **THIS COURT ORDERS** that the Approval Notices shall be disseminated as follows:
- (a) A copy of the Long-Form Approval Notice will be provided by Koskie Minsky LLP, Siskinds LLP, and Siskinds Desmeules, senerl (together, "Class Counsel") and the Opt-Out Administrator to all individuals or entities that have contacted Class Counsel regarding this action, and to any person that requests it;
  - (b) Within 10 days of the Order of the Québec Court approving the Settlement Agreement (the "Québec Approval Order"), the Long-Form Approval Notice will be posted on the websites of Sino-Forest Corporation (on its main page), Class Counsel, and the Opt-Out Administrator;
  - (c) Within 20 days of the Québec Approval Order, the Long-Form Approval Notice will be sent directly to the addresses of class members listed on the June 2, 2011 Shareholder List;
  - (d) Within 20 days of the Québec Approval Order, the Long-Form Approval Notice will be sent to a list of all brokers known to the Opt-Out Administrator, with a cover letter containing the following statement:

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



- (e) Within 30 days of the Québec Approval Order, the Short-Form Approval Notice will be published in the following print publications:
- (i) *The Globe and Mail*, in English, in one weekday publication;
  - (ii) *National Post*, in English, in one weekday publication;
  - (iii) *La Presse*, in French, in one weekday publication; and
  - (iv) *Le Soleil*, in French, in one weekday publication.

19. **THIS COURT ORDERS** that the cost of distributing the Approval Notices shall be borne solely by the Settling Defendant up to \$100,000 and equally between the plaintiffs and the Settling Defendant for any costs in excess of \$100,000, subject to review or readjustment by agreement between the plaintiffs and the Settling Defendant.
20. **THIS COURT ORDERS** that no Settlement Class Member may opt out of this class proceeding after the date which is sixty (60) days after the date on which the Approval Notices are first published (the "Opt-Out Deadline") except with leave of this court.
21. **THIS COURT ORDERS** that, within fifteen (15) days of the Opt-Out Deadline, the Opt-Out Administrator shall serve on the parties and file with the court an affidavit listing all persons or entities that have opted out.
22. **THIS COURT ORDERS AND DECLARES** that the Court shall retain jurisdiction over the Plaintiffs, the Opt-Out Administrator, the Settlement Class Members, the Pöyry Parties (as defined in paragraph 27 hereof), Pöyry PLC and Pöyry Finland OY for all matters relating to the within proceeding, including the administration, interpretation, effectuation, and/or enforcement of the Settlement Agreement and this Order and that all of these parties are hereby declared to have attorned to the jurisdiction of this Court in relation thereto.

23. **THIS COURT ORDERS AND DECLARES** that approval of the Settlement Agreement is contingent upon the issuance by the Superior Court of Québec of an Order approving the Settlement Agreement. If such Order is not secured in Québec, this Order shall be null and void and without prejudice to the rights of the parties to proceed with this action and any agreement between the parties incorporated in this Order shall be deemed in any subsequent proceedings to have been made without prejudice.
24. **THIS COURT ORDERS AND ADJUDGES** that upon the date the Settlement Agreement becomes final, the Releasors fully, finally, and forever release the Releasees from the Released Claims.
25. **THIS COURT ORDERS AND DECLARES** that, subject to paragraph 30 below, all claims for contribution, indemnity or other claims over, including, without limitation, potential third party claims, at common law, equity or pursuant to the *OSA* or other statute, whether asserted, unasserted or asserted in a representative capacity or in any other capacity, inclusive of interest, costs, expenses, class administration expenses, penalties, legal fees and taxes, relating to the Released Claims, which were or could have been brought in the within proceedings or otherwise, or could in the future be brought on the basis of the same events, actions and omissions underlying the within proceedings or otherwise, by any Non-Settling Defendant or any Party or any Releasor against all or any of the Releasees are barred, prohibited, and enjoined in accordance with the terms of the Settlement Agreement and this Order (the "Bar Order").
26. **THIS COURT ORDERS AND DECLARES** that if the Court determines that there is a right of contribution and indemnity or other claims over, including, without limitation, potential third party claims, at common law, equity or pursuant to the *OSA* or other

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

- (a) the Settlement Class Members shall not be entitled to claim or recover from the Non-Settling Defendants that portion of any damages (including punitive damages, if any), restitutionary award, disgorgement of profits, interest and costs that corresponds to the Proportionate Liability of the Releasees proven at trial or otherwise; and
- (b) this Court shall have full authority to determine the Proportionate Liability of the Releasees at the trial or other disposition of this action, whether or not the Releasees appear at the trial or other disposition and the Proportionate Liability of the Releasees shall be determined as if the Releasees are parties to this action and any determination by this Court in respect of the Proportionate Liability of the Releasees shall only apply in this action and shall not be binding on the Releasees in any other proceedings.

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

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

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

- (b) oral discovery of a representative of any Pöyry Party in accordance with the *Rules of Civil Procedure*, the transcript of which may be read in at trial solely by the Non-Settling Defendants as part of their respective cases in defending the Plaintiffs’ allegations concerning the Proportionate Liability of the Releasees and in connection with any potential claim by a Non-Settling Defendant against a Pöyry Party for contribution and indemnity that may arise out of an Order made under paragraph 30 below;
- (c) leave to serve a request to admit on any Pöyry Party in respect of factual matters and/or documents in accordance with the *Rules of Civil Procedure*;
- (d) the production of a representative of any Pöyry Party to testify at trial in accordance with the *Rules of Civil Procedure*, with such witness or witnesses to be subject to cross-examination by counsel for the Non-Settling Defendants; and
- (e) leave to serve *Evidence Act* notices on any Pöyry Party.

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

28. **THIS COURT ORDERS AND DECLARES** that the Pöyry Parties, Pöyry PLC and Pöyry Finland OY shall, on a best efforts basis, take steps to collect and preserve all documents relevant to the matters at issue in the within proceeding and any proceeding contemplated by paragraph 30, until such time as the within proceeding and any proceeding contemplated by paragraph 30 have been finally disposed of and all appeals or times to appeal from any Order finally disposing of the within proceeding and any proceeding contemplated by paragraph 30 have been exhausted.
29. **THIS COURT ORDERS AND DECLARES** that service on any Pöyry Party, Pöyry PLC and Pöyry Finland OY of any court documents relating to the within proceeding, including, but not limited to notices of examination, requests to inspect or admit, *Evidence Act* notices and summons, may be served on counsel for the Settling Defendant, John Pirie of Baker & McKenzie LLP, or such other counsel as may replace current counsel as counsel for the Settling Defendant in respect of this proceeding and that such service shall be deemed to be sufficient service under the *Rules of Civil Procedure*.
30. **THIS COURT ORDERS AND DECLARES** that if any Pöyry Party fails to satisfy its reasonable obligations arising under paragraph 27 above, a Non-Settling Defendant may make a motion to this Court on at least fifteen (15) days notice to compel reasonable compliance by the alleged non-compliant Pöyry Party or for such other alternative relief as the Court may consider just and appropriate. If such an Order is made, and not adhered to by the Pöyry Party at issue, a Non-Settling Defendant may then bring a motion on at least twenty (20) days notice to lift the Bar Order under paragraph 25 above with respect to the Pöyry Party at issue and to advance a claim for contribution, indemnity or other claims over against the Pöyry Party at issue.

31. **THIS COURT ORDERS AND DECLARES** that any Pöyry Party affected or potentially affected by a motion brought under paragraph 30 above shall have the right to oppose any such motion.
32. **THIS COURT ORDERS AND DECLARES** that if an Order is made under paragraph 30 above permitting a claim to be advanced against a Pöyry Party by a Non-Settling Defendant:
- (a) any limitation period applicable to such a claim, whether in favour of a Pöyry Party or a Non-Settling Defendant, shall be deemed to have been tolled as of the date of this Order and shall continue as of the date of any Order permitting a claim to be advanced against any Pöyry Party pursuant to paragraph 30 above;
  - (b) any Pöyry Party that is subject to a claim permitted under paragraph 30 above shall have all procedural and substantive rights available to it at law to defend and challenge such a claim, including, *inter alia*, the right to bring a motion for summary judgment or to strike out a pleading on the ground that it discloses no reasonable cause of action; and
  - (c) no Pöyry Party shall advance or raise any *res judicata* or issue estoppel argument or defence with respect to any claim permitted under paragraph 30 above.
33. **THIS COURT ORDERS AND DECLARES** that nothing in this Order shall be taken as a waiver of any rights that a Pöyry Party may have, now or in the future, to challenge any claim or proceeding brought against a Pöyry Party by a Non-Settling Defendant.
34. **THIS COURT ORDERS AND DECLARES** that after all appeals or times to appeal from the certification of this action against the Non-Settling Defendants have been

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

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

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

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

Date:

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

OCT 30 2012

AS DOCUMENT NO.:  
A TITRE DE DOCUMENT NO.  
PER / PAR:

*Perell J*

THE HONOURABLE JUSTICE PERELL