Acadian Timber Income Fund

2006 ANNUAL REPORT

ACADIANTIMBER
INCOME FUND

Acadian Timber Income Fund (TSX: ADN.UN) is a leading supplier of primary forest products in Eastern Canada and the Northeastern U.S. With a total of 2.4 million acres of land under management, Acadian is the second largest timberland operator in New Brunswick and Maine. Acadian is managed by Brookfield Asset Management (NYSE/TSX: BAM).

Acadian owns and manages approximately 1.1 million acres of freehold timberlands in New Brunswick and Maine, and provides management services relating to 1.3 million acres of Crown licensed timberlands. Acadian also owns and operates a forest nursery in Second Falls, New Brunswick. Acadian's products include softwood and hardwood sawlogs, pulpwood and biomass by-products, sold to over 110 regional customers.

Forest Areas	Acres	Hectares
Maine Timberlands	311,000	125,860
New Brunswick Timberlands	765,000	310,000
NB Crown Lands Under Management	1,313,000	533,000
Area Under Management	**2,389,000**	**968,860**

Acadian's business strategy is to maximize cash flows from its timberland assets, while enhancing the value of these assets over time and growing its business by acquiring complementary timberland assets in regions in which it operates.

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Investment Highlights

- Large Landowner with High Quality Timberland Assets
- Unique Renewable Resource Providing Perpetual Returns
- Cash Flow Stability Supported by Sustainable Harvesting Practices
- Diversified End-Use Markets for All Products
- Variable Cost Structure and Minimal Ongoing Capital Requirements
- Strong Brookfield Sponsorship & Management
- Opportunities for Growth Through Acquisitions

2006 Highlights

- Successful completion of IPO (January 31, 2006)
- Maintained strong margins through improvements in log merchandising
- Continued to develop processes to improve contractor safety and productivity

For the eleven-month period ended December 31, 2006:

Sales: $69.5 million	EBITDA: $18.3 million	Payout Ratio: 93%	Sales Volume: 1,327,500 m^3 (on target)

President's Letter to Unitholders

2006 was Acadian Timber Income Fund's first year in operation and first year as a publicly traded company. Following the successful launch of the Fund in January, we focused on integrating two distinct operations – in Maine, formerly owned by Brookfield Asset Management Inc. ("Brookfield"), and New Brunswick, formerly owned by Fraser Papers Inc. ("Fraser Papers") – into a single stand-alone entity.

Acadian achieved all of its targets for 2006, meeting its operating and financial goals, despite the weak lumber markets, difficult weather-related operating conditions and the strong Canadian dollar in the fourth quarter. Acadian generated distributable cash of $13.4 million or $0.81 per unit on an eleven-month basis, resulting in a 93% payout ratio.

Achieved Financial Performance Targets

The results for the eleven-months ended December 31, 2006, are consistent with the guidance provided at Acadian's launch. Acadian generated net sales of $69.5 million on a consolidated log sales volume of 1,328 thousand m^3. Consolidated log sales volumes for the eleven-months ended December 31, 2005 were 1,356 thousand m^3, resulting in net sales of $72.8 million. The slight year-over-year decrease in harvest volumes is attributable to the difficult weather-related operating conditions during the fourth quarter and is considered to be well within typical production variances. Acadian also harvested 1,118 thousand m^3 from the Crown licenses it manages for Fraser Papers under its Management Services Agreement and met all of its obligations under this agreement.

Acadian generated an EBITDA of $18.3 million for the eleven-months ended December 31, 2006, $0.4 million, or 2%, lower than the same period last year, with EBITDA margins remaining constant at 26%. EBITDA in the prior year included $0.8 million of proceeds from the sale of a parcel of land. Excluding the land sale in the prior year, EBITDA for the eleven-months ended December 31, 2006 was $0.4 million, or 2%, higher than the same period last year, with EBITDA margin increasing to 26% from 25% in the prior year. While the second half of 2006 presented a challenging operating environment for many of our customers, owing to weak markets for softwood lumber and structural panels, overall, we are very pleased with Acadian's first year of performance. Acadian's operating managers were successful in harvesting and merchandising our products to maximize market opportunities and maintain stable cash flows, while keeping costs low.

" Acadian is focused on maximizing long-term value for unitholders. In this challenging market environment our primary focus is on merchandising all of our products for their highest value, while seeking every opportunity to reduce costs. We will continue to strive to maintain a stable financial performance while preserving the long-term value of the business. "

Reid Carter
President and Chief Executive Officer

Faced Challenging Market Environment

Acadian's operations performed on target in 2006, however, external market conditions continued to pose the most significant challenge. Weak lumber prices, the strong Canadian dollar and over-supplied dimension lumber and structural panel markets resulted in reduced production, and in some cases closures, at several regional softwood sawmills. Despite this difficult market environment, Acadian's average selling price for softwood (spruce-fir) sawlogs for the eleven-months ended December 31, 2006, was 4% higher than the comparable period in 2005. However, consistent with the significant decline in lumber and panel prices through 2006, softwood sawlog markets came under pressure resulting in a modest price decline during the second half of the year. As Acadian sells most of its softwood sawlogs to Fraser Papers, priced on a six-month trailing basis, we expect prices for softwood sawlogs to be approximately 5% lower during the first half of 2007 than the 2006 average.

Controlled Capital Expenditures

Capital expenditures totaled $1.5 million in 2006, of which $0.9 million was silvicultural treatments including planting, pre-commercial thinning and herbicide treatments. The silvicultural component of Acadian's capital expenditures is largely discretionary from year-to-year, with 2006 spending on plan.

Established Acadian as a New Business

During the year Acadian established itself as a standalone business by carrying out a number of changes necessary to migrate away from the two predecessor parent companies. Acadian is now fully independent. Our Board of Trustees has played an active role during this first year and can be counted on to provide quality advice and guidance going forward.

Committed to Safety

At Acadian, we view safety performance as a key indicator of fund performance. While we are pleased to report that overall safety performance improved in 2006, we believe there are more opportunities for incidence reduction and look forward to reporting real progress in the future. Fund and contractor operations in New Brunswick experienced an overall improvement in serious accident frequency (SAF) in 2006. New Brunswick operations ended the year with seven incidents resulting in a SAF of 5.71, which is a 13% improvement over 2005. Contractor operations also experienced seven incidents with an SAF of 1.72 which reflects a 60% improvement

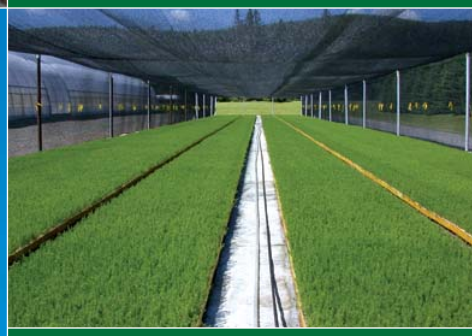
Our Commitment to the Environment

At Acadian Timber, we recognize that our environment is fundamental to our existence, and that our businesses and the communities where we operate depend upon its health. We strive for excellence, leadership, sustainability, and competitive advantage through continual improvement in our environmental performance and management of forest land.

Left: Marcia McKeague, Vice President, Maine Woodland Operations; Below: Luc Ouellet, Vice President, New Brunswick Woodland Operations

Acadian's Maine Timberlands have a merchantable inventory of approximately 10.4 million m^3, of which approximately 70% is softwood. Spruce makes up approximately 30% of the total inventory. Hemlock, cedar, red maple and white pine are other significant components of the inventory.

Acadian's New Brunswick Timberlands have approximately 17.3 million m^3 merchantable timber with relatively equal volume of softwood and hardwood; the softwood being comprised primarily of spruce and fir.



Silviculture activities include implementing harvesting systems that promote natural regeneration of trees. Where necessary, we use seedlings from our state-of-the-art forest nursery to reforest the landscape and ensure we use the productive potential of our land to the fullest.

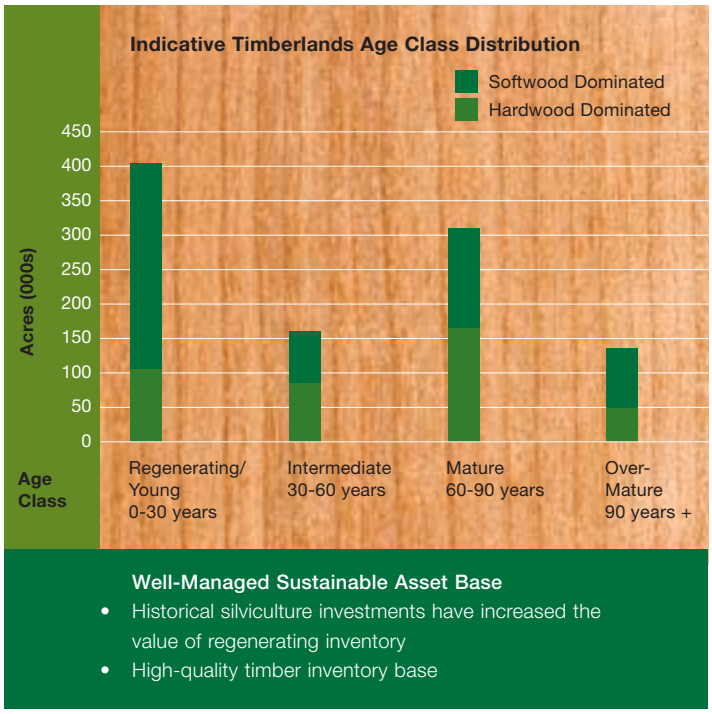
over the previous year. We have followed up with a comprehensive safety action plan that is being implemented to prevent recurrence of incidents. The safety performance in Acadian's Maine operations continued to be strong with no reportable incidents among Fund employees and an SAF of 3.36 among its contractors, which is a consistent performance with the same period in 2005.

Renewed Labour Contracts

Acadian's New Brunswick Timberlands successfully renegotiated a favourable labour agreement with Local 114 during the second quarter of 2006, following the agreement with Local 15N during the fall of 2005. Together, these two agreements provide Acadian with labour certainty through 2010.

Environment and Sustainability

Acadian operated within its five-year harvest volume framework, ensuring harvest levels are consistent with the Long Run Sustained Yield of its timberlands estate. All forestry, forest management planning and tree nursery operations on the 765,000 acres owned in Acadian's New Brunswick operations were successfully recertified to the ISO 14001 environmental management system and SFI® Program sustainable forest management standards during 2006. These certifications also extend to the Crown Land operations managed by Acadian for Fraser Papers. We are pleased to report that there were no environmental violations on Acadian's timberlands.



Higher and Better Use (HBU) Properties and Recreation Income

Acadian carried out a comprehensive review of opportunities for the sale or lease of HBU properties in its New Brunswick and Maine timberlands during 2006. This detailed property and market analysis suggests that HBU opportunities are quite modest in value. Land sales in Maine and New Brunswick are expected to provide up to a total of $1.2 million to Acadian with minimal impact on timber production opportunities. Marketing of several properties will begin in 2007; however, sales of all parcels could take several years, as markets for the properties are limited due to their rural nature. Acadian also benefits from a number of recreation and hunting leases and cabin rentals. Net revenues from these activities were approximately $330,000 in 2006.

Disciplined Growth Strategy

Acadian actively pursued its goal of growing the Fund through strategic acquisitions during 2006. While there were opportunities to acquire relatively large timberlands in our broader operating region, we were not successful in attaining them as the prices were higher than what we determined to be appropriate and would have resulted in these acquisitions not being accretive to unitholders. While we will continue to pursue strategic acquisitions going forward, we will also continue to have a disciplined and prudent approach to growth.

Outlook

On October 31, 2006, Canada's Finance Minister, James Flaherty, announced proposed changes to Canada's taxation system designed to level the playing field between trusts and corporations. While we feel that it is still too early to determine the extent to which the proposed legislation will impact Acadian, our management and Board of Trustees will continue to monitor and analyze the situation and its implications to the Fund as they develop.

We continue to expect a solid performance at Acadian. We have a committed and hardworking team of individuals who are excited to continue operating our independent and profitable timberlands business. While current weak lumber markets, combined with the possibility of further market-related downtime at regional sawmills, are expected to keep pressure on softwood sawlog pricing through 2007, we expect that this pressure will be offset by steady prices for pulpwood, hardwood sawlogs and biomass.

During these challenging market conditions, our primary focus will be on merchandising all of our products for their highest value, while seeking every opportunity to reduce costs. Acadian is focused on maximizing long-term value for unitholders and we will continue to make every effort to maintain a stable financial performance while preserving the long-term value of the business.

We thank you for your continued interest in Acadian Timber Income Fund and remain confident that Acadian is well positioned to meet its distributable cash target over the coming year.

Reid Carter
President and Chief Executive Officer

Market Overview

Softwood Sawlogs

Softwood (spruce-fir) sawlogs accounted for 36.7% of Acadian's revenues for the eleven-month period in 2006, 1.9% lower than the comparable period in 2005. The average selling price for softwood sawlogs was 4% higher in 2006 than the comparable period in 2005. However, consistent with the significant decline in lumber and panel prices through 2006, softwood sawlog markets came under pressure resulting in a modest price decline during the second half of the year. Acadian's lumber and panel producing customers in the broader operating region struggled with difficult market conditions throughout the last three quarters of the year with prices for lumber down approximately 15% year over year and prices for oriented-strand board (OSB) down 46%. Weak lumber prices, the strong Canadian dollar and over-supplied dimension lumber and structural panel markets resulted in market-related closures and reduced production at several regional sawmills. Fraser Papers, Acadian's major customer for softwood sawlogs, was impacted by these difficult market conditions, taking a combined 29 weeks of market-related downtime in 2006 at its Plaster Rock, Juniper and Ashland sawmills. Despite these difficult market conditions, Acadian sold all of its softwood production without being impacted by serious price reductions, resulting in only a 2% decline in revenues and a 5% reduction in sales volumes at our New Brunswick operations. Our Maine operations experienced a 5% decrease in softwood sales. A 3% increase in sales volumes was offset by lower U.S. dollar unit selling prices and the negative impact of translation of U.S. dollar sales into Canadian dollars.

Hardwood Sawlogs

Sales of hardwood sawlogs to lumber and specialty producers, and hardwood pulpwood aspen to OSB producers accounted for 24.1% of Acadian's revenues for the eleven-month period in 2006, only slightly lower than the comparable period in 2005. These products are sold to a very diverse group of customers on both sides of the border and usually exhibit less pricing volatility than more commodity-focused softwood sawlogs. As a result, pricing variance is typically associated more with the mix of species and log grades than with market conditions.

Softwood and Hardwood Pulpwood

Sales of softwood pulpwood accounted for 5.4% of Acadian's revenues in 2006, 9.2% higher than in 2005, reflecting a very strong softwood pulp market and a significant regional softwood chip shortage due to reduced operating levels at regional sawmills. Selling prices for softwood pulpwood were 3% higher than in the comparable period in 2005. Sales of hardwood pulpwood, excluding aspen to OSB producers, accounted for 17.9% of Acadian's revenues in 2006, 3.9% higher than in 2005. Selling prices for hardwood pulpwood were 1% lower year over year, primarily reflecting the excess inventories supplied to the market with the closure of the Old Town pulp and tissue mill in Maine.

Market Outlook

The market for softwood sawlogs is expected to continue to experience challenging conditions through 2007 as U.S. new home construction remains depressed while excessive inventories of new and existing homes continue to be for sale. However, despite this weakness, we do not expect demand or pricing in this market to deteriorate further. We remain confident that Acadian will be able to sell its production through 2007, based on the following two factors. First, harvest reductions in Quebec and Ontario, together with the fact that a number of private woodlot owners have exited the marketplace while waiting for higher prices, has resulted in a relatively tight regional market for softwood sawlogs. Second, the regional pulp and paper sector is currently experiencing above trend pricing for its major products, requiring it to run its integrated sawmills at moderate levels in order to maintain chip supplies.

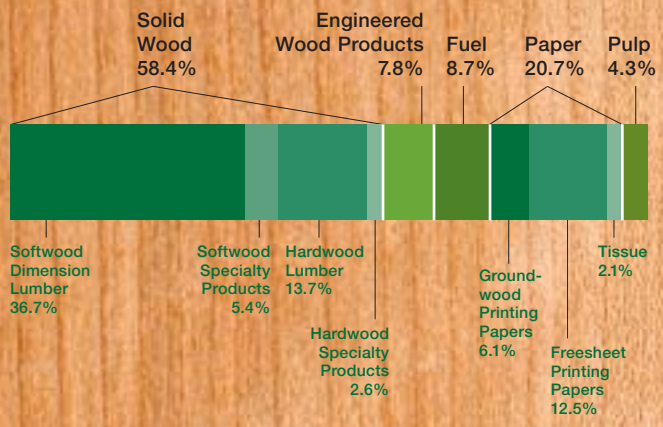
Markets for hardwood sawlogs and specialty products are expected to remain steady in 2007, while markets for softwood pulpwood and biomass are expected to experience continued strength reflecting strong demand, regional chip shortages and lower levels of regional harvest activity. Markets for hardwood pulp are expected to stabilize in 2007, with the return of a reliable customer, the St. Anne Nackawic sulphite mill in New Brunswick, combined with a draw-down of inventories related to the closure of the Old Town mill in Maine.

In North America, timber is generally harvested for one of three types of end users: (1) lumber mills (which use sawlogs to produce lumber), (2) pulp mills (which use pulpwood to produce fibre for the paper industry), and (3) others such as oriented-strand board (OSB) and specialty mills which make building materials, veneer, furniture and other products.

- **Acadian has developed a reputation as a reliable, high-quality supplier of large volumes of sawlogs and pulpwood and as a high-quality supplier of smaller volumes of niche products.**
- **Acadian pays particular attention to harvesting and merchandising its products to maximize market opportunities.**

Acadian's End Product Mix by Customer*

Acadian sells a wide variety of products to a broad group of customers. Acadian's greatest exposure is to softwood sawlogs; however, markets for hardwood sawlogs and hardwood and softwood pulpwood meaningfully diversify our sales.



*Percentage of log sales by value for the eleven-months ended December 31, 2006.

Sawlogs and pulpwood from Acadian's timberlands are sold primarily to customers in Maine and New Brunswick.

Substantially all of the annual harvest of softwood pulpwood from the Maine timberlands is committed to Katahdin Paper Company, LLC.

End Uses

End products of Acadian's timber include lumber, OSB and paper, which are subsequently used to produce common items such as houses, magazines, home furnishings and other familiar products.

Management's Discussion and Analysis

(All figures in Canadian dollars unless otherwise stated)

INTRODUCTION

Acadian Timber Income Fund ("Acadian" or the "Fund") is a leading supplier of primary forest products in Eastern Canada and the Northeastern U.S. With a total of 2.4 million acres of land under management, Acadian is the second largest timberland operator in New Brunswick and Maine.

Acadian owns and manages approximately 1.1 million acres of freehold timberlands in New Brunswick ("NB Timberlands") and Maine ("Maine Timberlands"), and provides management services relating to 1.3 million acres of Crown licensed timberlands. Acadian also owns and operates a forest nursery in Second Falls, New Brunswick. Acadian's products include softwood and hardwood sawlogs, pulpwood and biomass by-products, sold to over 110 regional customers.

Acadian's business strategy is to maximize cash flows from its timberland assets, while enhancing the value of these assets over time and growing its business by acquiring complementary timberland assets in regions in which it operates.

Basis of Presentation

This section of our report presents management's discussion and analysis of our financial results ("MD&A") and is followed by our consolidated financial statements for the most recent period. The MD&A is intended to provide you with an assessment of our performance during the eleven-month period ended December 31, 2006 (from inception on January 31, 2006). In order to enhance its usefulness, this MD&A includes a summary of the operating results of the Fund for the relevant periods as compared to the combined proforma results of the operations of NB Timberlands and Maine Timberlands for the same periods in 2005. The proforma financial information for the periods prior to the inception of the Fund is derived from the proforma consolidated financial statements contained in the Fund's Prospectus dated January 23, 2006 (the "Prospectus"). Information provided for periods prior to inception of the Fund is provided for reference purposes only, and is not intended as a comprehensive comparison of financial results. Certain figures have been restated or reclassified to conform with the current year's presentation.

Our financial results are determined in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars unless otherwise noted.

Throughout the MD&A, reference is made to earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA") and distributable cash from operations. Management believes that EBITDA and distributable cash from operations are key performance measures in evaluating the Fund's operations and are important in enhancing investors' understanding of the Fund's operating performance. As EBITDA and distributable cash from operations do not have a standardized meaning prescribed by GAAP, they may not be comparable to similar measures presented by other companies. As a result, we have provided reconciliations of net income and cash flow from operations before changes in working capital, as determined in accordance with GAAP, to EBITDA and distributable cash from operations in the "Review of Operations" section of this MD&A.

This MD&A has been prepared based on information available as at February 15, 2006. Additional information, including the Fund's Prospectus is available on Acadian's website at *www.acadiantimber.com* and on SEDAR's website at *www.sedar.com*.

Disclosure Controls

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in the Canadian Securities Administrators Multilateral Instrument 52-109). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective as of December 31, 2006 in providing reasonable assurance that material information relating to the company and our consolidated subsidiaries would be made known to them within those entities.

Internal Controls over Financial Reporting

The design of internal controls over financial reporting was evaluated in accordance with the COSO control framework and Multilateral Instrument 52-109. Based on the results of this evaluation, Management concluded that the internal controls over financial reporting are designed to provide reasonable assurance that its financial reporting is reliable and that the consolidated financial statements were prepared in accordance with GAAP.

Management took appropriate steps that enabled it to conclude that during the fourth quarter ended December 31, 2006, no changes were made to internal controls over financial reporting that would have materially affected, or would be reasonably considered to materially affect, these controls.

REVIEW OF OPERATIONS

Summary of Results for Eleven-Months ended December 31, 2006

The table below summarizes operating and financial data for Acadian:

	Eleven-Months Ended December 31	
millions, except per unit data and where indicated	**2006**	2005[1]
Total		
Sales volume (000s m^3)	1,327.5	1,355.5
Net sales	$ 69.5	$ 72.8
Net income	7.9	n/a
EBITDA	18.3	18.7
EBITDA margin	26%	26%
Distributable cash from operations	$ 13.4	n/a
Distributions declared		
Class A unitholders	6.4	
Class B LP unitholders	2.7	
Class B interest liability of a subsidiary	3.4	
	12.5	
Payout ratio	93%	
Total assets	$ 240.0	
Total long-term debt	79.3	
Per unit (fully diluted)		
Net income – basic	$ 0.65	
Net income – fully diluted	0.43	
Distributable cash from operations per unit – fully diluted	0.81	
Distribution declared per unit		
Class A unitholders	0.76	
Class B LP unitholders	0.76	
Class B interest liability of a subsidiary	0.76	
Book value – fully diluted	9.19	
Units outstanding		
Class A unitholders	8,450,643	
Class B LP unitholders	3,613,780	
Class B interest liability of a subsidiary	4,507,030	

[1] *Prepared on a proforma basis, see Basis of Presentation on page 9.*

Distributable Cash from Operations and Distributions

Distributable cash from operations for the eleven-month period ended December 31, 2006 was $13.4 million. Based on distributable cash generated to date and existing cash reserves, Acadian is well positioned to meet distribution targets in 2007.

The following table provides a reconciliation of net income and cash flow from operations before changes in working capital, as determined in accordance with GAAP, to EBITDA and distributable cash from operations:

millions	*Eleven-Months Ended December 31, 2006*
Net income	$ 7.9
Add (deduct):	
Non-cash gain on Class B interest liability of a subsidiary	(4.2)
Depreciation and depletion	7.8
Interest expense on long-term debt	3.4
Distribution on Class B interest liability of a subsidiary	3.4
EBITDA	18.3
Add (deduct):	
Interest expense on long-term debt	(3.4)
Silviculture and capital expenditures	(1.5)
Distributable cash from operations	**$ 13.4**
Cash flow from operating activities	$ 14.4
Add (deduct):	
Change in non-cash working capital balances	(2.9)
Distribution on Class B interest liability of a subsidiary	3.4
Silviculture and capital expenditures	(1.5)
Distributable cash from operations	**$ 13.4**
Distributions declared	$ 12.5

Distributable cash from operations represents cash that is generated from the sale of our timber, from the services provided in the management of Crown licensed timberlands and from the sale of non-timber products. In calculating our distributable cash from operations, adjustments are made to cash flow from operating activities as determined in accordance with GAAP to reflect changes in non-cash working capital items, actual cash spent on silviculture required to maintain the productive capacity of our forests, and actual cash spent to maintain our assets. In addition, an adjustment is made for the distributions on Class B Interest Liability of a subsidiary, which is included as interest expense in accordance with GAAP; however, these payments are made on the same basis as distributions to our other unitholders, and consequently are included in our disclosure of distributions declared.

Hardwood and softwood harvest volumes represent the productive capacity of Acadian's operations. Harvest volume, excluding biomass, for the eleven-months ended December 31, 2006 was 1.0 million m^3, which was 0.1 million m^3 lower than the same period in 2005 and was within the harvest levels required to maintain the Long Run Sustained Yield (LRSY) of our timberland estates. Acadian is focused on maximizing long-term value for unitholders, and in doing so will make every effort to maintain a stable financial performance while preserving the long-term value of the business, and our first eleven months of operations was no exception. In order to continue to achieve this objective, Acadian will operate at harvest levels within LRSY and will invest in silviculture to improve the quality and value of future harvests. Although this may cause volatility in our distributable cash from operations annually, we will continue to focus on preserving the long-term value of Acadian. The risks associated with our practices with regard to forest sustainability and forest management are described in more detail on page 25 of this report.

As described in more detail on page 15 of this report, Acadian has borrowings totaling $79.3 million that have a security interest over the assets and contain certain restrictive covenants relating to debt incurrence, sale of assets, and the maintenance of certain financial ratios, all of which are in compliance as at December 31, 2006. These covenants are not expected to restrict the ability of the Fund to distribute cash flows to its unitholders. The obligations of these borrowings over the next five years are disclosed on page 24 of this report. Upon maturity, management intends to refinance these debt obligations at fixed or floating interest rates, depending on the best interests of Acadian. Accordingly, all interest payments on the existing debt obligations are incurred in order to sustain the Fund's productive capacity and are thus considered in determining the distributable cash from operations of Acadian.

Distribution Policy of the Fund

The Fund makes monthly distributions of its available cash to the extent determined prudent by the Trustees. These distributions represent all cash received from the Fund's indirect interest in the Partnership, less estimated cash amounts required for expenses and other obligations of the Fund, cash redemptions of units and any tax liability. Distributions are paid on or about the 15th day following the end of each month. Total distributions declared to unitholders for the eleven-months ended December 31, 2006 were $12.5 million or $0.76 per unit, which was in line with distributions anticipated at the initial public offering ("IPO"), representing an annualized yield of 8.25% based on the issue price of $10.00 per unit.

Market Conditions

Acadian's lumber and panel producing customers in the broader operating region struggled with difficult market conditions throughout the last three quarters of the year, with prices for lumber down approximately 15% year over year and prices for oriented-strand board (OSB) down 43%. Weak lumber prices, the strong Canadian dollar and over-supplied dimension lumber and structural panel markets resulted in market-related closures and reduced production at several regional sawmills. Fraser Papers Inc. ("Fraser Papers"), Acadian's major customer for softwood sawlogs, was impacted by these difficult market conditions, taking a combined 18 weeks of market-related downtime during the fourth quarter at its Plaster Rock, Juniper and Ashland sawmills. Consistent with this significant decline in lumber and panel prices through 2006, softwood sawlog markets came under pressure resulting in a modest price decline during the second half of the year. Despite these difficult market conditions, Acadian sold all of its softwood production without being impacted by serious price reductions, due to management's ability to effectively merchandise this product and the benefit of Acadian's long-term customer relationships.

Prices for hardwood sawlogs were relatively unchanged in the fourth quarter with most of the pricing variance associated with the mix of species and log grades rather than market conditions. Softwood pulpwood continues to experience strong demand and favourable pricing in the region, while hardwood pulpwood markets are more fully supplied with prices remaining soft but largely unchanged. Biomass prices continued to improve during the fourth quarter owing to supply shortages and a strong regional energy market.

Results of Operations

Overall, we are very pleased with Acadian's first year's operating and financial performance, delivering results for the eleven-months ended December 31, 2006, that were in line with our expectations. Acadian generated net sales of $69.5 million and EBITDA of $18.3 million on a consolidated log sales volume of 1,328 thousand m^3. Consolidated sales volumes for the eleven-months ended December 31, 2005 were 1,356 thousand m^3, resulting in net sales of $72.8 million. The slight year-over-year decrease is attributable to planned reductions in harvest volumes and deliveries and unseasonably warm and wet weather which restricted our ability to operate during the fourth quarter. We are pleased to report that Acadian operated within its five-year harvest volume framework, ensuring harvest levels are consistent with the LRSY of its timberlands estate.

EBITDA of $18.3 million for the eleven-months ended December 31, 2006 was $0.4 million, or 2%, lower than the same period of last year, with EBITDA margin remaining constant at 26%. Excluding the $0.8 million of proceeds from the land sale in the prior year, EBITDA for the eleven-months ended December 31, 2006 was $0.4 million, or 2%, higher than the same period last year, with EBITDA margin increasing to 26% from 25% in the prior year. Acadian was able to maintain a consistent year-over-year EBITDA and margin in a challenging operating environment by harvesting and merchandising our products to maximize market opportunities and maintain stable cash flows, while keeping costs low.

Class B Interest Liability

Included in net income for the eleven-months ended December 31, 2006, is a non-cash gain related to the Class B Interest Liability of a subsidiary. The settlement obligation of this interest is based on the trading value of Acadian's units at the time of settlement, which requires the liability to be recorded at its fair value at each balance sheet date with the corresponding gain arising from a decrease in Acadian's unit price or loss arising from an increase in Acadian's unit price included in the statement of operations. In addition, as this Canadian dollar liability has been issued by a self-sustaining U.S. dollar subsidiary of the Fund, the obligation is required to be converted to U.S. dollars at each reporting period, with the corresponding gain or loss related to the carrying value of the liability included in the statement of operations.

For the eleven-months ended December 31, 2006, these items resulted in a $4.2 million gain, comprised of a $0.8 million foreign exchange gain and a $3.4 million mark-to-market gain.

Segmented Results of Operations

The table below summarizes operating and financial results for NB Timberlands and Maine Timberlands:

	Eleven-Months Ended December 31, 2006				*Eleven-Months Ended December 31, 2005*[1]			
millions	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**
Sales volumes								
(000s m^3)	1,044.0	283.5	—	1,327.5	1,094.5	261.0	—	1,355.5
Net sales	$ 52.4	$ 17.1	$ —	$ 69.5	$ 56.1	$ 16.7	$ —	$ 72.8
EBITDA	$ 13.5	$ 5.9	$ (1.1)	$ 18.3	$ 12.2	$ 6.5	$ —	$ 18.7
EBITDA margin	26%	35%	n/a	26%	22%	39%	n/a	26%

[1] *Prepared on a proforma basis, see Basis of Presentation.*

NB Timberlands

NB Timberlands owns and manages 765,000 acres of freehold timberlands, provides management services relating to 1.3 million acres of Crown licensed timberlands and owns a forest nursery. Harvesting is performed by approximately an equal proportion of NB Timberlands employees and third-party contractors.

The table below summarizes operating and financial results for NB Timberlands:

	Eleven-Months Ended December 31, 2006			*Eleven-Months Ended December 31, 2005*[1]		
	Harvest *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*
Softwood	321.2	328.5	$ 21.2	337.8	345.9	$ 21.6
Hardwood	439.6	467.9	24.7	533.9	472.6	27.6
Biomass	247.6	247.6	4.5	275.9	276.0	5.5
	1,008.4	1,044.0	50.4	1,147.6	1,094.5	54.7
Other sales			2.0			1.4
Net sales			$ 52.4			$ 56.1
EBITDA			$ 13.5			$ 12.2
EBITDA margin			26%			22%

[1] *Prepared on a proforma basis, see Basis of Presentation.*

Softwood, hardwood and biomass shipments were 329 thousand m^3, 468 thousand m^3 and 248 thousand m^3 for the eleven-months ended December 31, 2006, respectively, in line with sales volumes for the same period in 2005. Approximately 34% of sales volumes were sold as sawlogs, 42% as pulpwood and 24% as biomass.

Net sales were $52.4 million, down 7% from the same period of last year, which primarily reflects a slight decrease in volume and lower pricing for hardwood pulpwood and biomass which was partially offset by an increase in hardwood sawlogs and veneer.

Total costs were $38.9 million, down 11% compared to the same period last year. This decrease was attributable to shorter hauling distances, and a decrease in salaries, benefits and other administrative costs, primarily due to reduced staffing levels and more efficient allocation of resources now that Acadian is a standalone entity.

EBITDA was $13.5 million, compared to $12.2 million in the same period last year. EBITDA margin was 26% compared to 22% in the same period of 2005, reflecting the lower costs identified above.

Fund and contractor operations in New Brunswick experienced an overall improvement in serious accident frequency (SAF) in 2006 over the comparable period in 2005. Fund operations ended the year with seven incidents resulting in a SAF of 5.71, which is a 13% improvement over 2005. Contractor operations also experienced seven incidents with an SAF of 1.72 which reflects a 60% improvement over the previous year. While we are pleased to report that overall safety performance improved in 2006 we believe there are more opportunities for incidence reduction and look forward to reporting real progress in the future. We

have followed up with a comprehensive safety action plan that is being implemented to prevent recurrence of incidents.

Overall, we are very pleased with the achievements of our NB timberlands during 2006. Highlights include:

- Management's success in harvesting and merchandising our products to maximize market opportunities while maintaining stable cash flows and low costs during a year characterized by difficult market and weather-related operating conditions;
- Demonstrating the sustainability of the NB timberlands through the successful recertification of both the Crown and Freehold timberlands to the ISO 14001 environmental management system and SFI® Program sustainable forest management standards during 2006; and,
- Renegotiation of the company's labour agreement with Local 114, following the agreement with Local 15N during the fall of 2005. Together, these two agreements provide Acadian with labour certainty through 2010.

Maine Timberlands

Maine Timberlands owns and operates 311,000 acres of freehold timberlands and is operated exclusively by third-party contractors.

The table below summarizes operating and financial results for Maine Timberlands:

	Eleven-Months Ended December 31, 2006			*Eleven-Months Ended December 31, 2005*[1]		
	Harvest *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*
Softwood	204.6	204.1	$ 13.1	197.5	197.5	$ 13.8
Hardwood	70.9	69.6	3.5	55.1	55.1	2.9
Biomass	9.7	9.8	0.2	8.4	8.4	—
	285.2	283.5	16.8	261.0	261.0	16.7
Other sales			0.3			—
Net sales			$ 17.1			$ 16.7
EBITDA			$ 5.9			$ 6.5
EBITDA margin			35%			39%

[1] *Prepared on a proforma basis, see Basis of Presentation.*

Maine Timberlands produced solid operating results in the eleven-months ended December 31, 2006 with softwood and hardwood shipments of 204 thousand m³ and 70 thousand m³, respectively. Softwood shipments were consistent with results in the same period in 2005, whereas hardwood shipments were 26% higher due to hardwood dominant areas harvested in 2006 and high demand for aspen. Approximately 54% of shipment volume was sold as sawlogs, 42% as pulpwood and 4% as biomass.

Net sales were $17.1 million, 2% higher compared to the same period in 2005 in Canadian dollar terms and 5.4% in U.S. dollar terms. Log sales of $16.8 million were comparable to the same period in 2005, reflecting lower unit prices and higher volumes.

Costs were $11.2 million, an increase of $1 million compared to the same period of 2005, which was largely attributable to the increase in sales volume.

EBITDA was $5.9 million, down 9% from the same period in 2005 and EBITDA margin was 35%, compared to 39% in the comparable period in 2005. This decrease largely reflects lower prices and higher volumes of low margin hardwood pulpwood in the sales mix in 2006.

After a very strong start to the year in the first quarter, Acadian's Maine Timberlands was forced to modify its marketing plans for the balance of 2006 in order to offset the impact of declining prices for spruce-fir sawlogs associated with weakening softwood lumber markets. While this strong first quarter helped to moderate the impact of generally declining wood prices through the year we are pleased with the results for the eleven-month period and believe management's ability to manage the species mix, in response to these challenging market conditions, demonstrates the stable and sustainable nature of Acadian's cash flows.

For the eleven-months ended December 2006, there were no accidents among employees and there was one reportable minor accident among contractors, which resulted in no lost time.

Financial Position

As at December 31, 2006, Acadian's balance sheet consisted of total assets of $240.0 million, represented primarily by timberlands and logging roads of $219.1 million with the balance in cash and working capital of $14.8 million and intangible assets of $6.1 million. Timberlands have been recorded at cost as determined through the purchase of these assets on formation of the Fund and are depleted and charged to operations in a systematic manner based on the utilization of the timber resources. Silviculture costs have been capitalized as they were incurred. These assets were funded through the proceeds from the issuance of units of the Fund and borrowings which are described in more detail in the following section.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Acadian's principal sources of liquidity include cash earned in operations and a $5 million operating credit facility which remains undrawn since the inception of the Fund. These sources, combined with existing cash and cash equivalents and net working capital generated by the Fund since inception, will allow the Fund to meet its operating, debt service, capital expenditure and distribution requirements. Due to the seasonal nature of our business, it is typical that cash reserves are generated in the first quarter of the year and are then drawn down during periods such as the second quarter when harvesting conditions are not ideal.

The Fund expects to make monthly distributions of its available cash to the extent determined prudent by the Fund's Trustees.

Silviculture and capital expenditures for the eleven-months ended December 31, 2006 were $1.5 million, which was in line with management's estimate of annual silviculture and capital expenditures at the time of the IPO of $1.4 million. As expected, these expenditures were primarily in the third quarter with minimal expenses incurred during the balance of the year.

Management will continue to assess financing alternatives which may include the issuance of additional Fund units and debt when funding requirements, such as potential acquisitions, present themselves.

Capital Resources

Borrowings

The Fund has a $47 million bank credit facility consisting of a $42 million bank term credit facility and a $5 million revolving credit facility. As at December 31, 2006, no funds had been drawn on the revolving credit facility. The term facility, which matures on January 30, 2009, is fully drawn, and bears interest based at the 30-day Banker Acceptances rate. Management will continue to assess the term and amount of these facilities as well as alternative financing options, including the fixing of the interest rates where appropriate. The Fund also has secured a term loan facility of US$31.5 million. This facility bears interest at 4.67%, payable quarterly and expires on February 27, 2011. The Fund has granted the lenders a security interest over its assets. Both facilities contain certain restrictive covenants relating to debt incurrence, sale of assets, and maintenance of certain financial ratios, all of which are in compliance as at December 31, 2006.

Outstanding Units

As at December 31, 2006, 8,450,643 Class A units were issued and outstanding. The Fund's capital structure remains unchanged from its launch on January 31, 2006. The Fund is authorized to issue an unlimited number of units of the same class with equal rights and privileges. Unitholders are entitled to receive distributions as and when declared by the Trustees of the Fund and are entitled to one vote per unit on all matters to be voted on by unitholders at each meeting of unitholders.

On closing of the IPO, the Fund issued 3,613,780 exchangeable Class B LP units to Fraser Papers as part of the consideration for the acquisition of the NB Timberland assets and 4,507,030 convertible Class B Interest Liability of a subsidiary to Brookfield Asset Management Inc. ("Brookfield") as part of the consideration for the acquisition of the Maine Timberlands. These interests are convertible into units of the Fund at the option of the holders on a one-for-one basis and represent approximately 22% and 27%, respectively, of the issued and outstanding units on a fully-diluted basis. Since the IPO, Brookfield has purchased an additional 406,232 class A units and now holds 30% of the outstanding units on a fully-diluted basis.

The Class B Interest Liability of a subsidiary entitles the holder to require the settlement of the liability in units, or at the sole election of Acadian, cash equal to the fair value of those units on the date of conversion. As the settlement of these interests is either cash or something other than the equity of the subsidiary, they are considered liabilities for accounting purposes. Holders of these interests are entitled to receive, as and when declared by Acadian, a fixed cumulative preferential cash distribution at a rate equal to the U.S. dollar equivalent on the date of such distribution of the lesser of (i) $0.075625, representing 110% of the initial monthly distribution per unit of the Fund, and (ii) the then most recently announced distribution per unit.

A summary of the Fund units on a fully diluted basis is as follows:

	As at December 31, 2006	
	Units	**Percentage**
Class A units outstanding	8,450,643	51%
Class B LP units outstanding	3,613,780	22%
Class B Interest Liability of a subsidiary outstanding	4,507,030	27%
	16,571,453	100%

OUTLOOK

The market for softwood sawlogs is expected to remain challenging through 2007 as U.S. new home construction remains depressed while excessive inventories of new and existing homes continue to be for sale. Despite this weakness, we do not expect softwood sawlog demand or pricing in this market to deteriorate further.

We remain confident that Acadian Timber will be able to sell its production through 2007, based on the following two factors. First, harvest reductions in Quebec and Ontario, together with the fact that a number of private woodlot owners have exited the marketplace while waiting for higher prices, has resulted in a relatively tight regional market for softwood sawlogs. Second, the regional pulp and paper sector is currently experiencing above trend pricing for its major products, requiring it to run integrated sawmills at moderate levels in order to maintain chip supplies.

Markets for hardwood sawlogs and specialty products are expected to remain steady in 2007, while markets for softwood pulpwood and biomass are expected to experience continued strength reflecting strong demand, regional chip shortages and lower levels of regional harvest activity. Markets for hardwood pulp are expected to stabilize in 2007, with the return of a reliable customer, the St. Anne Nackawic sulphite mill in New Brunswick, combined with a draw-down of inventories related to the closure of the Old Town mill in Maine.

During these challenging market conditions, our primary focus will be on merchandising all of our products for their highest value, while seeking every opportunity to reduce costs. Acadian is focused on maximizing long-term value for unitholders and we will continue to make every effort to maintain a stable financial performance while preserving the long-term value of the business.

Canadian Government's Tax Fairness Plan

On October 31, 2006, Canada's Finance Minister, James Flaherty, announced proposed changes to Canada's taxation system designed to level the playing field between trusts and corporations. While we feel that it is still too early to determine the extent to which the proposed legislation will impact Acadian, our management and Board of Trustees will continue to monitor and analyze the situation and its implications to the Fund as they develop.

ANALYSIS OF FOURTH QUARTER RESULTS

Summary of Fourth Quarter 2006 Results

The table below summarizes operating and financial data for Acadian:

millions	2006	2005[1]
Total		
Sales volume (000s m^3)	370.8	399.4
Net sales	$ 19.5	$ 22.5
Net income	2.3	n/a
EBITDA	5.2	6.6
EBITDA margin	27%	29%
Distributable cash from operations	$ 4.3	n/a
Distributions declared		
Class A unitholders	1.7	
Class B LP unitholders	0.7	
Class B Interest of a subsidiary	0.9	
	3.3	
Payout ratio	77%	

[1] *Prepared on a proforma basis, see Basis of Presentation.*

Distributable Cash from Operations and Distributions

Distributable cash from operations was $4.3 million for the fourth quarter of 2006. Distributions declared during the fourth quarter to Class A and Class B LP unitholders were $1.7 million and $0.7 million, respectively. These monthly distributions of $0.06875 per unit were in line with monthly distributions anticipated at the IPO, representing an annualized yield of 8.25% based on the initial issue price of $10.00 per unit.

The following table provides a reconciliation of net income and cash flow from operations before changes in working capital, as determined in accordance with GAAP, to EBITDA and distributable cash from operations:

millions	*Three-Months Ended December 31, 2006*
Net income	$ 2.3
Add (deduct):	
Non-cash gain on Class B interest liability of a subsidiary	(1.2)
Depreciation and depletion	2.3
Interest expense on long-term debt	0.9
Distribution on Class B interest liability of a subsidiary	0.9
EBITDA	5.2
Add (deduct):	
Interest expense on long-term debt	(0.9)
Silviculture and capital expenditures	—
Distributable cash from operations	**$ 4.3**
Cash flow from operating activities	$ 3.5
Add (deduct):	
Change in non-cash working capital balances	(0.1)
Distribution on Class B interest liability of a subsidiary	0.9
Silviculture and capital expenditures	—
Distributable cash from operations	**$ 4.3**
Distributions declared	$ 3.3

Results of Operations

Acadian generated net sales of $19.5 million and EBITDA of $5.2 million on a consolidated log sales volume of 371 thousand m^3 in the fourth quarter of 2006.

Consolidated sales volumes in the fourth quarter of 2005 were 399 thousand m^3, resulting in net sales of $22.5 million. The lower sales volumes in 2006 reflected planned reductions in harvest volumes and deliveries as well as unseasonably warm and wet weather that restricted our ability to operate.

EBITDA of $5.2 million for the fourth quarter was $1.4 million lower than the same period of last year due to lower harvest volumes and a lower value species mix. In addition, in the prior year EBITDA included $0.8 million of proceeds from the sale of parcel land. EBITDA margin was 27% in the fourth quarter of 2006 versus 29% in the same period last year.

Class B Interest Liability

Included in net income for the fourth quarter is a non-cash gain related to the Class B Interest Liability of a subsidiary. The settlement obligation of this interest is based on the trading value of Acadian's units at the time of settlement, which requires the liability to be recorded at its fair value at each balance sheet date with the corresponding gain arising from a decrease in Acadian's unit price or loss arising from an increase in Acadian's unit price included in the statement of operations. In addition, as this Canadian dollar liability has been issued by a self-sustaining U.S. dollar subsidiary of the Fund, the obligation is required to be converted to U.S. dollars at each reporting period, with the corresponding gain or loss included in the statement of operations.

For the fourth quarter, these items resulted in a $1.2 million gain, comprised of a $1.7 million foreign exchange gain which was partially offset by a $0.5 million mark-to-market loss.

Segmented Results of Operations

The table below summarizes operating and financial results for NB Timberlands and Maine Timberlands:

	Three-Months Ended December 31, 2006				*Three-Months Ended December 31, 2005*[1]			
millions	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**
Sales volumes								
(000s m^3)	288.1	82.7	—	370.8	309.7	89.7	—	399.4
Net sales	$ 14.4	$ 5.1	$ —	$ 19.5	$ 16.7	$ 5.8	$ —	$ 22.5
EBITDA	$ 4.1	$ 1.9	$ (0.8)	$ 5.2	$ 3.6	$ 3.0	$ —	$ 6.6
EBITDA margin	28%	37%	n/a	27%	22%	52%	n/a	29%

[1] *Prepared on a proforma basis, see Basis of Presentation.*

NB Timberlands

The table below summarizes operating and financial results for NB Timberlands:

	Three-Months Ended December 31, 2006			*Three-Months Ended December 31, 2005*[1]		
	Harvest *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*
Softwood	117.4	86.4	$ 5.5	87.9	92.6	$ 5.6
Hardwood	121.2	125.0	6.6	207.4	153.5	9.3
Biomass	76.7	76.7	1.4	63.6	63.6	0.9
	315.3	288.1	13.5	358.9	309.7	15.8
Other sales			0.9			0.9
Net sales			$ 14.4			$ 16.7
EBITDA			$ 4.1			$ 3.6
EBITDA margin			28%			22%

[1] *Prepared on a proforma basis, see Basis of Presentation.*

Softwood, hardwood and biomass shipments were 86 thousand m^3, 125 thousand m^3 and 77 thousand m^3 for the fourth quarter, respectively. Softwood and hardwood volumes were lower compared to the same period in 2005 due to poor weather conditions and planned reduction in hardwood harvest volume. Approximately 31% of sales volumes were sold as sawlogs, 42% as pulpwood and 27% as biomass.

Net sales were $14.4 million, down 14% from the same period of last year, which largely reflects a lower value species mix in the hardwood component as well as lower hardwood sales volumes.

Costs were $10.3 million, down 21% compared to the same period last year. This decrease was attributable to the 19% reduction in harvest volumes (excluding biomass), shorter hauling distances, and a decrease in salaries, benefits and other administrative costs that resulted, primarily, from reduced staffing levels and more efficient allocation of resources now that Acadian is a standalone entity.

EBITDA was $4.1 million, compared to $3.6 million in the same period last year. EBITDA margin was 28% compared to 22% in the same period of 2005, largely reflecting improved prices for biomass and reduced administrative costs.

For the fourth quarter, NB Timberlands had no accidents among employees and experienced one minor accident among contractors.

Maine Timberlands

The table below summarizes operating and financial results for Maine Timberlands:

	Three-Months Ended December 31, 2006			*Three-Months Ended December 31, 2005*[1]		
	Harvest *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*
Softwood	58.9	58.5	$ 3.8	71.9	71.9	$ 5.1
Hardwood	22.1	22.2	1.1	15.6	15.6	0.7
Biomass	2.0	2.0	0.1	2.2	2.2	—
	83.0	82.7	5.0	89.7	89.7	5.8
Other sales			0.1			—
Net sales			$ 5.1			$ 5.8
EBITDA			$ 1.9			$ 3.0
EBITDA margin			37%			52%

[1] *Prepared on a proforma basis, see Basis of Presentation.*

Maine Timberlands softwood and hardwood shipments were 59 thousand m^3 and 22 thousand m^3, respectively. The 19% decrease in softwood shipments from the same period in 2005 was primarily attributed to unusually warm and wet weather conditions, which disproportionately impacted access to and delivery of softwood logs. Approximately 52% of shipment volume was sold as sawlogs, 45% as pulpwood and 3% as biomass.

Net sales were $5.1 million, down 12% from the same period in 2005 due to lower prices, less softwood being sold, and a stronger Canadian dollar.

Costs were $3.2 million, an increase of $0.4 million compared to the same period in 2005. This increase reflects differences in operating areas between the two years and the fact that the 2005 proforma costs include $0.8 million proceeds from a land sale in the fourth quarter of 2005. Excluding the land sale in the prior year, costs were $0.4 million, or 11%, lower than the same period in 2005.

EBITDA was $1.9 million, down 14% from the same period in 2005 before accounting for proceeds from the land sale. EBITDA margin was 37% in the fourth quarter.

Weather and markets in which Maine Timberlands operates presented challenges in the fourth quarter. In spite of this, deliveries were slightly ahead of plan as Acadian's Maine Timberlands was able to take advantage of better operating conditions in hardwood areas and strong demand for hardwood.

At Maine Timberlands there were no accidents among employees and contractors in the fourth quarter.

SUPPLEMENTAL INFORMATION

Selected Consolidated Quarterly Information

The tables below set forth selected consolidated quarterly information for the last eight quarters. See "Additional Quarterly Information" section for the segmented quarterly results.

	2006[1]			
millions, except per unit data and where indicated	Q4	Q3	Q2	Q1[2]
Sales volumes (000s m^3)	371	371	245	341
Net sales	$ 19.5	$ 19.7	$ 10.9	$ 19.4
EBITDA[4]	$ 5.2	$ 6.0	$ 0.2	$ 6.9
Distributable cash from operations	$ 4.3	$ 3.8	$ (1.0)	$ 6.3
Net income	$ 2.3	$ 1.3	$ (0.3)	$ 4.6
Net income per unit – basic	$ 0.19	$ 0.11	$(0.02)	$ 0.38
Net income per unit – diluted	$ 0.12	$ 0.11	$(0.02)	$ 0.26

	Proforma 2005[3]			
millions, except per unit data and where indicated	Q4	Q3	Q2	Q1
Sales volumes (000s m^3)	399	354	267	455
Net sales	$ 22.5	$ 19.1	$ 13.2	$ 25.5
EBITDA[4]	$ 6.6	$ 4.8	$ 1.3	$ 8.8
Distributable cash from operations	n/a	n/a	n/a	n/a
Net income	n/a	n/a	n/a	n/a
Net income per unit – basic	n/a	n/a	n/a	n/a
Net income per unit – diluted	n/a	n/a	n/a	n/a

[1] *Certain figures have been restated or reclassified to conform with the current year's presentation.*

[2] *Q1 2006 results are for the two-month period ended March 31, 2006.*

[3] *Prepared on a proforma basis, see Basis of Presentation, with the exception of sales dollars and volumes attributed to non-continuing business arrangements which have been eliminated.*

[4] *EBITDA for the quarters prior to Q1 2006 comprises Proforma Adjusted EBITDA as detailed in the Fund's Prospectus. EBITDA and Proforma Adjusted EBITDA are not recognized measures under GAAP and do not have the standardized meanings prescribed by GAAP. EBITDA and Proforma Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See the Fund Prospectus "Reconciliation of Earnings to Adjusted EBITDA and Proforma Adjusted EBITDA" and this MD&A "Distributable Cash from Operations" for a reconciliation of EBITDA to net income.*

Additional Quarterly Information

The tables below set forth additional quarterly information for the last eight quarters by reportable segment:

NB Timberlands

	2006 Q4			2006 Q3			2006 Q2			2006 Q1[1]		
	Harvest (000s m³)	Sales (000s m³)	Results (millions)	Harvest (000s m³)	Sales (000s m³)	Results (millions)	Harvest (000s m³)	Sales (000s m³)	Results (millions)	Harvest (000s m³)	Sales (000s m³)	Results (millions)
Softwood	117.4	86.4	$ 5.5	101.4	97.6	$ 6.2	24.8	33.1	$ 2.2	77.6	111.4	$ 7.3
Hardwood	121.2	125.0	6.6	122.7	127.8	6.6	86.6	106.8	5.7	109.1	108.3	5.8
Biomass	76.7	76.7	1.4	67.5	67.5	1.4	53.0	53.0	0.9	50.4	50.4	0.8
	315.3	288.1	13.5	291.6	292.9	14.2	164.4	192.9	8.8	237.1	270.1	13.9
Other sales			0.9			0.9			(0.7)			0.9
Net sales			$ 14.4			$ 15.1			$ 8.1			$ 14.8
EBITDA			$ 4.1			$ 4.5			$ (0.1)			$ 5.0
EBITDA margin			28%			30%			(1%)			34%

Maine Timberlands

	2006 Q4			2006 Q3			2006 Q2			2006 Q1[1]		
	Harvest (000s m³)	Sales (000s m³)	Results (millions)	Harvest (000s m³)	Sales (000s m³)	Results (millions)	Harvest (000s m³)	Sales (000s m³)	Results (millions)	Harvest (000s m³)	Sales (000s m³)	Results (millions)
Softwood	58.9	58.5	$ 3.8	57.3	57.3	$ 3.5	32.1	32.1	$ 2.0	56.3	56.3	$ 3.8
Hardwood	22.1	22.2	1.1	19.8	18.4	0.8	16.9	16.9	0.8	12.1	12.1	0.8
Biomass	2.0	2.0	0.1	2.3	2.3	0.1	2.9	2.9	—	2.5	2.5	—
	83.0	82.7	5.0	79.4	78.0	4.4	51.9	51.9	2.8	70.9	70.9	4.6
Other sales			0.1			0.2			—			—
Net sales			$ 5.1			$ 4.6			$ 2.8			$ 4.6
EBITDA			$ 1.9			$ 1.4			$ 0.5			$ 2.1
EBITDA margin			37%			30%			18%			46%

Corporate

	2006 Q4			2006 Q3			2006 Q2			2006 Q1[1]		
	Harvest (000s m³)	Sales (000s m³)	Results (millions)	Harvest (000s m³)	Sales (000s m³)	Results (millions)	Harvest (000s m³)	Sales (000s m³)	Results (millions)	Harvest (000s m³)	Sales (000s m³)	Results (millions)
Softwood	—	—	$ —	—	—	$ —	—	—	$ —	—	—	$ —
Hardwood	—	—	—	—	—	—	—	—	—	—	—	—
Biomass	—	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—	—	—
Other sales			—			—			—			—
Net sales			$ —			$ —			$ —			$ —
EBITDA			$ (0.8)			$ 0.1			$ (0.2)			$ (0.2)
EBITDA margin			n/a			n/a			n/a			n/a

[1] *Q1 2006 results are for the two-month period ended March 31, 2006.*

NB Timberlands

	2005 Q4[2]			2005 Q3[2]			2005 Q2[2]			2005 Q1[2]		
	Harvest (000s m^3)	Sales (000s m^3)	Results (millions)	Harvest (000s m^3)	Sales (000s m^3)	Results (millions)	Harvest (000s m^3)	Sales (000s m^3)	Results (millions)	Harvest (000s m^3)	Sales (000s m^3)	Results (millions)
Softwood	87.9	92.6	$ 5.6	96.3	88.7	$ 5.3	45.8	50.9	$ 3.7	144.7	161.8	$ 9.1
Hardwood	207.4	153.5	9.3	144.7	110.9	7.1	56.7	110.1	6.1	171.2	115.7	6.8
Biomass	63.6	63.6	0.9	78.0	78.0	1.6	74.4	74.4	1.8	78.1	78.2	1.6
	358.9	309.7	15.8	319.0	277.6	14.0	176.9	235.4	11.6	394.0	355.7	17.5
Other sales			0.9			0.3			(0.3)			1.3
Net sales			$ 16.7			$ 14.3			$ 11.3			$ 18.8
EBITDA[3]			$ 3.6			$ 3.4			$ 1.0			$ 6.1
EBITDA margin			22%			24%			9%			32%

Maine Timberlands

	2005 Q4[2]			2005 Q3[2]			2005 Q2[2]			2005 Q1[2]		
	Harvest (000s m^3)	Sales (000s m^3)	Results (millions)	Harvest (000s m^3)	Sales (000s m^3)	Results (millions)	Harvest (000s m^3)	Sales (000s m^3)	Results (millions)	Harvest (000s m^3)	Sales (000s m^3)	Results (millions)
Softwood	71.9	71.9	$ 5.1	54.5	54.5	$ 3.9	18.3	18.3	$ 1.2	84.7	84.7	$ 5.9
Hardwood	15.6	15.6	0.7	18.5	18.5	0.9	11.5	11.5	0.7	12.5	12.5	0.7
Biomass	2.2	2.2	—	3.5	3.5	—	2.0	2.0	—	1.7	1.7	—
	89.7	89.7	5.8	76.5	76.5	4.8	31.8	31.8	1.9	98.9	98.9	6.6
Other sales			—			—			—			0.1
Net sales			$ 5.8			$ 4.8			$ 1.9			$ 6.7
EBITDA[3]			$ 3.0			$ 1.4			$ 0.3			$ 2.7
EBITDA margin			52%			29%			16%			40%

Corporate

	2005 Q4[2]			2005 Q3[2]			2005 Q2[2]			2005 Q1[2]		
	Harvest (000s m^3)	Sales (000s m^3)	Results (millions)	Harvest (000s m^3)	Sales (000s m^3)	Results (millions)	Harvest (000s m^3)	Sales (000s m^3)	Results (millions)	Harvest (000s m^3)	Sales (000s m^3)	Results (millions)
Softwood	—	—	$ —	—	—	$ —	—	—	$ —	—	—	$ —
Hardwood	—	—	—	—	—	—	—	—	—	—	—	—
Biomass	—	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—	—	—
Other sales			—			—			—			—
Net sales			$ —			$ —			$ —			$ —
EBITDA[3]			n/a			n/a			n/a			n/a
EBITDA margin			n/a			n/a			n/a			n/a

[2] *Prepared on a proforma basis, see Basis of Presentation, with the exception of sales dollars and volumes attributed to non-continuing business arrangements which have been eliminated.*

[3] *EBITDA for the quarters prior to Q1 2006 comprises Proforma Adjusted EBITDA as detailed in the Fund's Prospectus. EBITDA and Proforma Adjusted EBITDA are not recognized measures under GAAP and do not have the standardized meanings prescribed by GAAP. EBITDA and Proforma Adjusted EBITDA may not be comparable to similar measures presented by other issuers. See the Fund Prospectus "Reconciliation of Earnings to Adjusted EBITDA and Proforma Adjusted EBITDA" and this MD&A "Distributable Cash From Operations" for a reconciliation of EBITDA to net income.*

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reported period. As a result, actual results could differ from these estimates.

Acadian considers the following policies to be most critical in understanding the judgements that are involved in preparing the Fund's consolidated financial statements and the uncertainties that could affect the Fund's results of operations, financial position and cash flows.

Purchase Price Allocation

The allocation of the Fund's purchase price to timberlands, logging roads, fixed assets equipment, and contracts are subject to management's estimates. These estimates were subject to change in the first twelve-month period as management refined the underlying calculations and analysis. In addition, the portion of the purchase price allocated to working capital was subject to a working capital price adjustment which was finalized during the third quarter.

Accounting for Timberlands and Logging Roads

Acadian's timberlands and logging roads are recorded at cost less accumulated depletion and depreciation. Depletion is recorded in a systematic manner based on the utilization of the timber resources. Depletion amounts are charged to operations based on a pro rata calculation of units of timber harvested and relative values of timber present, and is applied against the historical cost of timberlands. Main logging roads and their associated bridges are depreciated on a straight-line basis over their estimated useful lives of twenty years.

Class B Interest Liability of a Subsidiary

The Class B Interest Liability represents preferred interests in the Maine Timberlands. The preferred interests are convertible into units at the option of the holder and are treated as a liability of the Maine Timberlands for accounting purposes.

The value of the liability is measured at each reporting date to reflect the market price of the units and the current exchange rates. Changes in value are recorded in the consolidated statement of operations.

Class B LP Units

The Class B LP units represent units in a subsidiary of the Fund and are exchangeable into units at any time. The Class B LP units have been treated as a component of unitholders' equity for accounting purposes and as part of the number of units outstanding for the calculation of basic earnings per unit.

Translation of Foreign Currencies

The currency measurement of the Fund's Canadian operations and U.S. operations are the Canadian dollar and U.S. dollar respectively. Monetary assets and liabilities denominated in a currency other than the operation's currency of measurement are translated at average exchange rates during the period with the associated gain or loss recorded in the consolidated statement of operations.

The accounts of self-sustaining operations in the United States are translated using the current rate method under which assets and liabilities are translated at exchange rates prevailing at the end of the period and revenues and expenses at average exchange rates during the period. Gains or losses on translation are not included in the consolidated statement of operations, but are presented as a separate item in unitholders' equity.

Taxation of Fund Distributions

Distributions to Canadian unitholders in 2006 consisted of 44% taxable income and 56% return of capital, which are tax deferred. The tax deferral arises as Acadian's tax depletion, capital cost allowance, and expenses significantly reduce the Fund's income that would otherwise be taxable. The tax-deferred portion of distributions represents a return of capital for Canadian income tax purposes, which reduces the adjusted cost base of the trust units. Generally, a trust unit is considered to be capital property. The actual

or deemed disposition of a unit will give rise to a capital gain (or loss) equal to the amount by which the proceeds of disposition of a trust unit are greater (or less) than the adjusted cost base of the unit and any associated selling costs.

Related Party Transactions

In the normal course of operations, the Fund enters into various transactions on market terms with related parties which have been measured at exchange value and recognized in the consolidated financial statements. The Fund has two significant related parties, Brookfield Asset Management Inc., and affiliates (collectively "Brookfield") and Fraser Papers Inc. Brookfield owns approximately 30% of the outstanding units of the Fund on a fully diluted basis through its ownership of the Class B Interest Liability of a subsidiary and the additional Class A units purchased. Fraser Papers owns approximately 22% of the outstanding units of the Fund on a fully diluted basis through its ownership of the Class B LP units. A summary of the significant related party transactions have been provided below. More detailed information regarding these relationships can be found in the Fund's prospectus dated January 23, 2006.

a) Concurrent with the Offering, Acadian entered into a number of fibre supply agreements whereby Acadian agreed to provide fibre to Fraser Papers and Brookfield for periods of up to 20 years. In addition, Acadian agreed to administer certain licenses on behalf of Fraser Papers. Total sales to Fraser Papers and Brookfield during the eleven-months ended December 31, 2006 amounted to $37.6 million and $2.7 million, respectively, which represented 42% of consolidated total sales. Included in accounts receivable at December 31, 2006 is $0.3 million related to these agreements.

b) Concurrent with the Offering, Acadian entered into an agreement with Brookfield whereby Brookfield will provide a number of administrative and advisory services to Acadian. Total fees for services provided in the eleven-month period amounted to $1.8 million. All fees have been fully paid in accordance with the services agreement.

c) Distributions paid or declared to Fraser Papers during the eleven-months ended December 31, 2006 totaled $2.7 million.

d) Payments on the Class B Interest Liability to Brookfield during the eleven-months ended December 31, 2006 totaled $3.1 million. An additional $0.3 million accrued payment on the Class B Interest Liability has been included in accounts payable and accrued liabilities as at December 31, 2006.

e) Maine Timberlands rents space in a shared office building from Katahdin Paper Company LLC (a wholly-owned subsidiary of Brookfield), which also provides certain administrative services to Maine Timberlands. Total costs paid for these services were $17 thousand during the eleven-month period ended December 31, 2006.

f) Fraser Papers provided certain administrative services to Acadian under a transitional services agreement. No amounts were charged for these services.

Contractual Obligations

The Fund has no material capital or operating lease obligations; however, it has three significant contractual obligations related to the supply of fibre to related parties and the provision of management services under a Crown License Agreement at the direction of a related party. See Related Party Transactions for further discussion of these contracts. A summary of the Fund's debt obligations as at December 31, 2006 is as follows:

			Payments Due by Period			
	Total Available	**Total**	**Less Than One Year**	**1 to 3 Years**	**4 to 5 Years**	**After 5 Years**
Long-term debt						
Bank term credit facility	$ 42.0	$ 42.0	$ —	$ 42.0	$ —	$ —
Revolving credit facility	5.0	—	—	—	—	—
Class B interest liability	41.7	41.7	—	—	—	41.7
Term loan facility	37.3	37.3	—	—	37.3	—
	$ 126.0	$ 121.0	$ —	$ 42.0	$ 37.3	$ 41.7
Interest expense (i) (ii) (iii)		$ 72.8	$ 7.7	$ 13.4	$ 6.6	$ 45.1

The following assumptions have been made with respect to interest rates for the periods noted in the table above:

(i) Bank term debt credit facility variable interest at 5.5% per annum;

(ii) Term loan facility fixed interest at 4.67% with a Canadian to U.S. dollar conversion of 0.85; and,

(iii) Class B Interest fixed distribution rate of $0.06875 per unit per month with no conversion exercised by the holder.

RISK FACTORS

The following information is a summary of certain risk factors and the potential impact these factors could have on the business, assets, financial condition, results of operations, cash flows, liquidity and/or distributable cash from operations of Acadian, as well as on the ability of Acadian to make distributions on the units. Additional risks and uncertainties not presently known to Acadian, or that Acadian currently deems immaterial, may also impair the operations of Acadian. A more detailed discussion of the business environment and risks is contained in our Annual Information Form which is posted on our website and filed on SEDAR.

Dependence on Fraser Papers

Approximately 39% of Acadian's net sales for the eleven-months ended December 31, 2006 were derived from lumber mills and pulp and paper mills owned or managed by Fraser Papers. Under the Fibre Supply Agreement, Fraser Papers is permitted to permanently reduce its purchases by any amount, subject to certain notice periods. Additionally, Fraser Papers has the right to temporarily reduce the volume of fibre that it purchases as a result of market factors or the sale or closure (whether temporary or permanent) of any of its owned or managed mills while retaining the right to increase such volumes in the future up to the committed level. This right may restrict Acadian's ability to find replacement customers given the uncertainty of ongoing supply to which such replacement customers would be subject.

In addition, the Crown licenses have been granted to Fraser Papers as the owner/operator of its mills. If Fraser Papers sells or closes these mills in the future, the Crown licenses would likely be required to be transferred to the purchaser or revert to the Crown, as the case may be, resulting in Fraser Papers potentially losing management over the Crown Lands subject to these licenses. Such events could potentially eliminate the fees earned by Acadian in providing services relating to the Crown Lands. The fees that Acadian earns for these services cover a portion of Acadian's total fixed costs. In the event that Fraser Papers were to lose the management of the Crown licenses causing Acadian to lose the service fees from Fraser Papers relating to the Crown licenses, management believes that it may not be able to eliminate sufficient fixed costs and a reduction in distributable cash from operations could result.

Acadian's revenue from operations with respect to the Crown Lands is generated from the service fees it charges to Fraser Papers. Acadian has little control over these revenues as the Government of New Brunswick dictates the management fees that Fraser Papers receives and therefore indirectly influences the service fees to be charged by Acadian on harvesting from Crown Lands. There is a risk that Acadian's overhead expenses incurred to provide services relating to the Crown Lands may not be fully recovered through the fees it is permitted to charge.

In addition, the government of New Brunswick periodically establishes the royalties to be paid for the right to harvest timber on Crown Lands. Royalties are established for each product and species harvested. Charges levied on timber harvested from Crown Lands are based on the amount of timber cut and the royalty then in effect. A reduction in the royalty charged on Crown Lands could make Acadian's timber harvested from the NB Timberlands and Maine Timberlands less competitive.

Furthermore, increased annual allowable cut ("AAC") on Crown Lands could have a negative impact on Acadian's ability to market its timber harvested from the NB Timberlands and the Maine Timberlands. The AAC on Crown Lands for New Brunswick is determined by the Minister of Natural Resources of New Brunswick and reflects timber conditions, regional and local economic and social interests, and environmental considerations. A significant increase in the AAC in any given year could have an adverse impact on Acadian's operating results as timber prices could fall.

Dependence on the Lumber and Pulp and Paper Industries

Acadian's financial performance depends on the state of the lumber and pulp and paper industries. Depressed commodity prices of lumber, pulp or paper may cause Fraser Papers and/or other mill operators to temporarily or permanently shut down their mills if their product prices fall to a level where mill operation would be uneconomic. Moreover, these operators may be required to temporarily suspend operations at one or more of their mills to bring production in line with market demand or in response to the market irregularities. Any of these circumstances could significantly reduce the amount of timber that such operators purchase from Acadian.

Dependence on the Housing, Construction, Repair and Remodelling Market

The demand for logs and wood products is primarily affected by the level of new residential construction activity and, to a lesser extent, repair and remodelling activity and other industrial uses, which are subject to fluctuations due to changes in general economic conditions. Decreases in the level of residential construction activity generally reduce demand for logs and wood products, resulting in lower revenues, profits and cash flows for lumber mills who are important customers to Acadian.

Highly Competitive Industry

Timberland companies operate in a highly competitive business environment in which companies compete, to a large degree, on the basis of price and also on the basis of service and ability to provide a steady supply of products over the long term. There are many suppliers of softwood and hardwood logs who compete in Acadian's markets. Acadian may also be subject to increased import competition from worldwide suppliers of forest products. In addition, wood and paper products are subject to increasing competition from a variety of substitute products. Acadian's competitive position is also influenced by a number of other factors including: the availability, quality and cost of labour; the cost of energy; the ability to attract and maintain long-term customer relationships; the quality of products and customer service; and foreign currency fluctuations.

Restrictions Imposed by Forestry and Environmental Regulations

While a significant portion of Acadian's timberlands are comprised of freehold timberlands and as such are subject to less regulation than Crown Lands, provincial, state and federal government regulations relating to forestry practices and sale of logs may result in increased costs for Acadian and accordingly, impact its financial results and operations. In addition, forestry and environmental regulations may restrict timber harvesting and may otherwise restrict the ability of Acadian to conduct its business. Although Acadian believes that it is in material compliance with these requirements, there can be no assurance that it will not incur significant costs, civil and criminal penalties and liabilities, including those relating to claims for damages to property or natural resources, resulting from its operations.

Laws, regulations and related judicial decisions and administrative interpretations affecting Acadian's business are subject to change and new laws and regulations that may affect its business are frequently enacted. Some of these laws and regulations could impose on Acadian significant costs, penalties and liabilities for violations or existing conditions whether or not Acadian caused or knew about them. Acadian is subject to laws and regulations which relate to, among other things: the protection of timberlands, health and safety, the protection of endangered species, air and water quality, and timber harvesting practices. Regions with frequent policy changes add volatility to revenue streams and depress timberland values. Historically, New Brunswick has had relatively stable forestry regulations. Forest regulation in Maine has experienced volatility in the past but has shown a consistent trend towards stabilization.

In connection with a variety of operations of Acadian, the Fund may be required to make regulatory filings. Any of the Government agencies could delay review of or reject any of Acadian's filings which could result in a delay or restriction in harvesting, replanting, thinning, insect control or fire control.

Limitations on Ability to Harvest

Weather conditions, timber growth cycles, access limitations and regulatory requirements associated with the protection of wildlife and water resources may restrict Acadian's harvesting, as may other factors, including damage by fire, insect infestation, disease, prolonged drought and other natural and man-made disasters. There can be no assurance that Acadian will achieve harvest levels in the future necessary to maintain or increase revenues, earnings and cash flows.

Forest Management

Although management believes it follows best practices with regard to forest sustainability and general forest management, there can be no assurance that the established LRSY of the NB Timberlands and Maine Timberlands and management's forest management planning, including silviculture, will have the intended result of ensuring that Acadian's asset base appreciates over time. If management's estimates of merchantable inventory are incorrect or the LRSY is too high, harvesting levels on the Acadian Timberlands may result in depletion of Acadian's timber assets.

Fuel and Energy Costs

Acadian relies almost exclusively on land transportation for its timber and therefore may be more susceptible to fuel cost increases than other timberland companies, which rely more heavily on other transportation methods that are less exposed to fuel prices. In addition, many of Acadian's customers are high-energy consumers and, as a result, are themselves vulnerable to energy cost increases. If energy costs increase significantly, Acadian's customers may not be able to compete effectively and may have to reduce current operating volumes or close mills.

Geographic Concentration

Acadian's timberlands are concentrated in Maine and New Brunswick. Accordingly, if the level of production from these forests substantially declines or demand in the region were to decline for any reason, including closure of pulp, paper or lumber manufacturing operations in the region, such changes could have a material adverse effect on Acadian's overall harvest levels and its financial results.

Currency Risk

All of the net sales earned and expenses incurred by the Maine Timberlands, a significant portion of the revenues earned, and a nominal amount of the expenses of NB Timberlands are in U.S. dollars. As a result, Acadian's cost competitiveness could be impacted by unfavourable fluctuations in currency exchange rates. In addition, the apparent historical correlation between currency rates and timber prices in regions within close proximity to the Canadian/U.S. border may weaken over time thereby undermining any hedge relating to the Maine Timberlands. Acadian's customers are also susceptible to currency value fluctuations which may negatively impact the sawmills and pulp and paper mills to which Acadian sells its fibre, and accordingly the quantity of fibre sales to such customers could decline.

Insurance

Acadian's business is subject to the risks of forest harvesting such as fires, drought, tree diseases, severe weather, unforeseen equipment breakdowns, or any other event, including any event of force majeure, which could result in material damages to Acadian. From time to time, various types of insurance for companies who operate timberlands have not been available on commercially acceptable terms or, in some cases, have been unavailable.

Security of Land Title

Approximately 95% of the NB Timberlands have been registered under the new land titles system in New Brunswick while approximately 5% remains under the old registry regime. Title to this remaining 5% of the NB Timberlands cannot be verified with certainty. Although the lands have been owned by Fraser Papers for over 60 years, there may be a risk of title claims in the future. If a claim to any portion of the NB Timberlands were successful, Acadian would be required to forfeit such lands or pay amounts to the claimant.

Seasonality

Acadian's operations are subject to seasonal variations, and as a result Acadian's operating results vary from quarter to quarter, depending on seasonal factors.

Cyclicality

Acadian depends on the state of the lumber and pulp and paper industries. Demand for products from the lumber and pulp and paper industries is correlated with global economic conditions. In periods of economic weakness, reduced spending by consumers and businesses results in decreased demand for such products, resulting in lower product prices and possible manufacturing downtime. This, in turn, may result in lower net sales, profits and cash flows for Acadian since lumber mills and pulp and paper mills are important customers to Acadian.

Non-Timber Income

The NB Timberlands and Maine Timberlands have several sources of non-timber income including various land leases for recreational and commercial use as well as a recreational access permit plan. Most of these revenues are not subject to long-term agreements and as a result, any decrease in the recreational and commercial activities that lead to those revenues could impact Acadian.

Labour Relations

A portion of Acadian's workforce is unionized and, as a result, Acadian is required to negotiate the wages, benefits and other terms with many of its employees collectively. If Acadian is unable to negotiate acceptable contracts with any of its unions as existing agreements expire, Acadian could experience a significant disruption of its operations, higher ongoing labour costs and restriction of its ability to maximize the efficiency of its operations, which could have a material adverse effect on Acadian's operations and financial results.

Dependence on and Scarcity of Trained Labour

Acadian relies significantly on a limited number of entities to cut and haul harvested timber, as well as to conduct road building and silviculture activities. If any of these entities were to stop doing business with Acadian, Acadian's operations could be negatively impacted. In addition, there is a limited supply of trained foresters and trained operators/contractors in the New Brunswick and Maine regions which may result in increased costs to Acadian to retain its workforce.

Protection of Threatened or Endangered Species and Waterways

Federal, state and provincial laws and regulations protecting threatened or endangered species, waterways and wetlands or other environmental values may limit or prevent timber harvesting, road building and other activities of Acadian. The size of the area subject to restriction will vary depending on the protected species at issue, the time of year, and other factors, but can range from less than one to several thousand acres. As Acadian gains additional information regarding the presence of threatened or endangered species on the Acadian Timberlands, or if regulations become more restrictive, the amount of the Acadian Timberlands subject to harvest restrictions could increase.

Aboriginal Claims

Aboriginal claims could adversely affect Acadian's ability to harvest timber. Canadian courts have recognized that aboriginal people may possess rights at law in respect of land used or occupied by their ancestors where treaties have not been concluded to deal with these rights. In Canada, aboriginal groups have made claims in respect of land governed by Canadian authorities, which could affect a portion of the land covered by Fraser Papers' Crown licenses. Any settlements in respect of these claims could lower the volume of timber managed by Acadian on the Crown Lands and could increase the cost to harvest timber on such lands.

Undetected Environmental Liabilities

Acadian may currently own or may acquire properties subject to environmental and other liabilities, such as obligations to clean up or pay for the cleanup of contamination. While timberlands do not generally carry as high a risk of environmental contamination as industrial properties, the cost of cleanup of contaminated properties could increase Acadian's operating costs.

Dependence on Brookfield and Potential Conflicts of Interest

Acadian is dependent on Brookfield in respect of certain strategic management functions relating to the ongoing operations of the Fund. Brookfield, its affiliates, employees or agents and other funds and vehicles managed by Brookfield or such affiliates are engaged or invest, directly or indirectly, in a variety of other companies or entities involved in owning, managing, advising on or being otherwise engaged in timberland operations and businesses. This may result in conflicts, which could restrict expansion and other opportunities available to Acadian.

Canadian Government Tax Fairness Plan

On October 31, 2006, the Canadian government announced proposed changes to Canada's taxation system designed to level the playing field between trusts and corporations. While we do expect the proposed legislation to impact Acadian, at this stage it is too early to determine the extent.

RECENTLY ISSUED CANADIAN ACCOUNTING STANDARDS

In 2005, the CICA issued two new accounting standards: Handbook Section 1530, *Comprehensive Income* (Section 1530), and Handbook Section 3855, *Financial Instruments – Recognition and Measurement* (Section 3855). These new standards became effective for the Fund on January 1, 2007.

Comprehensive Income

Section 1530 introduces Comprehensive income and represents changes in unitholders' equity during a period arising from transactions and other events with non-owner sources. Other comprehensive income (OCI) includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. Our Consolidated Financial Statements will include a Consolidated Statement of Comprehensive Income, while the cumulative amount, Accumulated other comprehensive income (AOCI), will be presented as a new category of unitholders' equity in the Consolidated Balance Sheet.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities including derivatives be recognized on the balance sheet when we become a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Financial assets and financial liabilities held-for-trading will be measured at fair value with gains and losses recognized in Net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading will be measured at amortized cost using the effective interest method of amortization. Available for-sale financial assets will be measured at fair value with unrealized gains and losses including changes in foreign exchange rates being recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market will be measured at cost.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instrument or other contracts but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments will be recognized in Net income, except for derivatives that are designated as a cash flow hedge, the fair value change for which will be recognized in OCI.

Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855. Instruments that are classified as held-for-trading by way of this "fair value option" must have reliable fair values.

Other significant accounting implications arising on adoption of Section 3855 include the initial recognition of certain financial guarantees at fair value on the balance sheet and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Impact of Adopting Sections 1530 and 3855

The transition adjustment attributable to any embedded derivatives identified that were not previously recorded at fair value, will be recognized in the opening balance of retained earnings as at January 1, 2007. The impact of this transition adjustment is currently being evaluated by management.

Forward-Looking Statements

This Annual Report contains forward-looking information and other "forward-looking" statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Fund, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Report, such statements use such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "building," "remain," "anticipate," "estimate," "potential," "continue" or the negative of these terms or other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this Report. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. Factors that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: concentration of customers; commodity pricing; seasonal weather and natural conditions; regulatory changes; and other risks and factors discussed under Risk Factors in this Report and Acadian's Final Prospectus. Although the forward-looking statements contained in this Report are based upon what management believes are reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this Report, and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.

Management's Responsibility for Financial Reporting

To the Unitholders of Acadian Timber Income Fund:

The accompanying consolidated financial statements of Acadian Timber Income Fund and all information in this annual report are the responsibility of management and have been reviewed and approved by the Fund's Board of Trustees. These consolidated financial statements and related notes have been prepared by management in conformity with accounting principles generally accepted in Canada and necessarily include amounts based on management's informed judgements and estimates. Financial information included elsewhere in this annual report is consistent with that contained in the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal accounting controls has been established to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that assets are safeguarded. Management believes that this system of internal controls is designed effectively for the eleven-months ended December 31, 2006.

Ernst & Young LLP, Chartered Accountants, appointed by the unitholders, have audited the consolidated financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards in Canada and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Trustees, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls, and is ultimately responsible for reviewing and approving the consolidated financial statements and the management's discussion and analysis. The Audit Committee is composed of three independent trustees who are not employees of the Fund. The Audit Committee meets regularly with management and Ernst & Young LLP to review their activities and to discuss internal control, accounting, auditing and financial matters.

The Audit Committee recommends the appointment of the external auditors. The Audit Committee also meets quarterly to review interim and annual consolidated financial statements and related materials and reports its findings to the Board of Trustees for its consideration in approving the consolidated interim and annual financial statements for public dissemination.

Reid Carter
President and Chief Executive Officer

Bryan K. Davis
Chief Financial Officer

February 15, 2007

Auditors' Report

To the Unitholders of Acadian Timber Income Fund:

We have audited the consolidated balance sheet of Acadian Timber Income Fund as at December 31, 2006 and the consolidated statements of operations and deficit, and cash flows for the eleven-month period then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and the results of its operations and its cash flows for the eleven-month period then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada

February 14, 2007

Consolidated Balance Sheet

As at December 31 *(Cdn$ millions)*	Note	2006
Assets		
Current assets		
Cash and cash equivalents		$ 7.7
Accounts receivable and other assets	9	4.1
Inventory		3.0
		14.8
Intangible assets	2	6.1
Timberlands, logging roads and fixed assets	5	219.1
		$ 240.0
Liabilities and unitholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	9	$ 7.6
Distributions payable to unitholders		0.8
		8.4
Long-term debt	6	79.3
Class B Interest Liability of a subsidiary	7	41.7
Unitholders' equity	8	110.6
		$ 240.0

See accompanying notes to consolidated financial statements

On Behalf of the Board

Reid Carter
President and Chief Executive Officer

David M. Mann
Trustee

Consolidated Statement of Operations and Deficit

For the Eleven-Months Ended December 31 (Cdn$ millions)	Note	2006
Net sales		$ 69.5
Operating costs and expenses		
Cost of sales		45.9
Selling, administration and other		5.3
Depreciation and depletion		7.8
		59.0
Operating earnings		10.5
Gain on Class B interest liability of a subsidiary	7	4.2
Interest expense		
Long-term debt	6	(3.4)
Class B interest liability of a subsidiary	7	(3.4)
Earnings before income taxes		7.9
Income taxes		—
Net income for the period		7.9
Retained earnings, beginning of period		—
Unitholders' distributions		(9.1)
Deficit, end of period		$ (1.2)
Net income per unit – basic	8	$ 0.65
Net income per unit – diluted	8	$ 0.43

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows

For the Eleven-Months Ended December 31 *(Cdn$ millions)*	Note	2006
Cash provided by (used for):		
Operating activities		
Net income		$ 7.9
Items not affecting cash:		
Depreciation and depletion		7.8
Gain on Class B Interest Liability of a subsidiary	7	(4.2)
		11.5
Net change in non-cash working capital balances		2.9
		14.4
Investing activities		
Purchase of New Brunswick Timberlands	3	(106.8)
Purchase of Maine Timberlands	4	(7.5)
Additions to Timberlands, logging roads and fixed assets		(0.6)
Silviculture expenditures		(0.9)
		(115.8)
Financing activities		
Proceeds on issuance of units, gross	8	84.5
Proceeds from long-term debt	8	42.0
Offering costs	8	(9.1)
Distributions to unitholders		(8.3)
		109.1
Increase in cash and cash equivalents during the period		7.7
Cash and cash equivalents, beginning of period		—
Cash and cash equivalents, end of period		$ 7.7

See accompanying notes to consolidated financial statements

Notes to the Consolidated Financial Statements

December 31, 2006 *(All figures in Canadian dollars unless otherwise stated)*

NOTE 1. GENERAL

In these notes "Acadian" means Acadian Timber Income Fund and all of its consolidated operations, while the "Fund" means Acadian Timber Income Fund as a separate entity.

The Fund is an unincorporated open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated December 15, 2005, as amended. The Fund qualifies as a "mutual fund trust" for the purposes of the *Income Tax Act* (Canada). The authorized equity of the Fund consists of an unlimited number of Fund units ("units"). Unitholders are entitled to receive distributions as and when declared by the trustees of the Fund (the "Trustees") and are entitled to one vote per unit on all matters to be voted on by unitholders at each meeting of unitholders.

The Fund was inactive until January 31, 2006, when it completed an initial public offering (the "Offering") through the sale of 8,450,643 units to the public for gross proceeds of $84.5 million, which after offering costs of $9.1 million, resulted in net proceeds of $75.4 million.

Concurrent with the Offering, Acadian borrowed $42.0 million under a term credit facility and arranged a revolving credit facility of up to $5.0 million with a Canadian chartered bank. These borrowings, along with proceeds of the Offering and the issuance of additional securities to Fraser Papers Inc. (see Notes 3 and 6), were used to indirectly acquire certain timberlands located in New Brunswick (the "NB Timberlands"). The Fund also indirectly acquired all the common membership interests of Katahdin Forest Management LLC (the "Maine Timberlands"), which owns certain timberlands located in Maine, USA. These acquisitions are more fully described in Notes 3 and 4.

As part of the transactions described above, Brookfield Asset Management Inc. (together with its subsidiaries "Brookfield") and Fraser Papers Inc. (together with its subsidiaries "Fraser Papers") each have a significant ownership interest in and exercise significant influence over Acadian.

These consolidated financial statements present the results of operations of the Fund from the close of the Offering on January 31, 2006 to December 31, 2006. The Fund had no active operations prior to January 31, 2006 and, accordingly, no comparative figures are presented.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements present the results of operations and cash flows of Acadian for the eleven-month period from January 31, 2006 to December 31, 2006. These consolidated financial statements include the accounts of Acadian and the entities over which it has control and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants.

Seasonality

Due to the seasonal nature of Acadian's timberland operations, the first, third and fourth quarters of the fiscal year typically account for, and are expected in the future to account for, a greater portion of revenue and net income than does the second quarter of each fiscal year. This seasonal pattern may cause Acadian's revenue and net income to vary significantly from quarter to quarter.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses during a period. Significant estimates include the determination

of the carrying value of assets, and estimating the useful lives of timberlands, logging roads and fixed assets. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash in the bank and short-term deposits with a remaining term to maturity at the time of purchase of less than ninety days. Cash and cash equivalents are recorded at cost, which approximates their fair value. Cash equivalents were $6.5 million as at December 31, 2006, which have a weighted average effective interest rate of 4.2%.

Inventories and Cost of Sales

Inventories consist primarily of timber and seedlings and are recorded at the lower of average cost and net realizable value. Cost of sales includes predominantly cutting, harvesting and transportation costs as well as costs for access roads and passages.

Timberlands and Logging Roads

Timberlands and logging roads are recorded at cost less accumulated depletion. Depletion of the timberlands is recorded in a systematic manner based on the utilization of the timber resources. Depletion amounts are charged to operations based on a pro rata calculation of units of timber harvested and relative values of timber present, and is applied against the historical cost of timberlands. Main logging roads and their associated bridges are depreciated on a straight-line basis over their estimated useful lives of twenty years.

Silviculture costs are capitalized to timberlands.

Fixed Assets

Fixed assets consist of buildings and operating equipment. These assets are recorded at cost and are depreciated on a straight-line basis over their useful lives, which is currently 20 years for buildings and 10 years for operating equipment.

Deferred Financing Costs

Deferred financing costs are amortized on a straight-line basis over the term of the underlying debt.

Revenue Recognition

Net sales are net of discounts and rebates to customers. Revenue is recognized when the risks and rewards of ownership pass to the purchaser, which is generally when timber is delivered to the purchaser and actual quantities delivered are determined. Sales are governed by standard industry terms and in some cases by contract.

Harvesting, transportation and other services are performed under contract for Crown licensees and sub-licensees on Crown Lands. Acadian does not take title to the timber it cuts on Crown Lands and all costs incurred with respect to Crown Lands are recovered from Crown licensees or sub-licensees. Revenue from services performed for these licensees and sub-licensees consist of management fees. Management fee revenues are recognized net of the costs to perform these services upon the delivery of the timber.

Intangible Assets

Intangible assets represent the Crown Lands Services Agreement between NB Timberlands and Fraser Papers whereby upon the closing of the Fund, NB Timberlands has agreed to provide various services relating to the Crown Lands in consideration for a fee from Fraser Papers per cubic metre of fibre harvested from these lands. The Crown Lands Services Agreement will have a term equal to the term of the Crown Licenses, including any renewal terms, which is considered indeterminable as at the end of December 31, 2006, and thus the fair value of this contract is not being amortized. Management will test the carrying value of this asset for impairment annually, or more frequently if events or changes in circumstances indicate that this asset may be impaired.

Class B Interest Liability of a Subsidiary

The Class B Interest Liability represents preferred interests in the Maine Timberlands. The preferred interests are convertible into units at the option of the holder and are treated as a liability of the Maine Timberlands for accounting purposes.

The value of the liability is measured at each reporting date to reflect the market price of the units and the current exchange rates. Changes in value are recorded in the consolidated statement of operations.

Class B LP Units

The Class B LP units represent units in a subsidiary of the Fund and are exchangeable into units at any time. The Class B LP units have been treated as a component of unitholders' equity for accounting purposes and as part of the number of units outstanding for the calculation of basic earnings per unit.

Translation of Foreign Currencies

The currency measurement of the Fund's Canadian operations and U.S. operations are the Canadian dollar and U.S. dollar respectively. Monetary assets and liabilities denominated in a currency other than the operation's currency of measurement are translated at average exchange rates during the period with the associated gain or loss recorded in the consolidated statement of operations.

The accounts of self-sustaining operations in the United States are translated using the current rate method under which assets and liabilities are translated at exchange rates prevailing at the end of the period and revenues and expenses at average exchange rates during the period. Gains or losses on translation are not included in the consolidated statement of operations, but are presented as a separate item in unitholders' equity.

Financial Instruments

The fair values of financial instruments approximate their book value except where disclosed in these notes.

Income Taxes

The Fund follows the liability method of tax allocation, whereby future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Under the terms of the *Income Tax Act* (Canada), Acadian, excluding its corporate subsidiaries, is not subject to income taxes to the extent that its taxable income in a year is paid or payable to a unitholder. Accordingly, no provision for current income taxes for the Fund is made. In addition, the Fund is not required to apply the recommendations of the Canadian Institute of Chartered Accountants Handbook ("CICA"), section 3465, as the Fund is contractually committed to distribute to its unitholders all or virtually all of its taxable income and taxable capital gains that would otherwise be taxable in the Fund. The Fund intends to continue to meet the requirements under the *Income Tax Act* applicable to such trusts, and there is no indication that the Fund will fail to meet those requirements.

Certain of the Fund's wholly-owned subsidiaries are subject to corporate income taxes and CICA section 3465.

NOTE 3. ACQUISITION OF THE NB TIMBERLANDS

Concurrent with the Offering, Acadian acquired the NB Timberlands from Fraser Papers. The net assets were acquired for total consideration of $142.9 million, comprising $106.8 million in cash consisting of $108.4 million in cash less $1.6 million in cash assumed, plus 3,613,780 Class B LP units in a subsidiary of the Fund ("Fraser units") with a fair value of $10.00 per unit. As at December 31, 2006, any amounts owing on this adjustment have been settled. The Fraser units are substantially equivalent to units of the Fund. The acquisition was accounted for using the purchase method. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed is as follows:

millions	
Current assets less accounts payable and accrued liabilities (excluding cash)	$ 2.4
Buildings and equipment	1.5
Roads and bridges	8.1
Land	7.9
Crown Lands Services Agreement	6.1
Timberlands	116.9
Total, net of cash acquired	$ 142.9

NOTE 4. ACQUISITION OF THE MAINE TIMBERLANDS

Concurrent with the Offering, Acadian acquired all of the common membership interests of the Maine Timberlands from Brookfield. These interests were acquired for cash consideration of $9.1 million less $1.6 million of cash acquired on acquisition. The acquisition was accounted for using the purchase method. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed is as follows:

millions	
Current assets less accounts payable and accrued liabilities (excluding cash)	$ (0.3)
Buildings and equipment	0.2
Roads and bridges	5.6
Land	3.1
Timberlands	80.0
Term loan facility (Note 6)	(36.0)
Class B Interest Liability (Note 7)	(45.1)
Total	$ 7.5

NOTE 5. TIMBERLANDS, LOGGING ROADS AND FIXED ASSETS

millions	Book Value	Accumulated Depletion and Depreciation	Net Book Value
Timberlands	$ 200.2	$ (6.8)	$ 193.4
Land	11.0	—	11.0
Logging roads and bridges	13.8	(0.7)	13.1
Building and equipment	1.7	(0.1)	1.6
	$ 226.7	$ (7.6)	$ 219.1

NOTE 6. LONG TERM DEBT

At December 31, 2006, long-term debt consisted of the following:

millions	
Bank term credit facility, repayable in January 2009	$ 42.0
Term loan facility, repayable in February 2011	37.3
	$ 79.3

Concurrent with the Offering, Acadian secured a term credit facility for up to $42.0 million and a revolving credit facility of up to $5.0 million. The term credit facility expires on January 30, 2009 and bears interest at floating rates which for the eleven-months ended December 31, 2006 was based on 30-day Banker Acceptance rates. As at December 31, 2006 the effective interest rate on the term credit facility was 5.27%. The revolving credit facility bears interest at 30-day Banker Acceptance rates, has a period of 364 days and has customary extension features. As at December 31, 2006, Acadian had borrowed $42.0 million under the term facility and nil under the revolving security. As security for these facilities, Acadian has granted the lenders a security interest over the assets of the NB Timberlands. These facilities have certain restrictive covenants relating to debt incurrence and the sale of assets and require Acadian to maintain certain financial ratios. As at December 31, 2006, Acadian was in compliance with all covenants.

The Maine Timberlands secured a term loan facility for up to US$31.5 million which was fully drawn at December 31, 2006. The carrying amount of the facility includes US$0.4 million of deferred financing costs payable upon maturity of the facility. The facility bears interest at 4.67% and expires on February 27, 2011. As security for this facility, Maine Timberlands has granted the lenders a security interest over its assets. The facility has certain restrictive covenants relating to debt incurrence and the sale of assets and requires Maine Timberlands to maintain certain financial ratios. As at December 31, 2006, Maine Timberlands was in compliance with all covenants.

NOTE 7. CLASS B INTEREST LIABILITY OF A SUBSIDIARY

The Class B Interest Liability represents 4,507,030 preferred interests in the Maine Timberlands which are convertible into units of the Fund. The distributions are entitled to a fixed monthly cumulative preferential dividend equal to the lesser of $0.075625 and the most recently announced distribution per unit of the Fund. These interests are convertible at the option of the holder on a one for one basis into units of the Fund or, at the sole discretion of Acadian, into cash equal to the fair market value of these units on the date of conversion. During the period, distributions on the Class B Interests were $0.76 per preferred interest, the same as distribution on units of the Fund.

The Class B Interest Liability is a Canadian dollar liability of the Maine Timberlands. As the currency of measurement of Maine Timberlands is the U.S. dollar, the liability is marked to market at each balance sheet date based on the change on the value of the units of the Fund and the U.S. to Canadian dollar exchange rate with the change recorded in income for the period. For the eleven-months ended December 31, 2006, the revaluation of this interest resulted in a gain of $4.2 million. The gain is comprised of a $3.4 million mark-to-market gain and a $0.8 million foreign exchange gain due to the weakening of the Canadian currency.

NOTE 8. UNITHOLDERS' EQUITY

The components of unitholders' equity as at December 31, 2006 are as follows:

millions	
Units issued and outstanding – 8,450,643 units	$ 78.2
Class B LP units issued and outstanding – 3,613,780 Fraser units	33.4
Cumulative translation adjustment	0.2
Deficit	(1.2)
Total	$ 110.6

The Fund issued one unit upon its formation and 8,450,643 units at $10.00 per unit on January 31, 2006 for gross proceeds of $84.5 million and net proceeds for accounting purposes of $78.2 million after the allocation of $6.35 million of costs of the Offering.

Acadian issued 3,613,780 Fraser units on January 31, 2006 as part of the consideration for the purchase of the NB Timberlands (see Note 3). The carrying amount has been reduced by the allocation of $2.7 million of the costs of the Offering resulting in a carrying value of $33.4 million. The Fraser units are convertible on a one for one basis into units at the option of the holder. The Fraser units are entitled to distributions and voting rights equivalent to the Fund units.

Immediately prior to the Offering, the Maine Timberlands issued preferred interests to companies controlled by Brookfield (the "Class B Interest Liability") that had a value of $45.1 million at the time of the Offering. The Class B Interest Liability is convertible on a one for one basis into units. See Notes 4 and 7 for further information with respect to the Class B Interest Liability.

The Fund incurred $9.1 million in costs associated with the offering comprised of underwriting costs of $5.1 million and $4.0 million of other costs. These costs have been allocated $6.35 million against units of the Fund and $2.75 million to the Fraser units.

As at December 31, 2006 the Fund had 8,450,643 units issued and outstanding. Assuming the full conversion of the Fraser units and the Class B Interest Liability described above, at December 31, 2006 the Fund would have 16,571,453 units outstanding.

The weighted average number of units outstanding for basic net income per unit is determined by dividing net income by the total number of units and Fraser units outstanding. Diluted net income per unit for the eleven-month period ended December 31, 2006, respectively, was calculated as follows:

Reconciliation to net income:

millions	
Net income	$ 7.9
Add (deduct)	
Interest expense of Class B Interest Liability of a subsidiary	3.4
Gain on Class B Interest Liability of a subsidiary	(4.2)
Diluted net income available to unitholders	$ 7.1

Reconciliation of the number of units:

thousands	
Weighted average number of units	
Units	8,450
Fraser units	3,614
Basic weighted average number of units	12,064
Conversion of Class B Interest Liability of a subsidiary	4,507
Diluted weighted average number of units	16,571

NOTE 9. RELATED PARTY TRANSACTIONS

All related party transactions are recorded at the exchange amount.

a) Concurrent with the Offering, Acadian entered into a number of fibre supply agreements whereby Acadian agreed to provide fibre to Fraser Papers and Brookfield for periods of up to 20 years. In addition, Acadian agreed to administer certain licenses on behalf of Fraser Papers. Total sales to Fraser Papers and Brookfield during the eleven-months ended December 31, 2006 amounted to $37.6 million and $2.7 million, respectively, which represented 42% of consolidated total sales. Included in accounts receivable at December 31, 2006 is $0.3 million related to these agreements.

b) Concurrent with the Offering, Acadian entered into an agreement with Brookfield, whereby Brookfield will provide a number of administrative and advisory services to Acadian. Total fees for services provided in the eleven-month period amounted to $1.8 million. All fees have been fully paid in accordance with the services agreement.

c) Distributions paid or declared to Fraser Papers during the eleven-months ended December 31, 2006 totaled $2.7 million.

d) Payments on the Class B Interest Liability to Brookfield during the eleven-months ended December 31, 2006 totaled $3.1 million. An additional $0.3 million accrued payment on the Class B Interest Liability has been included in accounts payable and accrued liabilities as at December 31, 2006.

e) Maine Timberlands rents space in a shared office building from Katahdin Paper Company LLC (a wholly-owned subsidiary of Brookfield), which also provides certain administrative services to Maine Timberlands. Total costs paid for these services were $17 thousand during the eleven-month period ended December 31, 2006.

f) Fraser Papers provided certain administrative services to Acadian under a transitional services agreement. No amounts were charged for these services.

NOTE 10. SEGMENTED INFORMATION

The Fund's presentation of reportable segments is based on how management has organized the business in making operating and capital allocation decisions and assessing performance. The Fund has two reporting segments, NB Timberlands and Maine Timberlands. Net sales, net income and assets by reportable segments are as follows:

	For the Eleven-Months Ended December 31, 2006			
millions	**Total**	**NB Timberlands**	**Maine Timberlands**	**Corporate and Other**
Net sales				
Softwood	$ 34.3	$ 21.2	$ 13.1	$ —
Hardwood	28.2	24.7	3.5	—
Other	7.0	6.5	0.5	—
Total net sales	69.5	52.4	17.1	—
Operating costs	(51.2)	(38.9)	(11.2)	(1.1)
Earnings before under noted	18.3	13.5	5.9	(1.1)
Depletion and depreciation	(7.8)	(4.6)	(3.0)	(0.2)
Operating earnings	$ 10.5	$ 8.9	$ 2.9	$ (1.3)
Gain on Class B interest liability of a subsidiary	4.2			
Interest expense	(6.8)			
Net income	$ 7.9			
Additions to Timberlands, logging roads and fixed assets	0.6	0.5	0.1	—
Silviculture expenditures	0.9	0.8	0.1	—
Capital assets	225.2	137.1	88.1	—
Total assets	$ 240.0	$ 143.7	$ 90.8	$ 5.5

During the eleven-months ended December 31, 2006 approximately 28% of total sales were originated with customers domiciled in the U.S. and the balance in Canada. During the same period approximately 26% of total sales were denominated in U.S. dollars.

Acadian outsources much of its harvesting, transportation and other services which comprise the majority of the Fund's cost of sales. For the eleven-month period ended December 31, 2006, Acadian's top three suppliers accounted for approximately 25%, 12% and 10%, respectively, of the Fund's cost of sales.

Acadian sells its products to many forest product companies in North America. For the eleven-month period ended December 31, 2006, related parties (see Note 9) and the next largest customer accounted for 42% and 12% of total sales, respectively.

NOTE 11. INCOME TAXES

The Fund qualifies as a "mutual fund trust" within the meaning of the *Income Tax Act* (Canada). All of the taxable income of the Fund, is paid or payable to unitholders in each calendar year. No income tax is payable by the Fund under the current provisions of the *Income Tax Act*. As at December 31, 2006, the Fund has approximately $7.5 million of issue costs available which will be deductible over the next five years, and which have not been benefited in the consolidated financial statements.

There is no future tax provision related to the Fund's tax-paying subsidiaries due to the existence of a net future tax asset, against which a full valuation allowance has been provided.

NOTE 12. EMPLOYEE BENEFIT PLANS

NB Timberlands and Maine Timberlands each have defined contribution plans covering substantially all employees. During the year, contributions recorded as expenses amounted to $0.3 million.

Corporate Governance

The Fund and our Board of Trustees are committed to working together to achieve strong and effective corporate governance, with the objective of promoting the long-term interests of the Fund and the enhancement of value for all unitholders. We continue to review and improve our corporate governance policies and practices in relation to evolving legislation, guidelines and best practices. Our Board of Trustees is of the view that our corporate governance policies and practices and our disclosure in this regard are comprehensive and consistent with the guidelines established by Canadian securities regulators.

Our Statement of Corporate Governance Practices is set out in full in the Management Information Circular mailed each year to all our unitholders along with the Notice of our Annual Meeting. This Statement is also available on our website, *www.acadiantimber.com*.

Printed in Canada

Board and Management

TRUSTEE BOARD

J.W. Bud Bird, O.C.
Chairman and Chief Executive Officer, Bird Holdings Ltd. and Bird Lands Limited

Reid Carter
President and Chief Executive Officer of Acadian and Managing Partner of the Manager

Louis J. Maroun
President and Chief Executive Officer Summit Real Estate Investment Trust

David Mann
Legal Counsel Cox Hanson O'Reilly Matheson

Samuel J.B. Pollock
Managing Partner Brookfield Asset Management Inc.

MANAGEMENT

Acadian Timber Income Fund's Manager: Brookfield Timberlands Management LP

Reid Carter
President and Chief Executive Officer of Acadian and Managing Partner of the Manager

Bryan K. Davis
Chief Financial Officer of Acadian

Marcia McKeague
Vice President, Maine Woodland Operations

Luc Ouellet
Vice President, New Brunswick Woodland Operations

Forward-Looking Statements: *This Annual Report contains forward-looking information and other "forward-looking" statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Fund, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this Annual Report, such statements use such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "building," "remain," "anticipate," "estimate," "potential," "continue" or the negative of these terms or other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this Annual Report. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. Factors that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: concentration of customers; commodity pricing; seasonality weather and natural conditions; regulatory changes; and other risks and factors discussed under Risk Factors in this Annual Report and Acadian's Final Prospectus. Although the forward-looking statements contained in this Annual Report are based upon what management believes are reasonable assumptions, the Fund cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this Annual Report, and the Fund assumes no obligation to update or revise them to reflect new events or circumstances.*

Corporate and Unitholder Information

HEAD OFFICE OF THE MANAGER

Brookfield Timberlands Management LP
(wholly-owned subsidiary of Brookfield Asset Management Inc.)
Suite 2050, Royal Centre,
1055 West Georgia Street,
Vancouver, B.C. V6E 3R5

Please direct your inquiries to:
Tracey Wise
Director, Investor Relations and Communications, Retail Funds
t. 416-956-5154
f. 416-363-2856
e. twise@acadiantimber.com

TRUSTEE, TRANSFER AGENT AND REGISTRAR

Unitholder inquiries relating to distributions, address changes and unitholder account information should be directed to the Fund's transfer agent:

CIBC Mellon Trust Company
P.O. Box 7010,
Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
t. 416-643-5500 or
800-387-0825
(toll free in North America)
f. 416-643-5501
www.cibcmellon.com

UNIT INFORMATION

Toronto Stock Exchange:
ADN.UN

Fully Diluted Units Outstanding (December 31, 2006):
16,571,453

Targeted 2007 Monthly Distribution: $0.06875 per unit

Record Date:
Last business day of each month

Payment Date:
On or about the 15th day of each subsequent month

ANNUAL MEETING

The Fund's 2006 Annual Meeting of unitholders will be held at the Hockey Hall of Fame, The Esso Theatre, BCE Place, 30 Yonge Street, Toronto, Ontario, at 10.30 a.m. on May 3, 2007.

www.acadiantimber.com

Acadian Timber Income Fund

SUITE 200, BCE PLACE
181 BAY STREET
TORONTO, ONTARIO M5J 2T3

ACADIANTIMBER
INCOME FUND