

September 12, 2011

PRIVILEGED AND CONFIDENTIAL

COURIER

Ontario Securities Commission
Suite 1903
20 Queen Street West
Toronto, ON M5H 3S8

Attention: John Stevenson
Secretary to the Commission

Dear Mr. Stevenson:

**Re: Canadian Derivatives Clearing Corporation
Application under section 144 of the Securities Act (Ontario)
in relation to securities of Sino-Forest Corporation**

We are counsel to the Canadian Derivatives Clearing Corporation (the “**CDCC**”). On behalf of the CDCC, we are making this application to the Ontario Securities Commission (the “**Commission**”) under section 144 of the Securities Act (Ontario) (the “**Act**”) for a partial revocation of a cease trading order imposed by the Commission on trading in the securities of Sino-Forest Corporation to permit the holders of certain exchange traded option contracts issued and cleared by CDCC, according to the CDCC Rules (the “**Options**”), to exercise their rights under the Options.

We and representatives of CDCC have previously discussed the order requested by this application with members of Commission staff, including Mr. Paul Hayward and Ms. Karen Manarin. A draft form of this application was provided to Commission staff on September 7, 2011.

Facts

1. According to publicly available documents, Sino-Forest Corporation is a federally incorporated corporation having its head office in the Province of Ontario and, up until August 26, 2011, Sino-Forest Corporation had its common shares listed and posted for trading on the Toronto Stock Exchange (the “**TSE**”). The common shares of Sino-Forest Corporation are not listed on any other stock exchange. Sino-Forest Corporation is a reporting issuer under the Act and under the securities laws of each of the other provinces of Canada.

2. On August 26, 2011, the Commission made a Temporary Order (the “**Cease Trade Order**”), effective for a 15-day period, that the trading in the securities of Sino-Forest Corporation cease. The Cease Trade Order was issued based on allegations that, among other things, Sino-Forest Corporation and certain of its officers and directors provided 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 the Act.
3. On September 8, 2011, the Commission made an order extending the Cease Trade Order until January 25, 2012.
4. The applicant, CDCC, is a federally incorporated corporation which acts as the central clearing counterparty for exchange-traded derivative products (options and futures) in Canada. CDCC is a wholly-owned subsidiary of the Montreal Exchange, which is in turn a subsidiary of TMX Group Inc.
5. With respect to this application, CDCC is the issuer of and clearinghouse for the Options which were traded on the Montreal Exchange prior to the imposition of the Cease Trade Order.
6. Currently, there are approximately 8,993 outstanding put contracts (the “**Put Contracts**”) which collectively entitle the holders thereof to sell approximately 899,300 Sino-Forest Corporation common shares at prices substantially in excess of their current values. On the other side of the Put Contracts are the sellers of outstanding Put Contracts who are obliged to purchase Sino-Forest Corporation common shares from the holders of the Put Contracts.
7. Holders of the Put Contracts are unable to exercise their rights of sale, and sellers of the Put Contracts are unable to perform their obligations to purchase, as long as the Cease Trade Order imposed by the Commission on the securities of Sino-Forest Corporation remains in place. As well, CDCC and its member firms have obligations under the Rules of CDCC to participate in the exercise of the Put Options and to take acts in furtherance of the purchase and sale of the Sino-Forest Corporation shares upon the exercise of the Put Options.

Order Sought

8. CDCC is applying for an order to vary the Cease Trade Order imposed on the securities of Sino-Forest Corporation in order to, subject to paragraph 10 below, (a) permit the holders of the Put Contracts to exercise their rights of sale under each Put Contract, (b) permit the sellers of the Put Contracts to perform their obligations to purchase Sino-Forest Corporation shares upon the exercise of Put Contracts sold by them, and (c) permit CDCC and each of its member firms to perform their respective obligations under CDCC’s Rules including all requisite acts in furtherance of the trades described in (a) and (b). A draft form of order is attached as Schedule B.
9. In connection with this application, the CDCC will forward to the Commission, on behalf of CDCC members, affidavits executed by CDCC members stating their intention to exercise a Put Contract. CDCC members will be informed that if they (or their clients or other beneficiaries) wish to exercise a Put Contract, they must currently own the shares to make good delivery.

10. The affidavits executed by CDCC members will also state that, to their knowledge after due inquiry, the client or other beneficiary who is entitled to sell Sino-Forest Corporation common shares under the relevant Put Contract is not a current or former director or officer of Sino-Forest Corporation or its subsidiaries (as those terms are defined in the Act) or an insider of Sino-Forest Corporation (subject to certain limited exceptions).
11. A draft form of affidavit is attached as Schedule C.

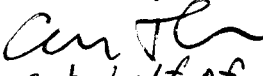
Reasons

12. The holders of the Put Contracts purchased the right to sell Sino-Forest Corporation shares and the sellers of the Put Contracts agreed to purchase such shares on or before the issuance of the Cease Trade Order. The holders and sellers of the Put Contracts made their respective investment decisions at a time when Sino-Forest Corporation was, to their knowledge, a reporting issuer in good standing under the Act and, as between themselves, with the benefit of the same information that was available in the marketplace. Excluding current and former directors and officers and certain insiders from the scope of the order will mitigate the possibility that a party to the Put Contract would have had an informational advantage over its counterparty in relation to the allegations underlying the Cease Trade Order.
13. In the context of Sino-Forest Corporation's Cease Trade Order, the exercise of the Put Contracts does not constitute an investment decision but merely the realization of the financial consequences of the investment decision made at the time the Put Contracts were entered into. In our submission, it is in the interests of the capital markets generally and not contrary to the public interest, to permit the exercise of outstanding Put Contracts. We respectfully submit that it is analogous to permitting the settlement of a trade that was previously executed or agreed, or permitting the purchase or sale of shares to crystallize tax losses which are trades that merely allow investors to realize a financial strategy rather than make an investment decision.
14. National Policy 12-202 - *Revocation of a Compliance-related Cease Trade Order* provides that the Commission is prepared to vary outstanding cease trading orders to permit dispositions for the purpose of establishing a tax loss where the purchaser is aware of the cease trading order. In the same way that investors utilize the Commission's willingness to vary cease trading orders according to the policy, so that they may settle their positions, holders of the Put Contracts require the Commission to vary its Cease Trade Orders so that they too can settle their positions.
15. We note that, consistent with orders previously granted by the Commission and given the existence of the Cease Trade Order, we have not sought relief in relation to Options where a party would be required to source Sino-Forest Corporation common shares from a third party in order to fulfill its obligations under the Option.
16. We have also attached as Schedule A an executed statement of verification of CDCC authorizing Torys LLP to make this application on behalf of CDCC. We have also enclosed a cheque in the amount of \$3250.00 in payment of the applicable application fee.

If you have any questions relating to this application, please contact me at (416) 865-8146.

Thank you for your attention to this matter.

Yours truly,


on behalf of
Glen Johnson

Tel 416.865.8146
grjohnson@torys.com

GRJ
Enclosures

cc: Paul Hayward, OSC
Karen Manarin, OSC
Francois Gilbert, CDCC
Charlotte Larose, CDCC
Roger Warner, CDCC

98010-1081 12329175.6

Schedule A

STATEMENT OF VERIFICATION

TO: The Ontario Securities Commission

The undersigned hereby authorizes the making and filing of the attached Application by Torys LLP and confirms the truth of the facts contained therein.

Dated at Montreal, Quebec this 11th day of September, 2011.

**CANADIAN DERIVATIVES
CLEARING CORPORATION**

By: _____

Name: François Gilbert

Title: Assistant Secretary

Schedule B

**IN THE MATTER OF THE SECURITIES ACT,
R.S.O. 1990, CHAPTER S.5, AS AMENDED (the “Act”)**

AND

**IN THE MATTER OF
CANADIAN DERIVATIVES CLEARING CORPORATION**

AND

**IN THE MATTER OF
SINO-FOREST CORPORATION**

ORDER

(Section 144)

WHEREAS the securities of Sino-Forest Corporation (the “Issuer”) currently are subject to a temporary cease trade order made by the Chair exercising the powers of the Commission, pursuant to paragraph 2 of subsection 127(1) of the Act, on August 26, 2011, and extended until January 25, 2011 pursuant to subsections 127(7) and (8) of the Act (the “Cease Trade Order”), that trading in securities of the Issuer cease;

AND WHEREAS the Cease Trade Order was made based on allegations that, among other things, the Issuer and certain of its officers and directors provided 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 the Act;

AND WHEREAS Canadian Derivatives Clearing Corporation (“CDCC”) has made an application pursuant to section 144 of the Act for an order varying the Cease Trade Order in order to allow the holders of outstanding put contracts, issued and cleared by CDCC, and providing for the sale of common shares of the Issuer (the “Put Contracts”), to exercise their rights to sell common shares of the Issuer pursuant to the terms of the Put Contracts, to permit the sellers of the Put Contracts to perform their obligations to purchase common shares of the Issuer pursuant to the terms of the Put Contracts and to permit CDCC and each of its member firms to perform its obligations under the Rules of CDCC in connection with the exercise and performance on such Put Contracts, including all requisite acts in furtherance thereof;

AND UPON CDCC having represented to the Commission as follows:

1. The Issuer is a federally incorporated corporation having its head office in the Province of Ontario and, up until August 26, 2011, the Issuer had its shares listed for trading on the Toronto Stock Exchange. The Issuer is a reporting issuer under the Act.

2. The applicant, CDCC, is a federally incorporated corporation which acts as the central clearing counterparty for exchange-traded derivative products (options and futures) in Canada. CDCC is the issuer of and clearinghouse for the Put Contracts which were traded on the Montreal Exchange prior to the imposition of the Cease Trade Order.
3. There are approximately 8,993 outstanding Put Contracts which collectively provide for the sale and purchase of approximately 899,300 common shares of the Issuer.
4. As long as the Cease Trade Order remains in place, holders of the outstanding Put Contracts are unable to exercise their rights to sell common shares of the Issuer, the sellers of such Put Contracts are unable to perform their obligations under the Put Contracts and CDCC and its member firms may be precluded from performing their obligations under the Rules of CDCC in respect of the exercise of the Put Contracts as they may be required to take acts in furtherance of the trades by holders and sellers of the Put Contracts upon their exercise.
5. On or about September 9, 2011, CDCC notified its members and asked its members to notify affected clients that CDCC was making application to the Commission to allow the exercise of the Put Contracts and that interested parties and in particular, writers and holders of the Put Contracts, were invited to make written submissions to CDCC, with a copy to the Commission, with respect to whether CDCC's application should be granted. The notice also advised members that the order sought may include a condition that limits the relief to holders of outstanding Put Contracts who are not current or former members of management or other insiders of the Issuer.
6. CDCC will promptly, following the making of this order, notify its members and ask its members to notify affected clients of the fact that this order will permit the exercise of outstanding Put Contracts but (i) will not permit holders of Put Contracts who do not own common shares of the Issuer to purchase such shares in order to make good delivery upon exercise, and (ii) will not permit holders of Put Contracts who are (a) current or former directors or officers of the Issuer or its subsidiaries, or (b) the beneficial owner of, or exercising control or direction over, more than 10% of the outstanding common shares of the Issuer who has nominated or designated any member of the board of directors of the Issuer or who serves (or whose officers or directors serve) as a director or officer of the Issuer, to sell common shares of the Issuer under Put Contracts, and that, in either of those cases, such holders will need separate relief from the Commission.
7. Any CDCC member that owns or acts as agent for a person entitled to exercise a Put Option will be required to furnish an affidavit to CDCC and the Commission setting out the particulars of the particular contract and confirming the facts in paragraph 6(ii) above.

AND UPON the Commission being satisfied that it would not be prejudicial to the public interest;

AND IT IS ORDERED pursuant to section 144 of the Act that the Cease Trade Order be and is hereby varied solely to permit (a) the holders of outstanding Put Contracts issued and cleared by CDCC to exercise their Put Contracts, (b) the sellers of such Put Contracts to perform their obligations to purchase common shares of the Issuer under the terms of the Put Contracts and

(c) CDCC and its members to carry out their respective obligations under the Rules of CDCC, including all requisite acts in furtherance of the trades described in (a) and (b), provided that this order will not apply to permit the sale of Issuer common shares by a person described in paragraphs 6(i) and 6(ii) and provided further that the Cease Trade Order shall otherwise remain in effect, unamended except as provided herein.

DATED at Toronto, Ontario this _____, 2011.

_____ **[NTD: insert name of OSC official]**

_____ **[NTD: insert title of OSC official]**

Schedule C

CEASE TRADE AFFIDAVIT

Instruction: This form of affidavit is to be used to effect a change in the ownership of record of securities already issued and registered, after a sale or transfer for value.

IN THE MATTER OF THE SECURITIES ACT, R.S.O. 1990, CHAPTER 5.5, AND AMENDMENTS THERETO (the "Act")

and

IN THE MATTER OF the exercise of Sino-Forest Corporation Put Contracts, AFFIDAVIT OF _____

I, _____ Full Name

_____ Address

Make oath and say as follows that:

- 1. The deponent is the owner of/the agent of the owner of, the following security: ___ put contracts in relation to Sino-Forest Corporation common shares (the "Security").
2. The Security was purchased, acquired or transferred for valuable consideration on the ___ day of ____, 20__, which date was prior to the date a cease trading order was issued by the Ontario Securities Commission in respect of the securities of Sino-Forest Corporation under Section 127(1) of the Act.
3. To the knowledge of the deponent, after due inquiry, the client or other beneficiary who is entitled to sell Sino-Forest Corporation common shares upon the exercise of the Security is not a current or former director or officer of Sino-Forest Corporation or its subsidiaries (as those terms are defined in the Act).
4. To the knowledge of the deponent, if the client or other beneficiary who is entitled to sell Sino-Forest Corporation common shares upon the exercise of the Security beneficially owns or exercises control or direction over more than 10 percent of the outstanding common shares of Sino-Forest Corporation, this person has not nominated or designated any member of the board of directors of Sino-Forest Corporation, and neither that person nor any of its officers or directors serves as an officer or director of Sino-Forest Corporation.
5. The deponent has received a representation that the beneficial owner(s) of the Security is/are the person(s) set out in Appendix A and that such person(s) meet(s) the conditions set forth in paragraphs 3 and 4 above. Based on the client records maintained by the deponent (including in accordance with applicable securities laws and IIROC rules), the deponent has no reason to believe that this representation is incorrect.
6. This declaration is made for the purpose of exercising the Security and transferring the underlying common shares of Sino-Forest Corporation into the name of the parties to be assigned by the Canadian Derivatives Clearing Corporation.
7. I have such knowledge of the matters herein deposed to and no material facts having any bearing on the foregoing have been omitted or misrepresented.

(SEVERALLY) DECLARED

before me at the

_____ in

the Province of

_____ this

_____ day of

_____ A.D.

_____.

Signed by Declarant

A Commissioner for Oaths or
Notary Public

Where the applicant is a body corporate, indicate the office and authority of the person making and signing the affidavit.

NOTE: Upon receipt of an appropriate affidavit an exercise may be made in respect to a trade for value or a gift which took place prior to the effective date of the cease trading order currently in force. A copy of such affidavit is to be sent to CDCC (Attention: Roger Warner, Director, Member Services) for delivery to the Ontario Securities Commission (Attention: ■) within five days of its receipt.

APPENDIX A

[NTD: insert name(s) of the beneficial owner(s) of the Security]