

December 21, 2012

**IN THE MATTER OF
THE SECURITIES LEGISLATION OF BRITISH COLUMBIA,
ALBERTA, SASKATCHEWAN, MANITOBA, ONTARIO, QUÉBEC,
NEW BRUNSWICK, NOVA SCOTIA, PRINCE EDWARD ISLAND AND
NEWFOUNDLAND AND LABRADOR (the "Jurisdictions")**

AND

**IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF
APPLICATIONS IN MULTIPLE JURISDICTIONS**

AND

**IN THE MATTER OF
SINO-FOREST CORPORATION
(the "Filer")**

DECISION

Background

The securities regulatory authority or regulator in each of the Jurisdictions (the "**Decision Maker**") has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the "**Legislation**") that the Filer is not a reporting issuer in the Jurisdictions (the "**Exemptive Relief Sought**").

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a coordinated review application):

- (a) the Ontario Securities Commission ("**OSC**") is the principal regulator for this application, and
- (b) the decision is the decision of the principal regulator and evidences the decision of each other Decision Maker.

Interpretation

Terms defined in National Instrument 14-101 *Definitions* have the same meaning if used in this decision, unless they are defined in this decision.

Representations

This decision is based on the following facts represented by the Filer:

The Filer

1. The Filer is a corporation existing under the *Canada Business Corporation Act* (“**CBCA**”) having its registered and principal Canadian office in the Province of Ontario and its principal executive office in Hong Kong.
2. The Filer is a reporting issuer under the Legislation in each of the Jurisdictions.
3. The Filer is in default of its obligations under the Legislation as a reporting issuer for the failure to file:
 - (a) its interim financial statements and interim management's discussion and analysis for the period ended September 30, 2011 as required by National Instrument 51-102 *Continuous Disclosure Obligations* (“**NI 51-102**”) and the interim certificates as required by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (“**NI 52-109**”);
 - (b) its annual financial statements and annual management's discussion and analysis for the period ended December 31, 2011, as required by NI 51-102 and the annual certificates as required by NI 52-109;
 - (c) its applicable form and fees under OSC Rule 13-502 *Fees* in respect of its year ended December 31, 2011;
 - (d) its annual information form for the fiscal year ended December 31, 2011, as required by NI 51-102;
 - (e) its interim financial statements and interim management's discussion and analysis for the period ended March 31, 2012, as required by NI 51-102 and the interim certificates as required by NI 52-109;
 - (f) its interim financial statements and interim management's discussion and analysis for the period ended June 30, 2012, as required by NI 51-102 and the interim certificates as required by NI 52-109; and
 - (g) its interim financial statements and interim management's discussion and analysis for the period ended September 30, 2012, as required by NI 51-102 and the interim certificates as required by NI 52-109.
4. The authorized capital of the Filer consists of an unlimited number of common shares (the “**Common Shares**”) and an unlimited number of preference shares issuable in series (the “**Preferred Shares**”).

5. As at the date hereof, there are 246,095,926 issued and outstanding Common Shares, outstanding stock options to purchase 2,913,064 Common Shares (the “**Options**”), outstanding deferred share units to purchase 28,932 Common Shares (the “**DSUs**”) and no issued or outstanding Preferred Shares.
6. As at the date hereof, the Filer has the following notes outstanding:
 - (a) 6.25% guaranteed senior notes due 2017 in the principal amount of U.S. \$600 million (the “**2017 Notes**”);
 - (b) 4.25% convertible senior notes due 2016 in the principal amount of U.S. \$460 million (the “**2016 Notes**”);
 - (c) 10.25% guaranteed senior notes due 2014 in the principal amount of U.S. \$399,517,000 (the “**2014 Notes**”); and
 - (d) 5.00% convertible senior notes due 2013 in the aggregate principal amount of U.S. \$345 million (the “**2013 Notes**” and together with the 2017 Notes, the 2016 Notes and the 2014 Notes, the “**Notes**”. Holders of the Notes are referred to herein as the “**Noteholders**”).
7. The Filer has no securities issued and outstanding other than as set out in paragraphs 5 and 6 above.
8. The Common Shares were previously listed and posted for trading on the Toronto Stock Exchange (the “**TSX**”). The TSX delisted the Common Shares on May 9, 2012.
9. The Notes are not and have never been listed on any exchange in Canada. All of the Notes were initially sold by way of private placement.
10. As at the date hereof, no securities of the Filer, including debt securities, are traded in Canada on a “marketplace” as defined in National Instrument 21-101 *Marketplace Operation* (“**NI 21-101**”) or any other facility for bringing together buyers and sellers of securities where trading data is publicly reported.
11. The Filer and its agents have (a) obtained a list of all registered shareholders of the Filer as of September 21, 2012, and (b) obtained geographical searches from Broadridge Financial Solutions Inc. (“**Broadridge**”) of its broker/dealer databases relating to the Common Shares as of January 25, 2012. Although the non-registered shareholder search results have been compiled from sources believed by Broadridge to be reliable, the accuracy and completeness of the results are not guaranteed. Based on the foregoing searches, the Filer has identified a total of 3,664 Canadian holders of Common Shares representing 94.77% of the registered holders of Common Shares and holding 91.62% of the issued and outstanding Common Shares held by registered holders of Common Shares. In addition, based on the foregoing searches, the Filer has identified a total of 33,350 Canadian non-registered holders of Common Shares representing 97.5% of non-

registered holders of Common Shares and holding 35.4% of the issued and outstanding Common Shares held by non-registered holders of Common Shares.

12. The registered holder of all of the Notes is DTC, which is a nominee for certain “participants” that are financial intermediaries that hold securities on behalf of their ultimate beneficial owners. The Filer retained Broadridge to conduct a geographic survey of the beneficial holders of Notes as of August 10, 2012. The Filer has been advised that these searches were based on securityholders’ addresses of record identified in the data files provided to Broadridge by financial intermediaries that hold the securities on behalf of their clients. Although the search results have been compiled from sources believed by Broadridge to be reliable, the accuracy and completeness of the results are not guaranteed. In particular, the total amount of Notes reported on by Broadridge does not match the total amount of Notes outstanding by series in some cases, reflecting the failure of some participants to respond to Broadridge and some to respond with more holdings than there are outstanding. The number of Noteholders in total (across all series of Notes) in each jurisdiction is also overstated to some extent as the Filer has been advised by counsel to the Initial Consenting Noteholders (as defined below) that (a) certain individual Noteholders that have signed the Support Agreement (as defined below) hold Notes in more than one series, and (b) a number of investment managers hold securities in more than one legal entity, but have common management and control. Based on the information obtained by and reported to Broadridge, residents of Canada directly or indirectly beneficially own, in the aggregate, approximately 2.0% of the outstanding Notes of the Filer worldwide and directly or indirectly comprise, in the aggregate, approximately 16% of the total number of Noteholders worldwide.

Temporary Cease Trade Order

13. On August 26, 2011, the OSC made a Temporary Order (the “**Temporary Order**”), effective for a 15-day period, that the trading in the securities of the Filer cease.
14. The Temporary Order was extended on September 8, 2011, January 23, 2012, April 13, 2012, July 12, 2012, October 10, 2012 and most recently on October 26, 2012, at which time the Temporary Order was extended to January 21, 2013.

CCAA Proceedings

15. On March 30, 2012, the Filer and members of an ad hoc committee of Noteholders (the “**Initial Consenting Noteholders**”) entered into a restructuring support agreement (the “**Support Agreement**”), which provided for, among other things, the material terms of the restructuring of the Filer contemplated by the Plan.
16. On March 30, 2012, the Filer also applied for and obtained an initial order under the *Companies’ Creditors Arrangement Act* (Canada) (the “**CCAA**”) from the Superior Court of Justice (Ontario) (the “**Court**”) granting a CCAA stay of proceedings against the Filer and certain of its subsidiaries (the “**CCAA Proceedings**”) and appointing FTI Consulting Canada Inc. as the monitor in the CCAA Proceedings (the “**Monitor**”). The Monitor is

an officer of the court, and its role is to oversee the business of the Filer and be an impartial observer of the restructuring of the Filer's business pursuant to the CCAA Proceedings.

17. The CCAA stay of proceedings against the Filer and certain of its subsidiaries was subsequently extended several times, most recently on November 23, 2012, at which time the stay of proceedings was extended to February 1, 2013.

Resignation of Independent Auditor

18. On April 4, 2012, Ernst & Young LLP notified the Filer that it had resigned as the Filer's auditor effective on that date. In its resignation letter to the Filer, Ernst & Young LLP noted that the Filer had not prepared its annual financial statements for the year ended December 31, 2011 for audit and that, in the Filer's March 30, 2012 filing under the CCAA, the Filer stated that it remained unable to satisfactorily address outstanding issues in relation to its annual financial statements for the year ended December 31, 2011.

OSC Enforcement Proceedings

19. On April 5, 2012, the Filer announced that it had received an Enforcement Notice from staff of the OSC. The Filer also learned that Enforcement Notices were received that day by six of its former officers, Allen Chan, Albert Ip, Alfred Hung, George Ho, Simon Yeung and David Horsley.
20. On May 23, 2012, the Filer announced that staff of the OSC commenced proceedings before the OSC against the Filer and Messrs. Chan, Ip, Hung, Ho, Yeung and Horsley (collectively, the "**Individual Respondents**"). In the notice of hearing and statement of allegations, OSC staff allege that the Filer breached Ontario securities laws and acted in a manner that is contrary to the public interest by (i) providing information to the public in documents required to be filed or furnished under Ontario securities laws which was false or misleading in a material respect contrary to section 122 of the Securities Act (Ontario) (the "**Securities Act**") and (ii) engaging or participating in acts, practices or a course of conduct related to its securities which it knows or reasonably ought to know perpetuate a fraud on any person or company contrary to section 126.1 of the Securities Act. In OSC staff's statement of allegations, staff has made allegations against the Individual Respondents, other than Mr. Horsley, consistent with those noted above. In addition, OSC staff has made certain additional allegations against each of the Individual Respondents, including Mr. Horsley.
21. On September 26, 2012, the Filer announced that it had received a second Enforcement Notice from staff of the OSC. The second Enforcement Notice adds a further allegation similar in nature to the allegations in the original statement of allegations in relation to the Filer and the Individual Respondents.

CCAA Meeting

22. On August 31, 2012, the Court granted an order in the CCAA Proceedings (the “**Meeting Order**”) relating to the calling of a meeting of the Filer’s creditors (the “**Meeting**”) to consider a Plan of Compromise and Reorganization under the CCAA and the CBCA (as amended, supplemented or restated from time to time, the “**Plan**”).
23. Holders of Notes who are parties to the Support Agreement determined that the restructuring transaction contemplated by the Plan is the best alternative available to recover the maximum value of the Filer’s assets and agreed to the vote in favour of the Plan.
24. On September 18, 2012, the OSC granted an order pursuant to section 144(1) of the Securities Act varying the Temporary Order to the extent necessary to allow the Filer to distribute the CCAA Materials (as defined below) to all potential creditors, including the Noteholders.
25. On or about October 24, 2012, the Filer and the Monitor distributed various meeting materials to the creditors of the Filer as contemplated by the Meeting Order, which materials include a Notice of Meeting and Information Statement along with proxy materials and any amendments and supplements thereto (collectively, the “**CCAA Materials**”). The Filer also concurrently filed the Information Statement on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.
26. The Information Statement discloses that the Filer has applied to cease to be a reporting issuer under the securities laws of each province of Canada in which it is a reporting issuer immediately prior to 8:00 a.m. (Toronto time) on the Plan Implementation Date (as defined below) (or such other time on such date as the Filer, the Monitor and the Initial Consenting Noteholders may agree) (the “**Effective Time**”). The Information Statement also discloses that it is a condition of the Plan that Newco shall not be a reporting issuer (or equivalent) in any province of Canada or any other jurisdiction.
27. On October 26, 2012, the OSC granted an order pursuant to section 144(1) of the Securities Act varying the Temporary Order to the extent necessary to allow the Filer to hold the Meeting and implement the Plan, subject to certain conditions and other than in respect of trades required to give effect to an Alternative Sale Transaction (as defined below).
28. On November 21, 2012, the Filer also issued and filed a news release which, among other things, indicated that the Filer had applied to the Decision Makers for a decision that the Filer is not a reporting issuer as of the Plan Implementation Date and that, if granted, the decision would result in the Filer and Newco not being reporting issuers in any province of Canada following the Plan Implementation Date.

The CCAA Plan

29. The Plan contemplates, among other things, that:
- (a) a new company (“**Newco**”) will be incorporated under the laws of the Cayman Islands or another jurisdiction acceptable to the Filer and the Initial Consenting Noteholders. Upon the implementation of the Plan, the Filer will transfer substantially all of its assets to Newco, including all of the Filer’s direct and indirect interests in all of the Filer’s subsidiaries. Newco will subsequently transfer substantially all of its assets to a wholly-owned subsidiary of Newco (referred to in the Plan as “Newco II”);
 - (b) shares of Newco (“**Newco Shares**”) and notes of Newco (“**Newco Notes**”) will be distributed to certain creditors of the Filer, being primarily the Noteholders, as consideration for the compromise of the obligations owed to them by the Filer and its subsidiaries. Accordingly, the Noteholders will hold substantially all of the Newco Shares and Newco Notes on the Plan Implementation Date. All claims relating to the Notes will be discharged pursuant to the Plan and all Note certificates and the indentures governing the Notes will be cancelled;
 - (c) certain litigation claims of the Filer against third parties will be transferred to a litigation trust established to pursue such claims for the benefit of creditors of the Filer, including the Noteholders; and
 - (d) on the date that is 31 days after the Plan Implementation Date (or such earlier date as may be agreed to by the Filer, the Monitor and the Initial Consenting Noteholders) all of the outstanding Common Shares, Options and DSUs of the Filer will be cancelled. Following such date, the Filer will have no outstanding securities other than one Class A Share to be held by a litigation trustee or such other person as may be agreed to by the Monitor and the Initial Consenting Noteholders.
30. The Plan also provides that, at any time prior to the implementation of the Plan, the Filer may, with the consent of the Initial Consenting Noteholders, complete a sale of all or substantially all of the assets of the Filer on terms that are acceptable to the Initial Consenting Noteholders (an “**Alternative Sale Transaction**”), provided such Alternative Sale Transaction has been approved by the Court pursuant to section 26 of the CCAA on notice to the service list.
31. The approval and implementation of the Plan involves the following steps:
- (a) obtaining approval of the Plan by the required majorities (pursuant to the CCAA) of creditors at the Meeting;
 - (b) obtaining an order of the Court approving the Plan (the “**Sanction Order**”); and

- (c) the satisfaction or waiver of all conditions precedent to the implementation of the Plan.
32. Pursuant to the CCAA, in order for the Plan to be approved, a resolution to approve the Plan must be presented at the Meeting, and it must receive an affirmative vote of a majority in number of Affected Creditors (as defined in the Plan) with Proven Claims (as defined in the Plan) who are entitled to vote on the Plan in accordance with its terms and two-thirds in value of the Proven Claims held by such Affected Creditors, in each case who vote on the Plan at the Meeting.
 33. On December 3, 2012, the Plan was approved by the required majorities of Affected Creditors at the Meeting. The Plan was approved by 99% of Affected Creditors with Proven Claims who voted on the Plan and by over 99% in value of the Proven Claims held by Affected Creditors who voted on the Plan.
 34. Having obtained approval of the Plan by the required majorities of Affected Creditors, the Filer applied to the Court for the Sanction Order. The hearing for the Sanction Order was held on December 7, 2012.
 35. The Court granted the Sanction Order on December 10, 2012.
 36. Based on the CCAA and the applicable case law, the Filer was required to establish the following in order to obtain the Court's approval of the Plan:
 - (a) there has been strict compliance with all statutory requirements of the CCAA and adherence to previous orders of the Court;
 - (b) nothing has been done or purported to be done that is not authorized by the CCAA; and
 - (c) the plan is fair and reasonable.
 37. The third criterion, the "fairness test", provides the Court with broad discretion to assess the terms of the Plan. When considering whether a plan is fair and reasonable, the Court must consider the equities and balance the relative degrees of prejudice that would flow to various stakeholders from approving or refusing to approve the Plan. The Filer was required to demonstrate to the Court that the Plan fairly balances the interests of all stakeholders generally. The hearing for the Sanction Order provided the Filer's stakeholders (including shareholders) with an opportunity to object to the Plan if they believed the Plan treated them unfairly, having regard to their legal rights and interests.
 38. The Filer believes its shareholders and others with Equity Claims (as defined in the Plan) are treated fairly by the Plan. The interests of shareholders of the Filer have been represented in the CCAA Proceedings by class action counsel. The CCAA specifically provides that persons with Equity Claims may not receive any recovery under a CCAA plan until all other creditors have been paid in full. In the Filer's circumstances, the

recovery of other creditors will be impaired, so it is not possible under the CCAA to provide a recovery for Equity Claims. The Plan does, however, preserve the ability of Equity Claimants (as defined in the Plan) to pursue recoveries from the Third Party Defendants (as defined in the Plan), including certain of the Filer's former auditors and underwriters.

39. If a party wishes to appeal the Sanction Order, it may do so only with leave of the Court or the Ontario Court of Appeal. Any application for leave to appeal must be brought within 21 days (unless the Court grants an extension). The leave application does not stay the CCAA proceeding, so the Filer can proceed toward the implementation of the Plan even if leave to appeal has been sought.
40. The required creditor approval of the Plan has been achieved and the Sanction Order has been granted, so once the other conditions precedent to Plan implementation have been satisfied or waived, the Monitor will deliver a certificate indicating that Plan implementation has occurred (the date such certificate is delivered being the "**Plan Implementation Date**"), and the Plan will become binding in accordance with its terms.

The Filer Following the Plan Implementation Date

41. The Filer is applying for a decision that it is not a reporting issuer in all the jurisdictions of Canada in which it is currently a reporting issuer.
42. Upon the granting of the Exemptive Relief Sought, the Filer will not be a reporting issuer in any jurisdiction of Canada.
43. On the Plan Implementation Date, all claims relating to the Notes will be discharged pursuant to the Plan and all Note certificates and the indentures governing the Notes will be cancelled. On the date that is 31 days after the Plan Implementation Date (or such earlier date as may be agreed to by the Filer, the Monitor and the Initial Consenting Noteholders) all of the outstanding Common Shares, Options and DSUs of the Filer will be cancelled.
44. Following implementation of the Plan, the Filer will have no outstanding securities other than one Class A Share to be held by the litigation trustee or such other person as may be agreed to by the Monitor and the Initial Consenting Noteholders.
45. Following the implementation of the Plan, no securities of the Filer, including debt securities, will be traded in Canada or another country on a "marketplace" as defined in NI 21-101 or any other facility for bringing together buyers and sellers of securities where trading data is publicly reported.
46. The Filer will not seek financing by way of a public offering of its securities in Canada or elsewhere.

47. The Exemptive Relief Sought will not have any effect on existing or future OSC enforcement proceedings that have been taken or may be taken against the Filer or any other parties by staff of the Commission. The Filer confirms that it will remain under the jurisdiction of the Commission after the Exemptive Relief Sought has been granted.

Newco Following the Plan Implementation Date

48. It is a condition precedent to implementation of the Plan that Newco is not a reporting issuer (or equivalent) in any province of Canada or any other jurisdiction. As a result of the transactions described in paragraph 29 above, under the definition of “reporting issuer” in the securities legislation of certain of the provinces of Canada, Newco would otherwise become a reporting issuer by operation of law and would be subject to the continuous disclosure requirements under the securities legislation of certain of the provinces of Canada.
49. If the Exemptive Relief Sought is granted, the Filer would not be a reporting issuer immediately before the Effective Time on the Plan Implementation Date and, as a result, Newco would not become a reporting issuer by operation of law.
50. The Filer has been advised by counsel to the Initial Consenting Noteholders that following the Plan Implementation Date, Newco will have no offices or assets in Canada, few (if any) Canadian directors, officers or employees and an underlying business that will be conducted entirely outside of Canada.
51. On the Plan Implementation Date, Newco Shares and Newco Notes will be distributed *pro rata* in accordance with the Plan to Affected Creditors of the Filer with Proven Claims, being primarily the Noteholders, as consideration for the compromise of the obligations owed to them by the Filer and its subsidiaries. The Plan contemplates that certain other Affected Creditors with Unresolved Claims (as defined in the Plan) as at the Plan Implementation Date will have an amount of Newco Shares and Newco Notes in respect of their claims placed into escrow pending final determination of whether their Unresolved Claims become Proven Claims. To the knowledge of the Filer as at the date hereof, of the other Affected Creditors with Unresolved Claims that may be entitled to distributions of Newco securities under the Plan only two of such persons are resident in Canada.
52. Until such time as the claims of Affected Creditors with Unresolved Claims are disallowed or determined to be Proven Claims pursuant to the CCAA process (which will be after the Plan Implementation Date in many cases), it is not possible to determine all of the securityholders of Newco and their respective percentage holdings of Newco Shares and Newco Notes. The maximum amount of Newco Shares and Newco Notes that may be issued in respect of Unresolved Claims if they become Proven Claims is equal to approximately 7.9% of the Newco Shares and Newco Notes.
53. A very substantial majority of Newco’s securities will be held by non-Canadians on implementation of the Plan. Based on searches of beneficial holders of the Notes

obtained by the Filer and assuming no current Unresolved Claims become Proven Claims prior to the Plan Implementation Date, on the Plan Implementation Date, to the Filer's knowledge, Newco will have only approximately 75 resident Canadian securityholders (representing approximately 16% of Newco's total securityholders) holding in the aggregate approximately 2% of the Newco Shares and Newco Notes on the Plan Implementation Date.

54. The Newco Shares and Newco Notes to be issued upon implementation of the Plan will not be qualified for distribution to the public under any applicable Canadian securities laws and will be subject to restrictions on transfer in Canada. The Newco Shares and Newco Notes will be distributed to Affected Creditors who are resident Canadians pursuant to the prospectus exemption in section 2.11 of National Instrument 45-106 *Prospectus and Registration Exemptions* and such securities held by such persons will be subject to the transfer and resale restrictions specified subsection 2.6(3) of National Instrument 45-102 *Resale of Securities*.
55. The Filer has been advised by counsel to the Initial Consenting Noteholders that immediately following the implementation of the Plan, no securities of Newco, including debt securities, will be traded in Canada or elsewhere on a "marketplace" as defined in NI 21-101 or any other facility for bringing together buyers and sellers of securities where trading data is publicly reported. As a result, the Filer believes that the likelihood of any securities of Newco flowing back into Canada following implementation of the Plan to be low given the lack of any substantive connection to Canada.
56. The Filer has been advised by counsel to the Initial Consenting Noteholders that Newco does not currently intend to seek financing by way of a public offering of its securities in Canada or elsewhere.
57. As described in the Information Statement sent to Affected Creditors in connection with the Meeting, Newco's articles will require that Newco deliver to each shareholder: (a) copies of Newco's annual financial statements within 180 days of each fiscal year end; and (b) copies of Newco's semi-annual financial statements within 90 days of the end of each financial half-year. The board of directors of Newco will have the discretion to decide whether or not to obtain an audit of the annual financial statements. Upon reasonable request, Newco will also deliver to any shareholder, at the cost and expense of such shareholder, such tax-related information, reports and statements relating to Newco and its subsidiaries as are reasonably necessary for the filing of any tax return or the making or implementing of any election related to taxes.
58. The Filer will promptly issue a news release upon the occurrence of the Plan Implementation Date. The news release will specify that the Filer is no longer a reporting issuer as of the Effective Time on the Plan Implementation Date.
59. The Filer acknowledges that, in granting the Exemptive Relief Sought, the Decision Makers are not expressing any opinion or approval as to the terms of the Plan.

Decision


Each of the Decision Makers is satisfied that the decision meets the test set out in the Legislation for the Decision Maker to make the decision.

The decision of the Decision Makers under the Legislation is that the Exemptive Relief Sought is granted effective immediately before the Effective Time on the Plan Implementation Date, provided that:

- (a) an Alternative Sale Transaction does not occur; and
- (b) the Plan Implementation Date occurs on or before January 31, 2013.



Commissioner
Ontario Securities Commission



Commissioner
Ontario Securities Commission