

Court File No.

(V-11-429003-00CP)

**ONTARIO
SUPERIOR COURT OF JUSTICE**

BETWEEN:

THE TRUSTEES OF THE LABOURERS' PENSION FUND
OF CENTRAL AND EASTERN CANADA

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, 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
and
PÖYRY (BEIJING) CONSULTING COMPANY LIMITED

Defendants

Proceeding under the *Class Proceedings Act, 1992*

NOTICE OF ACTION

TO THE DEFENDANTS

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the plaintiffs. The claim made against you is set out in the statement of claim served with this notice of action.

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 plaintiffs' lawyer or, where the plaintiffs do not have a lawyer, serve it on the plaintiffs, and file it, with proof of service, in this court office, WITHIN TWENTY DAYS after this notice of action 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.

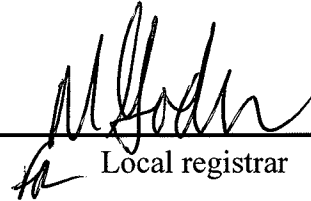
Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form 18B prescribed by the Rules of Civil Procedure. This will entitle you to ten more days within which to serve and file your statement of defence.

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 \$5,000 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 \$400.00 for costs and have the costs assessed by the court.

Date June 20, 2011

Issued by


Local registrar

Address of court office 393 University Ave. - 10th Fl.
Toronto ON M5G 1E6

TO: **Sino-Forest Corporation**
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AND TO: **David Horsley**
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AND TO: **Allen Chan**
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AND TO: **William Ardell**
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AND TO: **James Bowland**
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AND TO: **James Hyde**

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AND TO: Edmund Mak
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AND TO: W. Judson Martin
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AND TO: Peter Wang
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AND TO: Garry West
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AND TO: Ernst & Young LLP
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AND TO: Pöyry (Beijing) Consulting Company Limited
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PR CHINA

CLAIM

1. The Plaintiffs claim:

- (a) An order certifying this action as a class proceeding and appointing the Plaintiffs as representative plaintiffs for a class defined as:

All persons or entities wherever they may reside (other than the Defendants, their past and present subsidiaries, affiliates, officers, directors, senior employees, partners, legal representatives, heirs, predecessors, successors and assigns, and any individual who is an immediate member of the families of the individual named Defendants) who acquired securities of Sino-Forest Corporation from and including May 14, 2007 to and including June 2, 2011 (the "Class Period") either by primary distribution in Canada or an acquisition on the Toronto Stock Exchange or other secondary market in Canada;

or such other class definition as may be approved by the Court (the "Class" or "Class Members");

- (b) A declaration that every prospectus or other offering document, management's discussion and analysis, annual information form, information circular, annual financial statement, interim financial report, Form 52-109F2 and Form 52-109F1 issued by Sino-Forest Corporation on or after May 14, 2007 (the "Impugned Documents") contained one or more misrepresentations;
- (c) A declaration that Sino-Forest Corporation is vicariously liable for the acts and/or omissions of Allen T.Y. Chan, W. Judson Martin, Kai Kit Poon, David J. Horsley, William E. Ardell, James P. Bowland, James M.E. Hyde, Edmund Mak, Simon Murray, Peter Wang, Garry J. West, and of its other officers, directors and employees;

- (d) A declaration that Ernst and Young LLP and Pöyry (Beijing) Consulting Company Limited, are vicariously liable for the acts and/or omissions of each of their respective officers, directors, partners and employees;
- (e) General and special damages in the sum of \$6,500,000,000 or such other sum as this Court deems appropriate at the trial of the common issues or at a reference or references;
- (f) A declaration that Allen T.Y. Chan, W. Judson Martin, Kai Kit Poon, David J. Horsley, Edmund Mak, Simon Murray, Ernst and Young LLP and Pöyry (Beijing) Consulting Company Limited were unjustly enriched;
- (g) A constructive trust, accounting or such other equitable remedy as may be available as against Allen T.Y. Chan, W. Judson Martin, Kai Kit Poon, David J. Horsley, Edmund Mak, Simon Murray, Ernst and Young LLP and Pöyry (Beijing) Consulting Company Limited;
- (h) An order directing a reference or giving such other directions as may be necessary to determine issues not determined at the trial of the common issues;
- (i) leave to amend this pleading to bring the causes of action set out in Part XXIII.1 of the *Securities Act*, RSO 1990, cS5 as amended (the “OSA”) and, if necessary, the equivalent sections of the *Securities Act*, RSA 2000, c S-4, *Securities Act*, RSBC 1996, c 418, *Securities Act*, CCSM c S50, *Securities Act*, SNB 2004, c S-5.5, *Securities Act*, RSNL 1990, c S-13, *Securities Act*, SNWT 2008, c 10, *Securities Act*, RSNS 1989, c 418, *Securities Act*, S Nu 2008, c 12, *Securities Act*, RSPEI 1988, c S-3.1, *Securities Act*, RSQ c V-1.1, *Securities*

Act, 1988, SS 1988-89, c S-42.2, and *Securities Act*, SY 2007, c 16, all as amended (together with the *OSA*, the “Securities Legislation”);

- (j) Prejudgment and post judgment interest;
- (k) Costs of this action on a substantial indemnity basis or in an amount that provides full indemnity plus, pursuant to section 26(9) of the *Class Proceedings Act, 1992*, SO 1992, c 6 (the “*CPA*”), the costs of notice and of administering the plan of distribution of the recovery in this action plus applicable taxes; and
- (l) Such further and other relief as to this Honourable Court may seem just.

The Parties

The Defendants

2. The Defendant Sino-Forest Corporation (along with its subsidiaries, “Sino”) purports to be a commercial forest plantation operator in the People’s Republic of China (“PRC”). Sino is a corporation formed under the *Canada Business Corporations Act*, RSC 1985, c. C-44 (the “*CBCA*”).
3. At the material times, Sino was a reporting issuer in all provinces of Canada, and had its registered office located in Mississauga, Ontario. At the material times, Sino’s shares were listed for trading on the Toronto Stock Exchange (the “TSX”) under the ticker symbol “TRE,” on the Berlin exchange as “SFJ GR,” on the OTC market in the United States as “SNOFF,” and on the Tradedgate market as “SFJ TH.” Sino securities are also listed on alternative trading systems in Canada and elsewhere including, without limitation, AlphaToronto and PureTrading. Sino has various debt

instruments, derivatives and other securities that are publicly traded in Canada and elsewhere.

4. Sino conducted three prospectus offerings during the Class Period, raising an aggregate of almost \$950 million from investors:
 - (a) by short form prospectus dated June 5, 2007 (filed with SEDAR), Sino conducted an offering of 15,900,000 common shares at a price of \$12.65 per share, resulting in gross proceeds of \$201,135,000;
 - (b) by short form prospectus dated June 1, 2009 (filed with SEDAR), Sino conducted an offering of 34,500,000 common shares for \$11.00 per share, resulting in gross proceeds of \$379,500,000; and
 - (c) by short form prospectus dated December 10, 2009 (filed with SEDAR on December 11, 2009), Sino conducted an offering of 21,850,000 common shares for \$16.80 per share, resulting in gross proceeds of \$367,080,000.

5. As a reporting issuer in Ontario, Sino was required throughout the Class Period to issue and file with SEDAR:
 - (a) within 60 days of the end of each quarter, quarterly interim financial statements prepared in accordance with generally accepted accounting principles (“GAAP”), including a comparative statement to the end of each of the corresponding periods in the previous financial year;
 - (b) within 140 days of the end of the fiscal year, annual financial statements prepared in accordance with GAAP, including comparative financial statements relating to the period covered by the preceding financial year; and
 - (c) contemporaneously with each of the above, management’s discussion and analysis of each of the above financial statements.

6. The Defendants Allen T.Y. Chan, W. Judson Martin, Kai Kit Poon, David J. Horsley, William E. Ardell, James P. Bowland, James M.E. Hyde, Edmund Mak, Simon Murray, Peter Wang and Garry J. West (collectively, the “D&Os”) were officers and/or directors of Sino at material times during the Class Period. Poon was a director until 2008 and was Sino’s president during the Class Period. Wang has been a director since August 2007, Ardell became a director in January 2010 and Bowland and West have been directors since February 2011. Chan was a director and Sino’s chief executive officer during the Class Period. Horsley was Sino’s chief financial officer during the Class Period. Each of the D&Os are directors and/or officers of Sino within the meaning of the Securities Legislation.
7. The Defendant Ernst & Young LLP (“E&Y”) has been Sino’s auditor since August 13, 2007. E&Y was also Sino’s auditor from 2000 to 2004. E&Y is an expert of Sino within the meaning of the Securities Legislation.
8. The Defendant Pöyry (Beijing) Consulting Company Limited (“Pöyry”) is an international forestry consulting firm. Pöyry is an expert of Sino within the meaning of the Securities Legislation.

The Plaintiffs

9. The Plaintiffs are the trustees of the Labourers' Pension Fund of Central and Eastern Canada (the "Fund"), which is a multi-employer pension plan providing benefits for employees working in the construction industry. The Fund is a union-negotiated, collectively-bargained defined benefit pension plan. The Fund was established on February 23, 1972, and currently has approximately \$2 billion in assets, over 39,000 members and over 13,000 pensioners and beneficiaries, and approximately 2,000 participating employers. The Fund is governed by a board of trustees representing members of the Plan. The Plan is registered under the *Pension Benefits Act*, R.S.O. 1990, c. P.8 and the *Income Tax Act*, R.S.C. 1985, 5th Supp., c.1.
10. The Plaintiffs purchased Sino shares during the Class Period.
11. The Plaintiffs bring this action pursuant to the *CPA* on their own behalf and on behalf of all Class Members.

Factual Background

12. Throughout the Class Period, Sino purported to be a legitimate enterprise operating as a commercial forest plantation operator in the PRC. As part of its obligations as a reporting issuer in Ontario (and elsewhere), Sino issued the Impugned Documents. In those documents, Sino made statements concerning the nature of its business, its revenues, profitability, future prospects and compliance with the laws of the PRC and of Canada, implicitly and explicitly and through documents incorporated by reference.
13. In fact, such statements were materially false and/or misleading. In particular, during the Class Period, Sino falsely maintained that its financial statements complied with

Canadian GAAP, and in particular, without limitation, it materially overstated the size and value of its forestry assets, including its holdings in China's Yunnan province, and its revenue from the sale of those assets.

14. On June 2, 2011, however, the truth was at least partially revealed with the publication of a report by Muddy Waters LLC alleging fraud in Sino's public disclosure and the overstatement of Sino's forestry assets. As a result, the market value of Sino's securities fell dramatically. The market value of Sino's shares in particular fell by in excess of 70% on extraordinarily heavy trading volume.

Claims

Common Law

15. During the Class Period, the Defendants other than Pöyry falsely represented in some or all of the Impugned Documents that the Sino financial statements and/or other financial information contained therein complied and had been compiled in accordance with GAAP. The Class and the Plaintiffs relied on such statements directly or indirectly or via the instrumentality of the markets on which Sino securities traded.
16. During the Class Period, Sino's internal controls were inadequate or ignored by the Defendants. The Defendants owed a duty of care to the Plaintiffs and the Class to properly design and/or maintain such internal controls. The Plaintiffs and the Class plead negligent misrepresentation and negligence as against the Defendants other than Pöyry.

Unjust Enrichment

17. Each of Chan, Martin, Poon, Horsley, Mak and Murray sold securities of Sino while in actual or constructive possession of materially negative, undisclosed information, and were thus unjustly enriched at the expense of those persons who bought such securities. The Plaintiffs and the other Class Members plead unjust enrichment as against Chan, Martin, Poon, Horsley, Mak and Murray.
18. During the Class Period, each of E&Y and Pöyry earned fees from the Class, whether directly or indirectly, for work that they never performed or that they performed inadequately, and they were thus unjustly enriched at the expense of the Plaintiffs and Class. The Plaintiffs and Class plead unjust enrichment as against E&Y and Pöyry.

Statutory Liability for Misrepresentations – Secondary Market

19. Each of the Impugned Documents is a “Core Document” within the meaning of the Securities Legislation.
20. Each of the Impugned Documents contained one or more misrepresentations.
21. Each of the D&Os was an officer and/or director of Sino at material times. Each of the D&Os authorized, permitted or acquiesced in the release of some or all of the Impugned Documents.
22. Sino is a reporting issuer within the meaning of the Securities Legislation.
23. E&Y is an expert within the meaning of the Securities Legislation.
24. Pöyry is an expert within the meaning of the Securities Legislation.

25. The Plaintiffs and the Class assert the causes of action set forth in Part XXIII.1 of the OSA as against Sino, E&Y, Pöyry and the D&Os and will seek leave, if and as required, in connection therewith. In the alternative, the Plaintiffs and the Class assert the equivalent sections of the Securities Legislation¹ on behalf of Class Members residing or located outside of Ontario.

Statutory Liability for Misrepresentations – Primary Market

26. Sino issued prospectuses during the Class Period, including on June 1, 2009 and December 11, 2009, all of which are Impugned Documents. These prospectuses contained one or more misrepresentations and/or incorporated by reference documents that contained one or more misrepresentations.
27. Chan, Horsley, Martin and Hyde each signed the June 2009 and December 2009 prospectuses and certified that the prospectuses and the documents incorporated by reference constituted full, true and plain disclosure of all material facts.
28. Mak and Murray were directors throughout the Class Period and were directors at the time of the June 2009 and December 2009 prospectus offerings.
29. Wang was a director at the time of the June 2009 and December 2009 prospectus offerings.
30. E&Y signed the June 2009 and December 2009 prospectus.

¹ Part 16.1 of *Securities Act*, R.S.B.C. 1996, c.418; Part 17.01 of *Securities Act*, R.S.A. 2000, c. S-4; Part XVIII.1 of *Securities Act*, 1988, S.S. 1988-89, c. S-42-2; Part XVIII of *Securities Act*, C.C.S.M. c.S50; Division II of Title VIII, Chapter II of *Securities Act*, R.S.Q., c. V-1.1; Part 11.1 of *Securities Act*, S.N.B. 2004, c. S-5.5; Sections 146A to 146N of *Securities Act*, R.S.N.S. 1989, c. 418; Part XXII.1 of *Securities Act*, R.S.N.L. 1990, c. S-13; Part 14 of *Securities Act*, R.S.P.E.I. 1988, c. S-3.1; Part 14 of *Securities Act*, SY 2007, c 16; Part 14 of *Securities Act*, SNWT 2008, c 10; Part 14 of *Securities Act*, S Nu 2008, c 12.

31. The Plaintiffs and the Class plead the cause of action found in Part XXIII of the *OSA* and the equivalent sections of the Securities Legislation² as against Sino, E&Y, Chan, Horsley, Martin, Hyde, Mak, Murray, Poon and Wang.

Vicarious Liability

32. In addition to their direct liability, Sino, E&Y and Pöyry are vicariously liable for the acts and/or omissions of each of their respective officers, directors, partners and employees as set out above.

Real and Substantial Connection with Ontario

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

- (a) Sino is a reporting issuer in Ontario;
- (b) Sino's registered office is in Ontario;
- (c) Sino securities trade on the TSX which is located in Toronto, Ontario;
- (d) the Impugned Documents were disseminated in Ontario;
- (e) a substantial proportion of the Class Members reside in Ontario; and
- (f) a substantial portion of the damages sustained by the Class were sustained in Ontario.

² Part 16 of *Securities Act*, R.S.B.C. 1996, c.418; Part 17 of *Securities Act*, R.S.A. 2000, c. S-4; Part XIX of *Securities Act*, 1988, S.S. 1988-89, c. S-42-2; Part XIV of *Securities Act*, C.C.S.M. c.S50; Division I of Title VIII, Chapter II of *Securities Act*, R.S.Q., c. V-1.1; Part 11 of *Securities Act*, S.N.B. 2004, c. S-5.5; Sections 137, 139A, 140 and 141 of *Securities Act*, R.S.N.S. 1989, c. 418; Part XXII of *Securities Act*, R.S.N.L. 1990, c. S-13; Part 13 of *Securities Act*, R.S.P.E.I. 1988, c. S-3.1; Part 13 of *Securities Act*, SY 2007, c 16; Part 13 of *Securities Act*, SNWT 2008, c 10; Part 13 of *Securities Act*, S Nu 2008, c 12.

Service Outside of Ontario

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

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

Relevant Legislation

35. The Plaintiffs plead and rely on the *Courts of Justice Act*, RSO 1990, c C.43, the *CPA*, the Securities Legislation and *CBCA*, all as amended.

Place of Trial

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

37. The Plaintiffs will serve a jury notice.

June 20, 2011

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Plaintiffs

Sino-Forest Corporation, *et al.*

Defendants

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CV-11-429003-00CP

**ONTARIO
SUPERIOR COURT OF JUSTICE**

Proceeding commenced at Toronto

Proceeding under the *Class Proceedings Act, 1992*

NOTICE OF ACTION

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