2007 ANNUAL REPORT

ACADIAN TIMBER
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 a wholly-owned subsidiary of Brookfield Asset Management Inc. (NYSE: BAM and TSX: BAM.A).

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 more than 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.




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FINANCIAL HIGHLIGHTS

(millions, unless otherwise indicated)	**2007[1]**	2006[2]
Sales volume (000s m^3)	**1,387.4**	1,327.5
Net sales	**$ 74.8**	$ 69.5
EBITDA	**$ 20.3**	$ 18.3
Distributable cash from operations	**$ 15.5**	$ 13.4

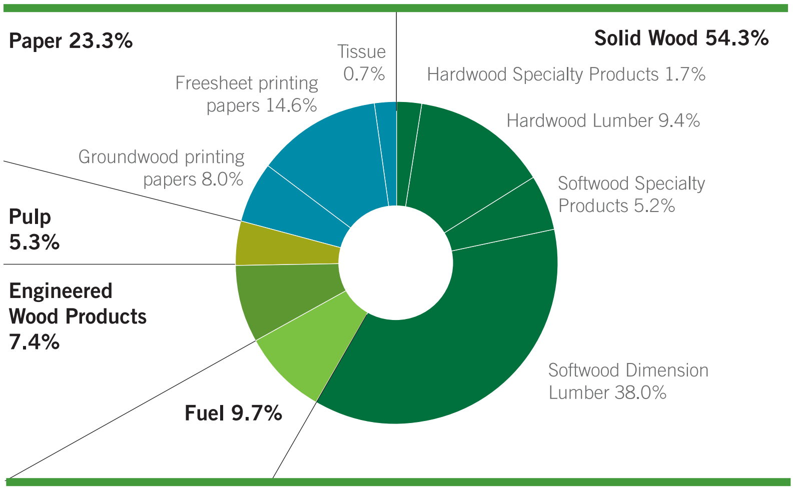
[1] Period from January 1, 2007 to December 31, 2007.
[2] Period from commencement of operations (January 31, 2006) to December 31, 2006.

FISCAL 2007 HIGHLIGHTS

- Generated net sales of $74.8 million and EBITDA of $20.3 million on consolidated log sales volume of 1,387.4 thousand m^3
- Distributable cash from operations of $15.5 million with a payout ratio of 88%
- Demonstrated market responsiveness in aligning timber production with market opportunities in challenging market conditions
- Reduced overall fixed costs and improved flexibility through increased use of contractors
- Strong safety performance

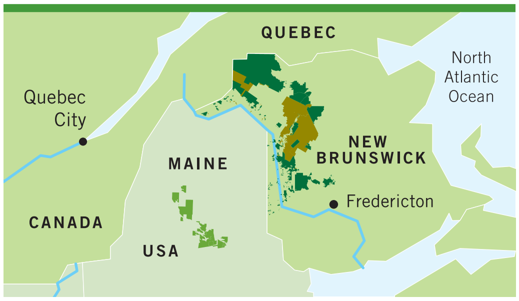
ACADIAN'S PRODUCT MIX BY END USE*

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, hardwood and softwood pulpwood, and biomass meaningfully diversify our sales.



** Percentage of log sales by value for the twelve months ended December 31, 2007.*

ACADIAN'S LOCATIONS



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

PRESIDENT'S LETTER TO UNITHOLDERS

We are very pleased with Acadian Timber Income Fund's performance in 2007. Acadian achieved all of its operating and financial goals for the year, despite very weak lumber markets and the strongest Canadian dollar in the last three decades. Acadian generated distributable cash from operations of $15.5 million or $0.94 per unit in 2007, resulting in a payout ratio of 88%. Acadian remains very well positioned to meet distributable cash flow needs going forward.

Committed to Safety

At Acadian, we believe that emphasizing and delivering a successful safety record can be a leading indicator of success in the broader business. I stated last year that, despite year-over-year improvement in Acadian's overall safety performance, we believed there were more opportunities for incidence reduction and that we would look forward to reporting real progress in the future. I am pleased to report that Acadian demonstrated further improvement in this area in 2007 with the serious accident frequency dropping by more than 50% among employees and 40% among contractors relative to the five-year average.

were successful in harvesting and merchandising our products to maximize market opportunities and maintain stable cash flows, while keeping costs low.

A Challenging Market Environment

Acadian's operations performed well in 2007, however, external market conditions continued to present our most significant challenges. A combination of 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. Fraser Papers, Acadian's primary customer for spruce-fir sawlogs, announced the closure of its Juniper sawmill for 11 months in early October while its Plaster Rock sawmill operated only intermittently throughout the year. Despite this difficult market environment, Acadian's weighted average selling price for softwood sawlogs was only 5% lower in 2007 than the comparable eleven-month period in 2006. Acadian's ability to adjust its product mix to maximize market opportunities resulted in a weighted average selling price across all production of $50.18 per m^3, essentially unchanged

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.

Achieved Financial Performance Targets

Our financial results for 2007 are consistent with the guidance provided at Acadian's launch in January 2006. Acadian generated net sales of $74.8 million on consolidated log sales volumes of 1,387 thousand m^3. Consolidated log sales volumes for 2006 were 1,328 thousand m^3, resulting in net sales of $69.5 million. The year-over-year increase in harvest volumes is primarily attributable to the fact that 2006 reflected an eleven-month operating period versus a full twelve-month operating period in 2007. Acadian also harvested 1,390 thousand m^3 from the Crown licenses it manages for Fraser Papers under its Crown Lands Services Agreement and met all of its obligations under this agreement.

Acadian generated earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA") of $20.3 million in 2007 versus $18.3 million for the eleven months ended December 31, 2006. EBITDA margins improved slightly to 27% from 26% in 2006. The year 2007 presented a very challenging operating environment for many of our customers, owing to weak markets for softwood and hardwood lumber and structural panels. With this in mind, we are very pleased with Acadian's performance. Acadian's operating managers

from $50.53 per m^3 in 2006. 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 decline during the first half of 2008 as compared to the 2007 average.

Controlled Capital Expenditures

Capital expenditures totaled $1.3 million in 2007, of which $0.7 million was silvicultural treatments which included planting and softwood release treatments, with the remaining $0.6 million invested in roads and bridges and modest investments in Acadian's IT systems. Given that our silvicultural expenditures are largely discretionary from year-to-year, we were pleased that we were able to complete our full program of silvicultural investments during 2007 despite the poor market conditions.

Environment and Sustainability

All forestry operations on Acadian's New Brunswick freehold lands successfully completed the surveillance audit to the ISO 14001:2004 environmental management system and SFI® Program standards. This also extended to the forest operations on Crown Lands managed by Acadian as part of the Crown Lands Services Agreement with Fraser Papers. We are pleased to report that all operations on Acadian's timberlands in Maine and New Brunswick were compliant with environmental laws and regulations and consistent with the principles of sustainable forestry – including harvest levels that were consistent with Long Run Sustainable Yield plans. In addition to the mandatory Forest Certification audit, some of our customers reviewed our operations as part of their wood procurement programs and found that our management practices met or exceeded the expectations of their forest certification programs. An independent evaluation of the existing Conservation Easement in Maine also resulted in a favorable review.

Higher and Better Use (HBU) Properties and Other Income

Acadian continued to sell and list for sale several HBU properties in its New Brunswick and Maine timberlands during 2007. Acadian's Maine Timberlands completed the sale of two small land parcels, which were inoperable for timber, but attractive for and valued more highly for development due to being situated on a lakefront or riverfront. These land sales contributed $0.3 million to EBITDA and $0.4 million to distributable cash from operations during 2007. Acadian also improved its revenues from additional non-timber sources including recreation hunting leases and cabin rentals, camp leases, road-use fees and gravel sales. Acadian continues to have several properties on the market; however, selling all parcels could take several years, as markets for these properties are limited due to their rural nature.

Disciplined Growth Strategy

No meaningful opportunities for growth through strategic acquisitions were identified during 2007. We will continue to pursue strategic acquisitions going forward and will also continue to have a disciplined and prudent approach to expansion.

Outlook

We expect 2008 to be another challenging year. Fortunately, we have a committed and hardworking team of individuals who have proven to be very adept at identifying and accessing market opportunities while keeping costs down. Lumber markets are expected to be very weak throughout 2008 with announced and anticipated curtailments for softwood sawmills expected to result in significant downward pressure on softwood sawlog pricing, and just as importantly, creating difficulties in selling our desired levels of production. Despite this negative outlook, a number of factors may provide off-setting benefits, including regional chip shortages which may result in several of Acadian's integrated customers operating their sawmills in order to secure fibre. The current high demand for softwood pulpwood is expected to result in pulp mills purchasing softwood studwood grade logs for use as pulpwood. Most importantly, the outlook for hardwood pulpwood, hardwood sawlogs and biomass is positive with strong demand and increasing prices.

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.

A FOCUS ON LONG-TERM VALUE

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.

In markets such as these, it is worth recalling what makes timberlands such a compelling investment proposition. While timberlands have historically provided strong risk-adjusted returns, they have also done so demonstrating relatively low volatility and correlation to other asset classes, and a positive correlation with inflation. This helps to provide significant benefits in terms of achieving portfolio diversification and real returns. Notwithstanding the current turbulence in some markets today, the long-term supply/demand dynamics for our sector and products remain highly favorable. For these reasons, timberlands continue to gain awareness among investors worldwide as an attractive asset class. As a result, we are excited about the prospects and opportunities that lie ahead.

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
February 12, 2008

MARKET OVERVIEW

Softwood Sawlogs – 41% of Net Sales

Softwood sawlog prices in Canadian dollar terms came under pressure in 2007 as a result of the U.S. housing downturn and the strengthening of the Canadian dollar. Despite these difficult market conditions, Acadian was able to ship 7% more softwood sawlog volume in 2007 compared to the shortened period of 2006 and experienced only a 5% decrease in average selling price in 2007. Acadian's ability to ship 50% of its 2007 softwood sawlog volume in the first half of the year, while prices were stronger, helped manage the impact of further market softening during the second half of the year.

Acadian's lumber and panel-producing customers in the broader operating region continued to struggle with difficult market conditions throughout the year as the Random Lengths Framing Lumber Composite Price decreased approximately 13% year-over-year and 30% from the 2004 high, while the Structural Panel Composite Price decreased 6% year-over-year and 36% from the 2004 high. Weak lumber prices and the strong Canadian dollar resulted in market-related closures and reduced production at several regional sawmills.




Fraser Papers, Acadian's major customer for softwood sawlogs, took a combined 57 weeks of market-related downtime in 2007 at its Plaster Rock, Juniper and Ashland sawmills.

NB Timberlands softwood sawlog volumes and average price were up 7% and down 2%, respectively, in 2007 compared to the eleven-month period of 2006. Maine Timberlands experienced a 9% increase in softwood sawlog volume over this period and a 11% decrease in average price in Canadian dollar terms. In U.S. dollar terms, average price was 6% lower than the comparable period in 2006. Demand for cedar, pine and hemlock, which represent approximately 6% of net sales, remained steady throughout 2007.

Hardwood Sawlogs – 8% of Net Sales

Hardwood sawlog shipment volumes and average price decreased 7% and 3%, respectively, attributable primarily to species mix, log grades, and delivery terms rather than market conditions. Hardwood sawlogs are sold to customers that exhibit less pricing volatility than more commodity-focused softwood sawlog customers. NB Timberlands average hardwood sawlog price remained constant in 2007 compared to the shortened period of 2006, benefiting from strong sales of high value "bird's eye" maple in the second quarter of 2007, offset by a lower value species mix in the third and fourth quarters of 2007. Maine Timberlands average hardwood sawlog price decreased 20% in Canadian dollar terms or 16% in U.S. dollar terms, in part due to a greater portion of hardwood sawlogs sold directly from the log sort rather than at a delivered price.

Softwood and Hardwood Pulpwood – 36% of Net Sales

Softwood pulpwood shipments accounted for 9% of Acadian's net sales in 2007, and hardwood pulpwood shipments accounted for 27% of net sales. Strong demand for pulpwood, due to a significant regional chip shortage owing to reduced operating levels at regional sawmills and strong pulp and paper markets kept pulp log markets tight and prices firm throughout the year. Average softwood and hardwood pulpwood prices increased 3% and 1%, respectively, in 2007. NB Timberlands pulpwood shipment volumes increased 3% in 2007 compared to the eleven-month period of 2006, while average prices increased 17% and 2% for softwood and hardwood pulpwood, respectively. Maine Timberlands average pulpwood prices held relatively constant in 2007 in U.S. dollar terms on 13% higher volumes, compared to the shortened period of last year.

Biomass – 8% of Net Sales

Biomass markets were very favourable in 2007 with prices and margins increasing in both the Maine and New Brunswick operations. These increases reflect reduced availability of biomass associated with lower levels of timber and sawmill production and strong demand associated with favourable prices for power. Acadian will continue to produce all available biomass and expects this market to remain favourable in 2008.

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 more than 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.

Basis of Presentation

This section of our report presents management's discussion and analysis ("MD&A") of our operating and financial results and is followed by our consolidated financial statements for the year-ended December 31, 2007. The MD&A is intended to provide you with an assessment of our performance during the twelve-month period ended December 31, 2007 as compared to the Fund's performance during the eleven-month period ended December 31, 2006 (from inception on January 31, 2006).

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

This MD&A has been prepared based on information available as at February 12, 2008. Additional information, including the Fund's Final Prospectus and Annual Information Form are available on Acadian's website at www.acadiantimber.com and on SEDAR's website at www.sedar.com.

Non-GAAP Measures

Throughout this 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 "Distributable Cash From Operations" section of this MD&A.

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, 2007 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 them to conclude, that during the fourth quarter ended December 31, 2007, 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 Twelve Months ended December 31, 2007

The table below summarizes operating and financial data for Acadian:

	Period Ended December 31	
millions, except per unit data and where indicated	**2007[1]**	2006[2]
Total		
Sales volume (000s m^3)	**1,387.4**	1,327.5
Net sales	**$ 74.8**	$ 69.5
EBITDA	**20.3**	18.3
EBITDA margin	**27%**	26%
Distributable cash from operations	**$ 15.5**	$ 13.4
Net income (loss)[3]	**(16.5)**	7.9
Distributions declared		
Class A unitholders	**8.0**	6.4
Class B LP unitholders	**2.0**	2.7
Class B interest liability of a subsidiary	**3.7**	3.4
	13.7	12.5
Payout ratio	**88%**	93%
Total assets	**$ 220.2**	$ 240.0
Total long-term debt	**73.8**	79.3
Per unit (fully diluted)		
Distributable cash from operations per unit – fully diluted	**0.94**	0.81
Distribution declared per unit		
Class A unitholders	**0.83**	0.76
Class B LP unitholders	**0.55**	0.76
Class B interest liability of a subsidiary	**0.83**	0.76
Net income (loss)[3] – fully diluted	**$ (1.37)**	$ 0.43
Book value – fully diluted	**7.86**	9.19
Units outstanding		
Class A unitholders	**12,064,423**	8,450,643
Class B LP unitholders	**—**	3,613,780
Class B interest liability of a subsidiary	**4,507,030**	4,507,030

[1] Period from January 1, 2007 to December 31, 2007.

[2] Period from commencement of operations (January 31, 2006) to December 31, 2006.

[3] Net income (loss) includes the impact of the revaluation of the Class B Interest Liability of a subsidiary, the future income tax expense, and the depreciation and depletion expense, which are non-cash items recorded in each respective period.

Distributable Cash from Operations

Distributable cash from operations for the twelve-month period ended December 31, 2007 was $15.5 million as compared to $13.4 million for the eleven-month period ended December 31, 2006. Based on distributable cash generated to date and existing cash reserves, Acadian is well positioned to meet distribution targets in 2008.

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. Hardwood and softwood harvest volumes represent the productive capacity of Acadian's operations. Harvest volumes, excluding biomass, for the twelve months ended December 31, 2007 were 1,117 thousand m^3, which was 80 thousand m^3 lower than the comparable eleven-month period in 2006 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. 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 23 of this report.

The following table provides a reconciliation of net income (loss), as determined in accordance with GAAP, to distributable cash from operations during each respective period:

	Period Ended December 31	
millions	**2007[1]**	2006[2]
Net income (loss)[3]	**$ (16.5)**	$ 7.9
Add (deduct):		
Non-cash loss (gain) on Class B Interest Liability of a subsidiary	**11.9**	(4.2)
Future income tax expense	**9.4**	—
Depreciation and depletion	**8.2**	7.8
Interest Income	**(0.3)**	—
Interest expense on long-term debt	**3.9**	3.4
Distribution on Class B Interest Liability of a subsidiary	**3.7**	3.4
EBITDA	**20.3**	18.3
Add (deduct):		
Interest income	**0.3**	—
Interest expense on long-term debt	**(3.9)**	(3.4)
Silviculture and capital expenditures	**(1.3)**	(1.5)
Non-cash gain on sale of timberlands	**(0.3)**	—
Proceeds from sale of timberlands, logging roads and fixed assets	**0.4**	—
Distributable cash from operations	**$ 15.5**	$ 13.4
Distributions declared	**$ 13.7**	$ 12.5

[1] Period from January 1, 2007 to December 31, 2007.

[2] Period from commencement of operations (January 31, 2006) to December 31, 2006.

[3] Net income (loss) includes the impact of the revaluation of the Class B Interest Liability of a subsidiary, the future income tax expense, and the depreciation and depletion expense, which are non-cash items recorded in each respective period.

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. The following table provides a reconciliation of cash flow from operating activities, as determined in accordance with GAAP, to distributable cash from operations during each respective period:

	Period Ended December 31	
millions	**2007**[1]	2006[2]
Cash flow from operating activities	**$ 8.1**	$ 14.4
Add (deduct):		
Capital adjustments:		
Proceeds from sale of timberlands, logging roads and fixed assets	**0.4**	—
Other adjustments:		
Change in non-cash working capital balances and other	**4.6**	(2.9)
Distribution on Class B Interest Liability of a subsidiary	**3.7**	3.4
Silviculture and capital expenditures	**(1.3)**	(1.5)
Distributable cash from operations	**$ 15.5**	$ 13.4
Distributions declared	**$ 13.7**	$ 12.5

[1] Period from January 1, 2007 to December 31, 2007.
[2] Period from commencement of operations (January 31, 2006) to December 31, 2006.

The following table provides a comparison of distributions declared on Class A and Class B LP units during the twelve-month period ended December 31, 2007, and during the comparable eleven-month period in 2006, to the net income (loss) and cash flow from operating activities recorded during each of these respective periods. Distributions on the Class B Interest Liability of a subsidiary are included in net income and distributable cash from operations, as they are recorded as interest expense in accordance with GAAP, and have thus been excluded from this analysis.

	Period Ended December 31	
millions	**2007**[1]	2006[2]
Cash flow from operating activities	**$ 8.1**	$ 14.4
Net income (loss)[3]	**(16.5)**	7.9
Actual cash distributions declared on Class A and Class B LP Units	**10.0**	9.1
Excess (shortfall) of cash flows from operating activities over distributions declared	**$ (1.9)**	$ 5.3
Excess (shortfall) of net income over cash distributions declared	**$ (26.5)**	$ (1.2)

[1] Period from January 1, 2007 to December 31, 2007.
[2] Period from commencement of operations (January 31, 2006) to December 31, 2006.
[3] Net income (loss) includes the impact of the revaluation of the Class B Interest Liability of a subsidiary, the future income tax expense, and the depreciation and depletion expense, which are non-cash items recorded in each respective period.

The cash distributions declared to Class A and Class B LP unitholders during the twelve-month period ended December 31, 2007 were greater than net income and cash flow from operating activities; however they are not considered to represent an economic return of capital as the distributable cash from operations generated during the twelve months ended December 31, 2007, and since Acadian's inception, have been sufficient to meet the distributions of the Fund. In determining the appropriate level of distributions, our Board of Trustees consider the historic and forecasted annual distributable cash from operations of Acadian. Given the seasonality of Acadian's operations, the Fund's performance may vary significantly on a quarter by quarter basis. The payout ratio of the Fund, which represents the amount of distributions declared as a percentage of the distributable cash from operations generated, for the twelve months ended December 31, 2007 is 88% as compared to 93% for the eleven months ended December 31, 2006. Since Acadian's inception on January 31, 2006, the cumulative payout ratio of the Fund is 91%.

As described in more detail on page 12 of this report, Acadian has borrowings totalling $73.8 million (2006 – $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, 2007. 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 23 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 twelve months ended December 31, 2007 were $13.7 million or $0.825 per unit (eleven months ended December 31, 2006 – $12.5 million or $0.7585 per unit), which was in line with distributions anticipated at the time of the initial public offering ("IPO").

Results of Operations

We are very pleased with Acadian's operating and financial performance throughout 2007. Management continued to effectively produce and merchandize timber for the highest margin opportunity, while focusing on minimizing costs, generating other income opportunities, and selling higher and better use lands. As a result, EBITDA margin improved while operations faced challenging market conditions.

For the twelve months ended December 31, 2007, Acadian generated net sales of $74.8 million and EBITDA of $20.3 million on consolidated log sales volumes of 1,387 thousand m^3. Consolidated sales volumes for the eleven months ended December 31, 2006 were 1,328 thousand m^3, resulting in net sales of $69.5 million and EBITDA of $18.3 million.

Class B Interest Liability

Included in net loss for the twelve months ended December 31, 2007, is a non-cash loss 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 twelve months ended December 31, 2007, these items resulted in a $11.9 million loss (eleven months ended December 31, 2006 – $4.2 million gain), comprised of a $6.9 million foreign exchange loss (2006 – $0.8 million gain) and a $5.0 million mark-to-market loss (2006 – $3.4 million gain).

Future Income Tax Expense

Included in net loss for the twelve months ended December 31, 2007 is a non-cash future tax expense of $9.4 million (eleven months ended December 31, 2006 – $nil), resulting from differences between the financial reporting and tax bases of the assets and liabilities of the Fund's subsidiaries. This expense and related liability have been determined using the substantially enacted tax rates and laws that are expected to be in effect during the 2011 taxation year, in which the Fund will be impacted by the regulations of Canada's tax fairness plan which was enacted into law on June 22, 2007.

Segmented Results of Operations

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

	Twelve Months Ended December 31, 2007				*Eleven Months Ended December 31, 2006*			
millions	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**
Sales volumes (000s m^3)	**1,072.9**	**314.5**	**—**	**1,387.4**	1,044.0	283.5	—	1,327.5
Net sales	**$ 57.8**	**$ 17.0**	**$ —**	**$ 74.8**	$ 52.4	$ 17.1	$ —	$ 69.5
EBITDA	**$ 15.8**	**$ 5.4**	**$ (0.9)**	**$ 20.3**	$ 13.5	$ 5.9	$ (1.1)	$ 18.3
EBITDA margin	**27%**	**32%**	**n/a**	**27%**	26%	35%	n/a	26%

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. Approximately two-thirds of 2007 harvest operations was performed by third-party contractors and one-third was performed by NB Timberlands employees.

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

	Twelve Months Ended December 31, 2007			*Eleven Months Ended December 31, 2006*		
	Harvest *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*
Softwood	**372.5**	**382.7**	**$ 24.0**	321.2	328.5	$ 21.2
Hardwood	**443.4**	**442.6**	**23.7**	439.6	467.9	24.7
Biomass	**247.6**	**247.6**	**5.3**	247.6	247.6	4.5
	1,063.5	**1,072.9**	**53.0**	1,008.4	1,044.0	50.4
Other sales			**4.8**			2.0
Net sales			**$ 57.8**			$ 52.4
EBITDA			**$ 15.8**			$ 13.5
EBITDA margin			**27%**			26%

Softwood, hardwood and biomass shipments were 383 thousand m^3, 443 thousand m^3 and 248 thousand m^3 for the twelve months ended December 31, 2007, respectively, representing an overall increase of 3% in sales volumes compared to the eleven-month period in 2006. Approximately 35% of sales volumes were sold as sawlogs, 42% as pulpwood and 23% as biomass relatively unchanged from 2006.

Net sales were $57.8 million, up 10% from the shortened comparable period of last year, which primarily reflects higher value species mix, slightly higher volume, and payments received associated with the reconciliation of volume, royalties and overhead costs related to the Crown licensed timberlands.

Costs were $42.0 million, up 8% compared to the eleven-month period last year. This increase was primarily attributable to slightly higher variable costs per unit, reflecting longer hauling distances and higher fuel costs. Land management costs also increased as a result of road maintenance associated with higher levels of snowfall in the fourth quarter of 2007.

EBITDA was $15.8 million, compared to $13.5 million in the shortened comparable period of 2006, while EBITDA margin improved to 27% from 26%. This increase is a result of a higher-value product mix, improved pulpwood and biomass margins, and higher non-timber revenues.

For the twelve-month period ended December 31, 2007, there were 3 reportable safety incidents among employees and 7 reportable incidents among contractors.

Overall, we are very pleased with the achievements of our NB Timberlands during 2007. Highlights include:

- Merchandised the full range of timber products effectively in challenging market conditions. NB Timberlands improved margins by actively pursuing highest margin market for products. This demonstrates Acadian's operating flexibility and strong customer relationships.
- Reduced overall fixed costs and improved flexibility through increased use of contractors. Contractors accounted for over two-thirds of all harvesting activity during the full year ended December 31, 2007 compared to only 50% at the time of Acadian's establishment.
- Increased EBITDA by $2.3 million compared to the eleven-month period in 2006 as a result of increased production and customer base.
- Improved profitability of the nursery operation.

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:

	Twelve Months Ended December 31, 2007			*Eleven Months Ended December 31, 2006*		
	Harvest *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*	**Harvest** *(000s m^3)*	**Sales** *(000s m^3)*	**Results** *(millions)*
Softwood	**243.9**	**243.5**	**$ 13.6**	204.6	204.1	$ 13.1
Hardwood	**56.9**	**56.2**	**2.5**	70.9	69.6	3.5
Biomass	**14.8**	**14.8**	**0.5**	9.7	9.8	0.2
	315.6	**314.5**	**16.6**	285.2	283.5	16.8
Other sales			**0.4**			0.3
Net sales			**$ 17.0**			$ 17.1
EBITDA			**$ 5.4**			$ 5.9
EBITDA margin			**32%**			35%

Despite current market conditions, Maine Timberlands produced solid operating results for the twelve months ended December 31, 2007 with softwood, hardwood and biomass shipments of 244 thousand m^3 and 56 thousand m^3 and 15 thousand m^3, respectively. Overall shipments increased 11% compared to the eleven-month period in 2006. This increase reflects strong operating results in the first and third quarters due to excellent operating conditions. During the fourth quarter, Maine Timberlands held back production to balance harvest levels for each species group for the 2007 year and a five-year period in accordance with internal plans and the terms of the 2002 conservation easement. This brought harvest levels in-line with the long-run sustainable yield. Approximately 52% of shipment volumes were sold as sawlogs, 43% as pulpwood, and 5% as biomass, effectively unchanged from 2006 although the proportion of softwood pulp increased to 62% of total pulpwood from 47% in 2006.

Net sales were $17.0 million, which was comparable to sales during the eleven-month period in 2006. While shipments increased, net sales were offset by the stronger Canadian dollar and slightly lower weighted average unit price in U.S. dollar terms.

Costs, net of the gain recorded on the land sales during the period, were $11.6 million, an increase of 4% compared to the shortened period of last year. Costs increased largely due to increased harvest volumes and overhead for a full calendar year. Contracting cost increases resulting from higher fuel prices were mostly offset by a stronger Canadian dollar.

EBITDA was $5.4 million, down 8% from the eleven-month period in 2006 and EBITDA margin was 32%, compared to 35% in the prior year. This decrease primarily reflects lower prices in Canadian dollar terms, mitigated by several land sales.

For the twelve-month period ended December 2007, there were no reportable safety incidents among employees and one reportable incident among contractors. There were no reportable environmental incidents.

Financial Position

As at December 31, 2007, Acadian's balance sheet consisted of total assets of $220.2 million (2006 – $240.0 million), represented primarily by timberlands, logging roads and fixed assets of $199.1 million (2006 – $219.1 million) with the balance in cash and working capital of $15.0 million (2006 – $14.8 million) and intangible assets of $6.1 million (2006 – $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. 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. Silviculture costs have been capitalized as they were incurred.

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 for 2008. 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 twelve months ended December 31, 2007 were $1.3 million (eleven months ended December 31, 2006 – $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 incurred 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, 2007, 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. Upon maturity, management intends to refinance these debt obligations at fixed or floating rates, depending on the best interests of Acadian. 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, 2007. This remains unchanged from the prior year.

Outstanding Units

As at December 31, 2007, 12,064,423 Class A units were issued and outstanding which represents an increase of 3,613,780 units from the Fund's 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.

On September 26, 2007, Fraser Papers announced they had converted and sold their entire holdings of Class B LP units of Acadian. As part of this transaction, 2,600,000 of the 3,613,780 Class A units sold by Fraser Papers were purchased by Brookfield. Effective October 1, 2007, Fraser Papers no longer had an ownership interest in the Fund and Brookfield's ownership interest has increased to 45.3% of the outstanding units of Acadian 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, 2007	
	Units	**Percentage**
Class A units outstanding	**12,064,423**	**73%**
Class B LP units outstanding	**—**	**—**
Class B Interest Liability of a subsidiary outstanding	**4,507,030**	**27%**
	16,571,453	**100%**

	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 following Outlook contains forward-looking statements about Acadian Timber Income Fund's outlook for fiscal 2008. Reference should be made to "Forward-looking Statements" on page 28 and the inside back cover of this annual report. For a description of material factors that could cause actual results to differ materially from the forward-looking statements in the following, please see the Risk Factors section on page 23 of this MD&A, as well as our Annual Information Form available at www.acadiantimber.com or www.sedar.com.

The market for softwood sawlogs is expected to experience weak demand and historically low pricing through 2008 as U.S. new home construction levels approach 17-year lows while excessive inventories of new and existing homes continue to be for sale. Despite this severe market weakness, we expect further deterioration in pricing to be limited. However, we may encounter increased challenges in selling our desired levels of production and managing freight costs. Softwood sawlog pricing is expected to be supported by further harvest reductions on Quebec and Ontario crown land and harvest reductions by private woodlot owners, who have exited the marketplace while waiting for higher prices. Additional support is expected to be provided by the regional pulp and paper sector, which 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. The strong pulp and paper market is also providing support for demand and pricing of softwood pulp logs and chip-n-saw logs. Acadian's NB Timberlands expects to reduce its 2008 harvest of spruce-fir sawlogs relative to 2007 levels to better balance supply with low demand.

Markets for hardwood sawlogs and specialty products are expected to remain stable in 2008, 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. However, prices for softwood pulp logs in the NB Timberlands are not expected to increase further as they are expected to be pressured by sales of roundwood shortwood by private woodlot owners. Markets for hardwood pulp stabilized in 2007, with the return of the St. Anne Nackawic sulphite mill in New Brunswick and the restart of the Old Town mill in Maine. Regional pulp and paper mills are expected to continue to support favourable pricing and press for increasing supplies. As a result, prices are expected to remain stable in 2008.

Biomass demand and pricing are expected to continue to be very favourable in 2008, following year over year price increases in both Maine and New Brunswick. These increases reflect reduced availability of biomass associated with lower levels of timber and sawmill production and strong demand associated with favourable prices for power.

Canadian Government's 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. These proposed changes were enacted into law on June 22, 2007. Based on the information that the government has provided, it appears that Acadian would be considered a specified investment flow-through vehicle, which would result in Acadian being impacted by this incremental tax beginning in 2011.

As a result of enactment of the Canadian government's tax fairness plan, the Fund and its subsidiaries, in accordance with the recommendations of Section 3465, Income Taxes, of the Canadian Institute of Chartered Accountants Handbook ("CICA"), the Fund, on a consolidated basis, has recorded a future tax liability. The future tax liability is associated with the estimated differences between the financial reporting and tax bases of the assets and liabilities of its subsidiaries as at the beginning of the 2011 taxation year, which have been measured using the substantially enacted tax rates and laws that are expected to be in effect at that time.

The Fund continues to feel that it is too early to fully determine the extent to which the legislation will ultimately impact Acadian. The Fund's management and Board of Trustees will continue to monitor and analyze the situation and its implications to Acadian as they develop.

ANALYSIS OF FOURTH QUARTER RESULTS

Summary of Fourth Quarter 2007 Results

The table below summarizes operating and financial data for Acadian:

millions		**2007**		2006 [1]
Total				
Sales volume (000s m^3)		**313.7**		370.8
Net sales	**$**	**17.7**	$	19.5
EBITDA		**4.9**		5.1
EBITDA margin		**28%**		26%
Distributable cash from operations	**$**	**3.9**	$	4.4
Net income[2]		**7.4**		2.8
Distributions declared				
Class A unitholders		**2.5**		1.7
Class B LP unitholders		**—**		0.7
Class B interest liability of a subsidiary		**0.9**		0.9
		3.4		3.3
Payout ratio		**87%**		75%

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

[2] Net income includes the impact of the revaluation of the Class B Interest Liability of a subsidiary, the future income tax recovery, and the depreciation and depletion expense, which are non-cash items recorded in each respective period.

Distributable Cash from Operations and Distributions

Distributable cash from operations was $3.9 million for the fourth quarter of 2007 which represents a decrease of $0.5 million from the same period in 2006. Distributions declared during the fourth quarter to Class A unitholders were $2.5 million, which is unchanged from the total distributions paid in the fourth quarter of 2006. These monthly distributions of $0.06875 per unit were in line with monthly distributions anticipated at the time of the IPO and remain unchanged since the inception of the Fund in 2006.

The following tables provide a reconciliation of cash flow from operation activities and net income, as determined in accordance with GAAP, to EBITDA and distributable cash from operations:

	Three Months Ended December 31	
millions	**2007**	2006[1]
Net income[2]	**$ 7.4**	$ 2.8
Add (deduct):		
Non-cash loss (gain) on Class B Interest Liability of a subsidiary	**(5.6)**	(1.2)
Future income tax recovery	**(0.6)**	—
Depreciation and depletion	**1.8**	1.9
Interest Income	**—**	—
Interest expense on long-term debt	**1.0**	0.7
Distribution on Class B Interest Liability of a subsidiary	**0.9**	0.9
EBITDA	**4.9**	5.1
Add (deduct):		
Interest income	**—**	—
Interest expense on long-term debt	**(1.0)**	(0.7)
Silviculture and capital expenditures	**—**	—
Non-cash gain on sale of timberlands	**—**	—
Proceeds from sale of timberlands, logging roads and fixed assets	**—**	—
Distributable cash from operations	**$ 3.9**	$ 4.4
Distributions declared	**$ 3.4**	$ 3.3

[1] Certain figures have been restated or reclassified to conform with the current year's presentation.
[2] Net income (loss) includes the impact of the revaluation of the Class B Interest Liability of a subsidiary, the future income tax recovery, and the depreciation and depletion expense, which are non-cash items recorded in each respective period.

	Three Months Ended December 31	
millions	**2007**	2006[1]
Cash flow from operating activities	**$ 4.3**	$ 3.5
Add (deduct):		
Capital adjustments:		
Proceeds from sale of timberlands, logging roads and fixed assets	**—**	—
Other adjustments:		
Change in non-cash working capital balances and other	**(1.3)**	—
Distribution on Class B Interest Liability of a subsidiary	**0.9**	0.9
Silviculture and capital expenditures	**—**	—
Distributable cash from operations	**$ 3.9**	$ 4.4
Distributions declared	**$ 3.4**	$ 3.3

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

Results of Operations

Acadian generated net sales of $17.7 million and EBITDA of $4.9 million on a consolidated log sales volume of 314 thousand m^3 in the fourth quarter of 2007. Consolidated sales volumes in the fourth quarter of 2006 were 371 thousand m^3, resulting in net sales of $19.5 million. The lower sales volumes in 2007 reflected planned reductions in harvest volumes and deliveries as well as unseasonably warm and wet weather that restricted our ability to operate.

EBITDA of $4.9 million for the fourth quarter was $0.2 million lower than the same period of last year due to lower harvest volumes and a lower value species mix. EBITDA margin was 28% in the fourth quarter of 2007 which represents an increase from the 26% EBITDA margin generated during the fourth quarter of 2006.

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 $5.6 million gain (2006 – $1.2 million gain), comprised of a $1.2 million foreign exchange gain (2006 – $1.7 million gain) and a $4.4 million mark-to-market gain (2006 – $0.5 million loss).

Future Income Tax Recovery

Included in net income for the three months ended December 31, 2007 is a non-cash future tax recovery of $0.6 million (December 31, 2006 – $nil), resulting from differences between the financial reporting and tax bases of the assets and liabilities of the Fund's subsidiaries. The future income tax recovery results from the enactment of the Canadian government's Economic Statement Proposals on December 13, 2007, in which proposed reductions to future federal corporate income tax rates were approved.

Segmented Results of Operations

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

	Three Months Ended December 31, 2007				*Three Months Ended December 31, 2006*			
millions	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**
Sales volumes (000s m^3)	**252.6**	**61.1**	**—**	**313.7**	288.1	82.7	—	370.8
Net sales	**$ 14.8**	**$ 2.9**	**$ —**	**$ 17.7**	$ 14.4	$ 5.1	$ —	$ 19.5
EBITDA	**$ 4.3**	**$ 0.8**	**$ (0.2)**	**$ 4.9**	$ 4.0	$ 1.9	$ (0.8)	$ 5.1
EBITDA margin	**29%**	**28%**	**n/a**	**28%**	28%	37%	n/a	26%

NB Timberlands

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

	Three Months Ended December 31, 2007			*Three Months Ended December 31, 2006*		
	Harvest *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*
Softwood	**93.4**	**113.2**	**$ 7.0**	117.4	86.4	$ 5.5
Hardwood	**119.6**	**102.1**	**5.3**	121.2	125.0	6.6
Biomass	**37.3**	**37.3**	**0.9**	76.7	76.7	1.4
	250.3	**252.6**	**13.2**	315.3	288.1	13.5
Other sales			**1.6**			0.9
Net sales			**$ 14.8**			$ 14.4
EBITDA			**$ 4.3**			$ 4.0
EBITDA margin			**29%**			28%

NB Timberlands softwood, hardwood and biomass shipments were 113 thousand m^3, 102 thousand m^3 and 37 thousand m^3 for the fourth quarter of 2007, respectively. Shipments of primary products, softwood and hardwood, increased 2% compared to the fourth quarter of 2006. Biomass production decreased 51% primarily to balance production levels for the year. Approximately 42% of sales volumes were sold as sawlogs, 43% as pulpwood, and 15% as biomass.

Net sales were $14.8 million, up 3% from the same period of last year, which largely reflects higher value product mix and higher prices for pulpwood and biomass.

Costs were $10.5 million, which was 1% higher than the same period last year. Lower costs associated with lower overall volume were primarily offset by longer hauling distances.

EBITDA was $4.3 million, compared to $4.0 million in the same period last year while EBITDA margin increased to 29% from 28% during the same period of 2006.

For the fourth quarter, NB Timberlands had no reportable safety incidents among employees and experienced three minor reportable incidents among contractors. There were no reportable environmental incidents during the fourth quarter.

Maine Timberlands

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

	Three Months Ended December 31, 2007			*Three Months Ended December 31, 2006*		
	Harvest *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*
Softwood	**50.9**	**50.8**	**$ 2.4**	58.9	58.4	$ 3.8
Hardwood	**8.6**	**8.5**	**0.4**	22.1	22.2	1.1
Biomass	**1.8**	**1.8**	**—**	2.0	2.1	0.1
	61.3	**61.1**	**2.8**	83.0	82.7	5.0
Other sales			**0.1**			0.1
Net sales			**$ 2.9**			$ 5.1
EBITDA			**$ 0.8**			$ 1.9
EBITDA margin			**28%**			37%

Maine Timberlands softwood, hardwood and biomass shipments were 51 thousand m^3, 9 thousand m^3, and 2 thousand m^3, respectively. The 26% decrease in overall shipments from the same period in 2006 reflects an effort to hold back production to balance harvest levels for each species group for the 2007 year and a five-year period in accordance with internal plans and the terms of the 2002 conservation easement. This brought harvest levels in-line with the long-run sustainable yield. Approximately 56% of shipment volume was sold as sawlogs, 41% as pulpwood and 3% as biomass.

Net sales were $2.9 million, down 43% from the same period in 2006 due primarily to lower volumes and the stronger Canadian dollar.

Costs were $2.1 million, a decrease of 34% compared to the same period in 2006. Decreased costs were a result of lower harvest volumes and the stronger Canadian dollar.

EBITDA was $0.8 million, down 58% from the same period in 2006 while EBITDA margin was 28% in the fourth quarter, down from 37% in the fourth quarter of 2006.

Maine Timberlands operated safely with no reportable safety incidents in the fourth quarter of 2007. There were no reportable environmental incidents during 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.

	2007				2006[1]			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1[2]
Sales volumes (000s m^3)	**314**	**323**	**267**	**483**	371	371	245	341
Net sales	**$ 17.7**	**$ 16.9**	**$ 13.3**	**$ 26.9**	$ 19.5	$ 19.7	$ 10.9	$ 19.4
EBITDA	**$ 4.9**	**$ 3.9**	**$ 1.9**	**$ 9.6**	$ 5.1	$ 6.1	$ 0.2	$ 6.9
Distributable cash from operations	**$ 3.9**	**$ 2.0**	**$ 0.9**	**$ 8.7**	$ 4.4	$ 3.7	$ (1.0)	$ 6.3
Net income (loss)[3]	**$ 7.4**	**$ (4.3)**	**$ (17.1)**	**$ (2.5)**	$ 2.8	$ 0.9	$ (0.3)	$ 4.5
Net income per unit - basic	**$ 0.61**	**$ (0.36)**	**$ (1.42)**	**$ (0.21)**	$ 0.23	$ 0.07	$ (0.02)	$ 0.37
Net income per unit - diluted	**$ 0.16**	**$ (0.36)**	**$ (1.42)**	**$ (0.21)**	$ 0.15	$ 0.07	$ (0.02)	$ 0.25

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 Net income (loss) includes the impact of the revaluation of the Class B Interest Liability of a subsidiary, the future income tax expense (recovery), and the depreciation and depletion expense, which are non-cash items recorded in each respective period.

Additional Quarterly Information

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

NB Timberlands

	2007 Q4			2007 Q3			2007 Q2			2007 Q1		
	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	93.4	113.2	$ 7.0	99.0	86.8	$ 5.5	32.0	49.4	$ 3.0	148.1	133.3	$ 8.5
Hardwood	119.6	102.1	5.3	97.9	90.8	4.8	63.7	96.4	5.5	162.2	153.3	8.1
Biomass	37.3	37.3	0.9	65.1	65.1	1.4	74.4	74.4	1.6	70.8	70.8	1.4
	250.3	252.6	13.2	262.0	242.7	11.7	170.1	220.2	10.1	381.1	357.4	18.0
Other sales			1.6			0.8			0.9			1.5
Net sales			$ 14.8			$ 12.5			$ 11.0			$ 19.5
EBITDA			$ 4.3			$ 2.8			$ 2.0			$ 6.7
EBITDA margin			29%			22%			18%			34%

Maine Timberlands

	2007 Q4			2007 Q3			2007 Q2			2007 Q1		
	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	50.9	50.8	$ 2.4	63.4	63.4	$ 3.6	28.6	28.5	$ 1.4	101.0	100.8	$ 6.2
Hardwood	8.6	8.5	0.4	14.1	14.2	0.6	12.5	13.7	0.6	21.7	19.8	0.9
Biomass	1.8	1.8	—	3.2	3.2	0.1	5.2	5.2	0.2	4.6	4.6	0.2
	61.3	61.1	2.8	80.7	80.8	4.3	46.3	47.4	2.2	127.3	125.2	7.3
Other sales			0.1			0.1			0.1			0.1
Net sales			$ 2.9			$ 4.4			$ 2.3			$ 7.4
EBITDA			$ 0.8			$ 1.4			$ 0.3			$ 2.9
EBITDA margin			28%			32%			13%			39%

Corporate

	2007 Q4			2007 Q3			2007 Q2			2007 Q1		
	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			$ (0.2)			$ (0.3)			$ (0.4)			$ —
EBITDA margin			n/a			n/a			n/a			n/a

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			$ 4.0			$ 4.6			$ (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	58.4	$ 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	2.1	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.*

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 months following the inception of the Fund 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 of 2006.

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 of 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 exchange rates prevailing at period-end 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 2007 consisted of 60% taxable income (2006 – 44%) and 40% return of capital (2006 – 56%), 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. As at December 31, 2006, Brookfield owned 406,232 Class A units and 4,507,030 units representing the Class B interest liability of a subsidiary, and Fraser Papers owned 3,613,780 Class B LP units, representing approximately 30% and 22% of the outstanding units of the Fund on a fully diluted basis. On September 26, 2007, Fraser Papers announced that they had converted and sold their entire holdings of the Fund. As part of this transaction, Brookfield acquired 2,600,000 of the 3,613,780 units sold by Fraser Papers. Effective October 1, 2007, Fraser Papers no longer had an ownership interest in the Fund and Brookfield's ownership has increased to approximately 45% of the outstanding units on a fully diluted basis. Acadian and Fraser Papers remain related parties as a result of a common significant shareholder. 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 twelve months ended December 31, 2007 amounted to $36.7 million and $3.6 million, respectively, which represented 40% of consolidated total sales (eleven months ended December 31, 2006 – $37.6 million and $2.7 million, respectively, or 42% of total sales). Included in accounts receivable at December 31, 2007 is $1.0 million related to these agreements (2006 – $0.3 million).

   Fraser Papers has been given approval by the New Brunswick government and the Fund to temporarily transfer its Crown cutting rights and rights under its fibre supply agreement with the Fund to a third party. While the third party has agreed to pay the full costs associated with these transfers, Fraser retains the legal obligation to pay the Fund should the third party not honour its obligation.

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 twelve-month period amounted to $2.0 million (eleven months ended December 31, 2006 – $1.8 million). All fees have been fully paid in accordance with the services agreement.

c) Distributions declared to Fraser Papers during the twelve months ended December 31, 2007 totaled $2.2 million (eleven months ended December 31, 2006 – $2.7 million).

d) Payments on the Class B Interest Liability to Brookfield during the twelve months ended December 31, 2007 totaled $3.7 million (eleven months ended December 31, 2006 – $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, 2007 (2006 – $0.3 million).

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 $16 thousand during the twelve-month period ended December 31, 2007 (eleven months ended December 31, 2006 – $17 thousand).

f) During the year ended December 31, 2007, Maine Timberlands completed the sale of small land parcels to a subsidiary of Brookfield for proceeds of $0.2 million, representing their fair market value, which has resulted in a gain from the sale of these land parcels of $0.2 million. In accordance with the terms of the purchase and sale agreement, the total proceeds have been fully collected.

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, 2007 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	**46.6**	**46.6**	—	—	—	46.6
Term loan facility	**31.8**	**31.8**	—	—	31.8	—
	$ 125.4	**$ 120.4**	$ —	$ 42.0	$ 31.8	$ 46.6
Interest expense (i) (ii) (iii)		**$ 70.7**	$ 7.4	$ 10.6	$ 7.6	$ 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 5.29% per annum;
(ii) Term loan facility fixed interest at 4.67% with a Canadian to U.S. dollar conversion of 1.00; 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 37% of Acadian's net sales for the twelve months ended December 31, 2007 were derived from lumber mills and pulp and paper mills owned or managed by Fraser Papers (39% for the eleven months ended December 31, 2006). 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.

Timber and Wood Market, Price Volatility and Other General Risk Factors relating to Timberlands

The financial performance of Acadian is dependent on the selling prices of its products. The markets for timber are cyclical and are influenced by a variety of factors beyond Acadian's control. For example, the market prices for timber can be affected by changes in regional and global demand, supply and economic conditions which are outside of Acadian's control.

In addition to impacting Acadian's sales, cash flows and earnings, weakness in the market prices of its timber products will also have an effect on Acadian's ability to attract additional capital, the cost of that capital and the value of its timberland assets.

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.

Lack of Control with Fraser Papers' Crown Lands Management

Acadian's revenue from operations in respect of 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 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.

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 June 22, 2007, the Canadian government enacted into law changes to Canada's taxation system designed to level the playing field between income trusts and corporations. This is expected to negatively impact Acadian's ability to pay out distributable cash from operations on a pre-tax basis, which may negatively impact future distributions and Acadian's market value.

RECENTLY ISSUED CANADIAN ACCOUNTING STANDARDS

In 2006 and in early 2007, the CICA issued four new accounting standards: Handbook Section 1535, Capital Disclosures (Section 1535), Handbooks Section 3862, Financial Instruments – Disclosure (Section 3862), Section 3863, Financial Instruments – Presentation (Section 3863), and Handbook Section 3031, Inventories (Section 3031). These new standards became effective for the Fund on January 1, 2008.

FUTURE ACCOUNTING POLICIES

Capital Disclosures

Section 1535 requires the disclosure of (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about an entity's managed capital; (iii) whether an entity has complied with capital requirements; and (iv) if an entity has not complied with such capital requirements, the consequences of such non-compliance.

Financial Instruments – Disclosures and Presentation

Section 3862 and Sections 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation and enhance the disclosure of the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventories

Section 3031 replaces the existing Section 3030 Inventories. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, replacing CICA 3062, *Goodwill and Other Intangible Assets* and CICA 3450, *Research and Development Costs*. New section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The CICA also issued amendments to Section 1000, Financial Statement Concepts, and Accounting Guideline AcG-11, Enterprises in the Development Stage. EIC-27, Revenues and Expenditures during the Pre-operating Period, will not apply to entities that have adopted Section 3064. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and will be adopted by the Fund effective January 1, 2009. Collectively, these changes bring Canadian practice closer to IFRS and U.S. GAAP by eliminating the practice of recognizing as assets a variety of startup, pre-production and similar costs that do not meet the definition and recognition criteria of an asset.

The Fund is currently assessing the impact of these new accounting standards on its financial statements.

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," "predict," "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, include, but are not limited to: general economic and market conditions; product demand; concentration of customers; commodity pricing; interest rate and foreign currency fluctuations; seasonality; weather and natural conditions; regulatory, trade or environmental policy changes; and other risks and factors discussed under Risk Factors in this Report, Acadian's Final Prospectus and Annual Information Form, and other filings with securities regulatory authorities. 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 twelve months ended December 31, 2007.

Ernst & Young LLP, 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

Joseph Cornacchia
Chief Financial Officer

February 12, 2008

Auditors' Report

To the Unitholders of Acadian Timber Income Fund:

We have audited the consolidated balance sheets of Acadian Timber Income Fund as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit, comprehensive income (loss) and cash flows for the twelve and eleven-month periods then ended, respectively. 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 audits 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, 2007 and 2006 and the results of its operations and its cash flows for the twelve and eleven-month periods then ended, respectively, in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
February 12, 2008

Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

As at December 31 *(CAD millions)*	Note	**2007**	2006
Assets			
Current assets			
Cash and cash equivalents	2	**$ 4.9**	$ 7.7
Account receivable and other assets	10	**8.1**	4.1
Inventory		**2.0**	3.0
		15.0	14.8
Intangible assets	2	**6.1**	6.1
Timberlands, logging roads and fixed assets	6	**199.1**	219.1
		$ 220.2	$ 240.0
Liabilities and unitholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	10	**$ 6.0**	$ 7.6
Distributions payable to unitholders		**0.8**	0.8
		6.8	8.4
Future income tax liability	12	**9.4**	—
Long-term debt	7	**73.8**	79.3
Class B Interest Liability of a subsidiary	8	**46.6**	41.7
Unitholders' equity	9	**83.6**	110.6
		$ 220.2	$ 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 Statements of Operations and Deficit

For the Periods Ended December 31 (CAD millions)	Note	**2007[1]**	2006[2]
Net sales		**$ 74.8**	$ 69.5
Operating costs and expenses			
Cost of sales		**48.2**	45.9
Selling, administration and other		**6.6**	5.3
Depreciation and depletion		**8.2**	7.8
		63.0	59.0
Operating earnings		**11.8**	10.5
Gain on sale of timberlands	10	**(0.3)**	—
Loss (gain) on Class B Interest Liability of a subsidiary	8	**11.9**	(4.2)
Interest			
Interest income		**(0.3)**	—
Long-term debt	7	**3.9**	3.4
Class B Interest Liability of a subsidiary	8	**3.7**	3.4
Earnings (loss) before income tax expense		**(7.1)**	7.9
Future income taxes	12	**(9.4)**	—
Net income (loss) for the period		**(16.5)**	7.9
Deficit, beginning of period		**(1.2)**	—
Unitholders' distributions		**(10.0)**	(9.1)
Deficit, end of period		**$ (27.7)**	$ (1.2)
Net income (loss) per unit – basic	9	**$ (1.37)**	$ 0.65
Net income (loss) per unit – diluted	9	**$ (1.37)**	$ 0.43

See accompanying notes to consolidated financial statements.

[1] Period from January 1, 2007 to December 31, 2007.

[2] Period from commencement of operations (January 31, 2006) to December 31, 2006.

Consolidated Statements of Comprehensive Income (Loss)

For the Periods Ended December 31 *(CAD millions)*	Note	**2007[1]**	2006[2]
Net income (loss)		**$ (16.5)**	$ 7.9
Other comprehensive loss			
Unrealized foreign currency translation losses	9	**(0.5)**	—
Other comprehensive loss		**(0.5)**	—
Comprehensive income (loss)		**$ (17.0)**	$ 7.9

See accompanying notes to consolidated financial statements.

[1] Period from January 1, 2007 to December 31, 2007.

[2] Period from commencement of operations (January 31, 2006) to December 31, 2006.

Consolidated Statements of Cash Flows

For the Periods Ended December 31 *(CAD millions)*	Note	**2007**[1]	2006[2]
Cash provided by (used for):			
Operating activities			
Net income (loss)		**$ (16.5)**	$ 7.9
Items not affecting cash:			
Future income taxes	12	**9.4**	—
Depreciation and depletion		**8.2**	7.8
Gain on sale of timberlands	10	**(0.3)**	—
Loss (gain) on Class B Interest Liability of a subsidiary	8	**11.9**	(4.2)
		12.7	11.5
Net change in non-cash working capital balances		**(4.6)**	2.9
		8.1	14.4
Investing activities			
Purchase of New Brunswick Timberlands	4	**—**	(106.8)
Purchase of Maine Timberlands	5	**—**	(7.5)
Sale of timberlands, logging roads and fixed assets		**0.4**	—
Additions to Timberlands, logging roads and fixed assets		**(0.6)**	(0.6)
Silviculture expenditures		**(0.7)**	(0.9)
		(0.9)	(115.8)
Financing activities			
Proceeds on issuance of units, gross	9	**—**	84.5
Proceeds from long-term debt	9	**—**	42.0
Offering costs	9	**—**	(9.1)
Distributions to unitholders		**(10.0)**	(8.3)
		(10.0)	109.1
Increase (decrease) in cash and cash equivalents during the period		**(2.8)**	7.7
Cash and cash equivalents, beginning of period		**7.7**	—
Cash and cash equivalents, end of period		**$ 4.9**	$ 7.7

See accompanying notes to consolidated financial statements.

[1] Period from January 1, 2007 to December 31, 2007.

[2] Period from commencement of operations (January 31, 2006) to December 31, 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 (All figures in Canadian dollars unless otherwise stated)

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 4 and 7), 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 4 and 5.

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 had a significant ownership interest in and exercise significant influence over Acadian. On September 26, 2007, Fraser Papers announced that they had converted and sold their entire holdings of the Class B LP units of Acadian. Effective October 1, 2007, Fraser Papers no longer had an ownership interest in Acadian but Acadian and Fraser Papers remain related parties as a result of a common significant shareholder.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements present the results of operations and cash flows of Acadian for the twelve-month period from January 1, 2007 to December 31, 2007 along with the comparative results for the period 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 ("CICA").

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 individually 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 equivalents were $5.2 million as at December 31, 2007 (2006 – $6.5 million), with a weighted average effective interest rate of 4.2% (2006 - 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.

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, 2007, and thus the carrying 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 Class B interest liability has been classified as held-for-trading for accounting purposes, with the value of the liability measured at each reporting date to reflect the market price of the units and 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 of 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 exchange rates prevailing at period end 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.

NB Timberlands enters into sales transactions denominated in U.S. dollars and the related revenues and accounts receivables are subject to exchange rate fluctuations. Additionally, our Maine Timberlands' Class B Interest Liability is a Canadian dollar liability for accounting purposes. As a result, the Fund's earnings may be adversely affected by exchange rate fluctuations.

Financial Instruments

Financial assets and liabilities classified as held-for-trading are measured at fair value at the balance sheet date with all realized gains or losses and unrealized holdings gains and losses resulting from the change in fair value included in net income in the period in which they arise; these include cash and cash equivalents and the Class B Interest Liability. Accounts receivable and other assets have been classified as loans and receivables, which are accounted for on an amortized cost basis using the effective interest rate method. Accounts payable and accrued liabilities, distributions payable to unitholders and long-term debt have been classified as other financial liabilities which are accounted for on an amortized cost basis using the effective interest rate method.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined based on prevailing market rates for instruments with similar characteristics and risk profiles.

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 substantively 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), the Fund, 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 is made for current income taxes for the Fund. As a result of the federal government's Bill C-52 Budget Implementation Act, 2007, which will apply income tax to income trusts and other specified investment flow-through (SIFT) entities at a rate of 29.5% of taxable income starting January 1, 2011, and 28% thereafter, the Fund is now required to apply the recommendations of the CICA section 3465, "Income Taxes." The Fund now records future income tax assets or liabilities related to the estimated differences between the tax and accounting values of the Fund's assets and liabilities and its flow-through subsidiaries expected to be in place on January 1, 2011, when the tax takes effect. Prior to the implementation of Bill C-52, only the differences between the tax and accounting values of the Fund's corporate subsidiaries were required to be calculated.

Certain of the Fund's wholly owned subsidiaries are subject to corporate income taxes as computed under the Income Tax Act and CICA section 3465.

3. CHANGES IN ACCOUNTING POLICIES

In 2005, the CICA issued three new accounting standards: Handbook Section 1530, Comprehensive Income (Section 1530), Handbook Section 3855, Financial Instruments – Recognition and Measurement (Section 3855), and Handbook Section 3861, Financial Instruments – Disclosure and Presentation (Section 3861), which provides disclosure and presentation requirements related to the aforementioned standards. These new standards became effective for Acadian 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 the unrealized foreign currency translation amounts arising from self-sustaining foreign operations. The Consolidated Financial Statements include a Statement of Comprehensive Income while the cumulative amount, Accumulated Other Comprehensive Income ("AOCI"), is 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. Transaction costs related to held-for-trading financial assets or liabilities are expensed as incurred. For other financial instruments, transaction costs may be capitalized on initial recognition and amortized using the effective interest rate method of amortization or recognized into income or loss as incurred.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instrument or other contracts that are not closely related to the host financial instrument or contract. Changes in the fair values of derivative instruments will be recognized in net income.

Impact of adopting Sections 1530, 3855 and 3861

Acadian recorded a transition adjustment, specifically the reclassification of $0.2 million of net foreign currency gains for cumulative translation adjustments to AOCI. This adjustment was made on a retrospective basis for comparative purposes but had no effect on total unitholders' equity. There were no additional transition adjustments recorded as a result of the adoption of these accounting standards.

Future Accounting Policies

Capital Disclosures

On December 1, 2006, the CICA issued Section 1535, Capital Disclosures. Section 1535 requires the disclosure of (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about an entity's managed capital; (iii) whether an entity has complied with capital requirements; and (iv) if an entity has not complied with such capital requirements, the consequences of such non-compliance. This standard became effective on January 1, 2008.

Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued two new accounting standards, Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. These standards replace Section 3861, Financial Instruments – Disclosure and Presentation and enhance the disclosure of the nature and extent of risks arising from financial instruments and how the entity manages those risks. These new standards became effective on January 1, 2008

Inventories

In March 2007, the CICA approved Handbook Section 3031 Inventories, which replaces the existing Section 3030 Inventories. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, replacing CICA 3062, *Goodwill and Other Intangible Assets* and CICA 3450, *Research and Development Costs*. New section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The CICA also issued amendments to Section 1000, Financial Statement Concepts, and Accounting Guideline AcG-11, Enterprises in the Development Stage. EIC-27, Revenues and Expenditures during the Pre-operating Period, will not apply to entities that have adopted Section 3064. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and will be adopted by the Fund effective January 1, 2009. Collectively, these changes bring Canadian practice closer to IFRS and U.S. GAAP by eliminating the practice of recognizing as assets a variety of startup, pre-production and similar costs that do not meet the definition and recognition criteria of an asset.

The Fund is currently assessing the impact of these new accounting standards on its financial statements.

4. 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

5. 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 7)	(36.0)
Class B Interest Liability (Note 8)	(45.1)
Total	$ 7.5

6. TIMBERLANDS, LOGGING ROADS AND FIXED ASSETS

As at December 31, 2007 *(millions)*	Book Value	Accumulated Depletion and Depreciation	Net Book Value
Timberlands	$ 188.1	$ (13.9)	$ 174.2
Land	10.5	—	10.5
Logging roads and bridges	14.0	(1.2)	12.8
Building and equipment	1.8	(0.2)	1.6
	$ 214.4	$ (15.3)	$ 199.1

As at December 31, 2006 *(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

Our Maine Timberlands operation has 167 acres of non-core land, with an approximate carrying value of $0.2 million, which is being actively marketed for disposal. This land was identified as non-core land at the time of acquisition, and therefore has been segregated and is not being depleted. Management expects that a divestiture will occur within the next twelve months of operations.

7. LONG TERM DEBT

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

millions	2007	2006
Bank term credit facility, repayable in January 2009	$ 42.0	$ 42.0
Term loan facility, repayable in February 2011	31.8	37.3
	$ 73.8	$ 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 twelve months ended December 31, 2007 was based on 30-day Banker Acceptance rates. As at December 31, 2007 the effective interest rate on the term credit facility was 5.29%. The revolving credit facility bears interest at 30-day Banker Acceptance rates, has a period of 364 days and has customary extension features. Floating interest rates give rise to interest rate risk as earnings and cash flows may be adversely impacted by fluctuations in interest rates. As at December 31, 2007, Acadian had borrowed $42.0 million under the term facility and nil under the revolving security, which remains unchanged from December 31, 2006. 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, 2007, 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, 2007. 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. The fair value of the secured term loan facility is estimated to be US$32.0 million as compared to the carrying value of US$31.9 million. 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, 2007, Maine Timberlands was in compliance with all covenants.

8. 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 $0.825 per preferred interest (eleven months ended December 31, 2006 – $0.7585 per preferred interest), the same as distributions 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 twelve months ended December 31, 2007, the revaluation of this interest resulted in a loss of $11.9 million (eleven months ended December 31, 2006 – $4.2 million gain). The loss is comprised of a $5.0 million mark-to-market loss (2006 – $3.4 million gain) and a $6.9 million foreign exchange loss (2006 – $0.8 million gain) due to the strengthening of the Canadian currency.

9. UNITHOLDERS' EQUITY

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

millions	**2007**	2006
Units issued and outstanding – 12,064,423 units (2006 – 8,450,643 units)	**$111.6**	$ 78.2
Class B LP units issued and outstanding – 0 Fraser units (2006 – 3,613,780 Fraser units)	**—**	33.4
Accumulated other comprehensive income (loss)	**(0.3)**	0.2
Deficit	**(27.7)**	(1.2)
	$ 83.6	$ 110.6

Accumulated Other Comprehensive Income

As described in Note 3, upon adoption of Sections 1530, 3855 and 3861, Acadian recorded a transition adjustment, attributable to the reclassification of $0.2 million of net foreign currency gains to AOCI, previously classified as a separate item in Unitholders' equity.

	Period Ended December 31	
millions	**2007[1]**	2006[2]
Balance, beginning of period, as previously reported	**$ —**	$ —
Unrealized gains on translation of financial statements of self-sustaining operations	**0.2**	—
Restated balance, beginning of period	**0.2**	—
Other comprehensive loss	**(0.5)**	—
Balance, end of period	**$ (0.3)**	$ —

[1] Period from January 1, 2007 to December 31, 2007.
[2] Period from commencement of operations (January 31, 2006) to December 31, 2006.

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 4). 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. On September 26, 2007 Fraser Papers announced they had converted their entire holdings of Class B LP units and sold the resulting Class A units effective October 1, 2007.

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 5 and 8 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, 2007 the Fund had 12,064,423 units issued and outstanding. Assuming the full conversion of the Class B Interest Liability described above, at December 31, 2007 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 twelve-month period ended December 31, 2007, and the respective comparable period, was calculated as follows:

Reconciliation to net income:

millions		**2007[1]**		2006[2]
Net income (loss)	**$**	**(16.5)**	$	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 (loss) available to unitholders	**$**	**(16.5)**	$	7.1

Reconciliation of the number of units:

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

[1] Period from January 1, 2007 to December 31, 2007.
[2] Period from commencement of operations (January 31, 2006) to December 31, 2006.

The Class B Interest Liability was anti-dilutive for the twelve months ended December 31, 2007 due to the loss on the revaluation of the Class B Interest Liability of a subsidiary for the period.

10. 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 twelve months ended December 31, 2007 amounted to $36.7 million and $3.6 million, respectively, which represented 40% of consolidated total sales (eleven months ended December 31, 2006 – $37.6 million and $2.7 million, respectively, or 42% of total sales). Included in accounts receivable at December 31, 2007 is $1.0 million related to these agreements (2006 – $0.3 million).

   Fraser Papers has been given approval by the New Brunswick government and the Fund to temporarily transfer its Crown cutting rights and rights under its fibre supply agreement with the Fund to a third party. While the third party has agreed to pay the full costs associated with these transfers, Fraser retains the legal obligation to pay the Fund should the third party not honour its obligation.

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 twelve-month period amounted to $2.0 million (eleven months ended December 31, 2006 – $1.8 million). All fees have been fully paid in accordance with the services agreement.

c) Distributions declared to Fraser Papers during the twelve months ended December 31, 2007 totaled $2.2 million (eleven months ended December 31, 2006 – $2.7 million).

d) Payments on the Class B Interest Liability to Brookfield during the twelve months ended December 31, 2007 totaled $3.7 million (eleven months ended December 31, 2006 – $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, 2007 (2006 – $0.3 million).

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 $16 thousand during the twelve-month period ended December 31, 2007 (eleven months ended December 31, 2006 – $17 thousand).

f) During the year ended December 31, 2007, Maine Timberlands completed the sale of small land parcels to a subsidiary of Brookfield for proceeds of $0.2 million, which has resulted in a gain from the sale of these land parcels of $0.2 million. In accordance with the terms of the purchase and sale agreement, the total proceeds have been fully collected.

11. 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 Twelve Months Ended December 31, 2007			
millions	Total	NB Timberlands	Maine Timberlands	Corporate and Other
Net sales				
Softwood	$ 37.6	$ 24.0	$ 13.6	$ —
Hardwood	26.2	23.7	2.5	—
Other	11.0	10.1	0.9	—
Total net sales	74.8	57.8	17.0	—
Operating costs	(54.8)	(42.0)	(11.9)	(0.9)
Earnings (loss) before under noted	20.0	15.8	5.1	(0.9)
Depletion and depreciation	(8.2)	(5.1)	(3.1)	—
Operating earnings (loss)	11.8	10.7	2.0	(0.9)
Gain on sale of timberlands	0.3	—	0.3	—
Earnings (loss) before under noted items	$ 12.1	$ 10.7	$ 2.3	$ (0.9)
Loss on Class B Interest Liability of a subsidiary	(11.9)			
Interest expense, net	(7.3)			
Future income taxes	(9.4)			
Net loss	$ (16.5)			
Additions to Timberlands, logging roads and fixed assets	0.6	0.6	—	—
Silviculture expenditures	0.7	0.7	—	—
Timberlands, logging roads, fixed assets and intangible assets	205.2	133.2	72.0	—
Total assets	$ 220.2	$ 141.7	$ 73.9	$ 4.6

millions	Total	NB Timberlands	Maine Timberlands	Corporate and Other
	For the Eleven Months Ended December 31, 2006			
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 (loss) before under noted	18.3	13.5	5.9	(1.1)
Depletion and depreciation	(7.8)	(4.6)	(3.0)	(0.2)
Operating earnings (loss)	10.5	8.9	2.9	(1.3)
Gain on sale of timberlands	—	—	—	—
Earnings (loss) before under noted items	$ 10.5	$ 8.9	$ 2.9	$ (1.3)
Loss on Class B Interest Liability of a subsidiary	4.2			
Interest expense, net	(6.8)			
Future income taxes	—			
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	—
Timberlands, logging roads, fixed assets and intangible assets	225.2	137.1	88.1	—
Total assets	$ 240.0	$ 143.7	$ 90.8	$ 5.5

During the twelve months ended December 31, 2007 approximately 27% of total sales were originated with customers domiciled in the U.S. and the balance in Canada (eleven months ended December 31, 2006 – 28% of total sales). During the same period approximately 26% of total sales were denominated in U.S. dollars (eleven months ended December 31, 2006 – 26% of total sales).

Acadian outsources much of its harvesting, transportation and other services which comprise the majority of the Fund's cost of sales. For the twelve-month period ended December 31, 2007, Acadian's top three suppliers accounted for approximately 19%, 14% and 13%, respectively, of the Fund's cost of sales (eleven months ended December 31, 2006 – 25%, 12% and 10%, respectively).

Acadian sells its products to many forest product companies in North America. For the twelve-month period ended December 31, 2007, related parties (see Note 10) and the next largest customer accounted for 40% and 10% of total sales, respectively (eleven months ended December 31, 2006 – 42% and 12%, respectively). The Fund is exposed to credit risk in the event of non-performance by its counterparties, which includes the non-collection of accounts recievables. The Fund's subsidiaries perform on-going credit evaluations of its customer's financial position and does not anticipate non-performance by its counterparties. Accounts receivable from the top three customers as at December 31, 2007 amounted to approximately 77% of accounts receivable (2006 – 40%).

12. 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 expected to be paid or payable to unitholders in each calendar year. As a result, no income tax is estimated to be payable by the Fund during the current fiscal period under the current provisions of the Income Tax Act.

Under the terms of the Income Tax Act (Canada), Acadian, excluding its corporate subsidiaries, is not currently subject to income taxes to the extent that its taxable income in a year is paid or payable to a unitholder. As a result of enactment of the Canadian government's tax fairness plan on June 22, 2007, which will effectively impose an income tax for specified investment flow through vehicles for taxation years beginning in 2011, the Fund and its subsidiaries, in accordance with the recommendations of Section 3465, Income Taxes, of the Canadian Institute of Chartered Accountants Handbook ("CICA"), the Fund, on a consolidated basis, has recorded a future tax liability based on differences between the financial reporting and tax bases of assets and liabilities of its subsidiaries which have been measured using the substantially enacted tax rates and laws that are expected to be in effect in the 2011 taxation year.

The interim future income tax expense is calculated based on expected annual effective tax rates.

millions		**2007**		2006
Loss before income taxes	**$**	**(7.1)**	$	7.9
Expected tax recovery (expense) at combined statutory rates		**2.1**		(2.4)
Effect of:				
Non-taxable income		**(2.1)**		2.4
Timing differences to reverse after January 1, 2011		**(9.4)**		—
Income tax expense	**$**	**(9.4)**	$	—

The future tax liability represents the cumulative amount of tax payable on the differences between the financial reporting and tax bases of the Fund's assets and liabilities at the rates expected to be effective at the time the differences are anticipated to reverse. The future tax liability relates to differences between financial reporting and tax values of intangible assets and timberlands, logging roads and fixed assets.

13. 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 (2006 – $0.3 million).

14. DISTRIBUTIONS TO UNITHOLDERS

Acadian makes monthly distributions of its available cash to the extent determined prudent by the Trustees in accordance with the requirements of the Fund's Declaration of Trust. These distributions represent all cash received from the Fund's indirect investments in its subsidiaries, less estimated cash amounts required for expenses and other obligations of the Fund, cash redemptions of units and any tax liability.

Total distributions declared for the twelve months ended December 31, 2007 were $10.0 million (eleven months ended December 31, 2006 – $9.1 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.*

BOARD AND MANAGEMENT

TRUSTEE BOARD

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

Joseph Cornacchia
Chief Financial Officer of Acadian

Marcia McKeague
Vice President, Maine Woodland Operations

Luc Ouellet
Vice President, NB Woodland Operations

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: Zev Korman,
Director, Investor Relations and Communications, Retail Funds
t. 416-359-1955   f. 416-363-2856   e. zkorman@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, 2007): 16,571,453
Targeted 2008 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 2007 Annual Meeting of unitholders will be held at the Hockey Hall of Fame, The Esso Theatre, Brookfield Place, 30 Yonge Street, Toronto, Ontario, at 10.30 a.m. on May 7, 2008.

www.acadiantimber.com

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," "predict," "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, include, but are not limited to: general economic and market conditions; product demand; concentration of customers; commodity pricing; interest rate and foreign currency fluctuations; seasonality; weather and natural conditions; regulatory, trade or environmental policy changes; and other risks and factors discussed under Risk Factors in this Report, Acadian's Final Prospectus and Annual Information Form, and other filings with securities regulatory authorities. 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.* Printed in Canada.

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