ACADIAN TIMBER
INCOME FUND

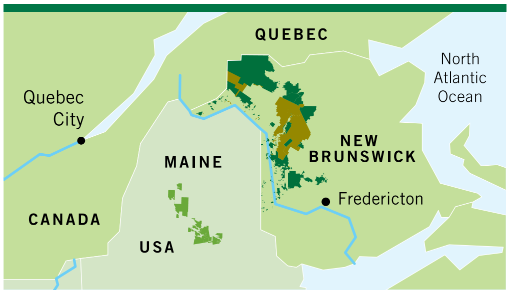
Annual Report 2008

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, TSX: BAM.A and Euronext: BAMA).

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.

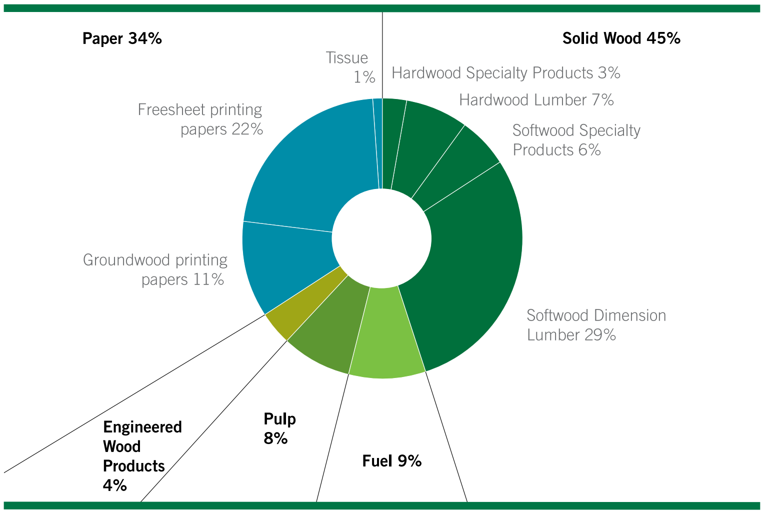
ACADIAN'S LOCATIONS



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

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, 2008.*

FISCAL 2008 HIGHLIGHTS

- Generated net sales of $67.9 million and EBITDA of $17.4 million on consolidated sales volumes of 1,251 thousand m^3
- Maintained overall EBITDA margin at 26%, as compared to 27% in the prior year, through effective log merchandising
- Completed land sales for total proceeds of $0.8 million
- Extended the maturity of the Canadian-dollar denominated bank-term and revolving credit facilities
- Continued strong safety performance

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FINANCIAL HIGHLIGHTS

(millions, Years ended December 31)	**2008**	2007
Sales volume (000s m^3)	**1,251.0**	1,387.4
Net sales	**$ 67.9**	$ 74.8
EBITDA	**$ 17.4**	$ 20.3
Distributable cash from operations	**$ 13.3**	$ 15.5

PRESIDENT'S LETTER TO UNITHOLDERS

It should come as no surprise that 2008 was a very challenging year. We are pleased with how Acadian Timber Income Fund performed and believe that we have the team and strong balance sheet to successfully weather what is expected to be another difficult year in 2009. Acadian met or exceeded all of its operating and financial goals for the year despite weak wood products markets. The Fund generated distributable cash from operations[1] of $13.3 million or $0.80 per unit in 2008, resulting in a payout ratio of 103%. 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. While our accident frequency increased very slightly in 2008 versus 2007, Acadian's overall safety performance was strong as the few recordable accidents that occurred were minor and resulted in very little lost time. We continue to remain very focused on safety performance and look forward to reporting continued progress in the future.

Achieved Financial Performance Targets

Acadian generated net sales of $67.9 million on consolidated sales volumes of 1,251 thousand m^3. Consolidated sales volumes for 2007 were 1,387 thousand m^3, resulting in net sales of $74.8 million. The slight year-over-year decrease in sales volumes reflected Acadian's decision to reduce the spruce-fir softwood sawlog harvest of its New Brunswick operations ("NB Timberlands") by 25% in response to difficult market conditions. Acadian also met all of its obligations related to the Crown licenses.

Acadian generated earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA")[1] of $17.4 million in 2008 as compared to $20.3 million in 2007. EBITDA margins declined slightly to 26% in the current year from 27% in 2007. The operating environment was very challenging for many of our customers in 2008 owing to weak markets for softwood lumber and structural panels. With this in mind, we are very pleased with Acadian's performance. Acadian's operating managers were successful in harvesting and merchandising our products to maximize market opportunities and maintain stable cash flows, while keeping costs low despite dramatic increases in fuel costs.

A Challenging Market Environment

Acadian's operations performed well in 2008, however, external market conditions continued to present our most significant challenges. A combination of weak lumber prices, a strong Canadian dollar throughout most of the year, and weak markets for dimension lumber and structural panel resulted in reduced production, and in some cases closures, at several regional softwood sawmills. These difficult solid wood markets were partially offset by strong pulp markets during the first three quarters of the year. Despite these market conditions, Acadian's weighted average selling price for spruce-fir softwood sawlogs for 2008, was only 2% lower than the comparable period in 2007. However, Acadian's increased emphasis on hardwood pulpwood during 2008 resulted in a weighted average selling price across all production of $50.15 per m^3, which remained essentially unchanged from a weighted average selling price of $50.18 per m^3 in 2007.

Controlled Capital Expenditures

Capital expenditures totaled $0.8 million in 2008, of which $0.3 million was silvicultural treatments including planting and herbicide treatments, with the remaining $0.5 million invested in roads and bridges. Although our silviculture expenditures are largely discretionary from year-to-year, we decided to complete a modest program of silvicultural investments during 2008 despite the poor market conditions.

Environment and Sustainability

We are pleased to state that there were no significant environmental issues on Acadian's timberlands during 2008. All forestry operations on Acadian's New Brunswick freehold lands successfully completed the surveillance audits for both ISO 14001:2004 and SFI 2005-2009 certifications during 2008. A review carried out by the New Brunswick Department of Natural Resources also found that Acadian's management of Fraser Papers Inc.'s Crown licenses met or exceeded license performance thresholds. As a result, Fraser Papers Inc.'s license has been recommended for renewal for a further 25 year term.

Higher and Better Use (HBU) Properties and Other Income

Acadian continued to sell and list for sale several HBU properties in New Brunswick and Maine during 2008 with Acadian's Maine Timberlands completing a sale of a small lakefront parcel for a gain of $0.6 million. Acadian also increased the income generated from additional non-timber sources including hunting leases and cabin rentals, camp leases, road-use fees and gravel sales. Combined with Acadian's HBU sales, non-timber income totaled $1.9 million in 2008. 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

Acadian explored several opportunities for growth through strategic acquisitions during 2008. However, we were not successful in acquiring any of these properties. Buyer interest in regional timberlands continues to be very strong, which we believe provides excellent value support for Acadian. 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 2009 to be another challenging year, as U.S. housing starts and lumber demand are expected to experience further declines. In addition to the weak outlook for softwood sawlogs, the global pulp market has become much more difficult with inventories well above balanced market levels and spot prices now at, or below, cash costs in most producing regions. 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. Despite the negative outlook, a number of factors may provide off-setting benefits. Dramatic reductions in fuel costs are expected to provide real assistance in managing costs. Acadian is also expected to continue to benefit from the recent strengthening of the U.S. dollar, which will provide support for log prices in our New Brunswick Timberlands operation while improving the Canadian dollar contribution of cash flows from Acadian's Maine Timberlands.

As I pointed out last year, 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 improving risk adjusted returns. Notwithstanding the current turbulence in some markets today, the long-term supply/demand dynamics for our products remain highly favourable. In addition, and 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.

During these challenging market conditions, our primary focus will continue to 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. Our very strong balance sheet, with a cash balance of $9.0 million and its credit facility undrawn, leaves us well-positioned to weather the current market conditions while maintaining a stable financial performance and preserving the long-term value of the business.

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

Reid Carter
President and Chief Executive Officer
February 10, 2009

[1] *Distributable cash from operations and earnings before interest, taxes, depletion, depreciation and amortization ("EBITDA") are key performance measures in evaluating the Fund's operations and are important in enhancing investors' understanding of the Fund's operating performance. As distributable cash from operations and EBITDA do not have a standardized meaning prescribed by GAAP, they may not be comparable to similar measures presented by other companies.*

MARKET OVERVIEW

Softwood Sawlogs – 34% of Net Sales

Softwood sawlogs accounted for 34% of Acadian's net sales and 29% of sales volumes in 2008, which is 8% and 6%, respectively, lower than the comparable period in 2007. While demand and pricing remained soft due to the weak U.S. housing market, average selling price per m^3 in 2008 was only 2% lower than in 2007 as prices were supported by wood shortages at many regional mills in the first quarter of 2008. Prices were further supported by a scarce supply of softwood pulpwood mid-year as pulp mill customers supplemented their pulpwood with softwood studwood. Having said this, pricing support was limited and as such Acadian focused on harvesting stands more heavily weighted towards pulpwood to take advantage of the strong pulpwood market that existed for most of 2008.

Acadian's lumber and panel producing customers continued to struggle with difficult market conditions as demonstrated by the 11% year-over-year decrease of the Random Lengths Lumber Composite Price, which approached 18-year lows at the end of 2008. The Random Lengths Structural Panel Composite Price was down 2% year-over-year. This continued downturn resulted in further market-related closures and reduced production at regional sawmills, with Fraser Papers Inc., Acadian's major customer for softwood sawlogs, taking a combined 109 weeks of market-related downtime in 2008 at its Plaster Rock, Juniper and Ashland/Masardis sawmills.

Acadian's New Brunswick Timberland's softwood sawlog sales volumes and average price per m^3 were down 38% and 4%, respectively, in 2008 as compared to 2007. Acadian's Maine Timberlands experienced a 1% increase in softwood sawlog sales volumes over this period and a 1% increase in average price per m^3 in Canadian dollar terms. In U.S. dollar terms, the average price per m^3 was up 2%.

Hardwood Sawlogs – 9% of Net Sales

Hardwood sawlogs accounted for 9% of Acadian's net sales and 5% of sales volumes in 2008, which was comparable to 2007. Species mix contributed to the 1% decrease in average hardwood sawlog prices. In particular, Acadian's New Brunswick Timberlands sold a lower proportion of high value "bird's eye" maple and specialty products in 2008 than in 2007.

The New Brunswick Timberlands hardwood sawlog volumes and average price per m^3 were up 6% and down 3%, respectively. Acadian's Maine Timberlands sales volumes increased 7% and average price per m^3 increased 18% in 2008, albeit on small volumes. Both operations generated more hardwood sawlogs as a by-product of harvesting stands that were more heavily weighted towards hardwood in order to increase hardwood pulpwood volumes to satisfy high demand.

Softwood and Hardwood Pulpwood – 43% of Net Sales

Softwood and hardwood pulpwood shipments accounted for 12% and 31%, respectively, of Acadian's net sales and 12% and 33% of sales volumes in 2008. Pulp markets remained very strong throughout the first three quarters of 2008 and the market for pulpwood benefited from the fact that many sawmills continued to take downtime resulting in regional chip shortages. As a result, average softwood and hardwood pulpwood prices per m^3 were 11% and 12% higher, respectively, year-over-year. Softwood pulpwood sales volumes increased 5% and hardwood pulpwood sales volumes decreased 6% as compared to 2007. Demand for hardwood pulpwood dropped significantly in the fourth quarter of 2008 as pulp markets began to weaken dramatically.

Biomass – 7% of Net Sales

Biomass markets remained strong in 2008, as plants continued to run at maximum capacity despite falling oil prices. Biomass accounted for 7% of net sales and 21% of sales volumes in 2008, comparable to 2007. Year-over-year volumes decreased 1%, and average price per m^3 decreased 19%. As reported in the third quarter, this decrease reflects Acadian's modified sales process, returning to a stumpage rather than a delivered basis. While prices were lower, margins were maintained.

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, 2008. The MD&A is intended to provide you with an assessment of our performance during the year ended December 31, 2008 as compared to the Fund's performance during the year ended December 31, 2007.

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 10, 2009. 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 (loss) and cash flow from operating activities, as determined in accordance with GAAP, to EBITDA and distributable cash from operations in the "Distributable Cash From Operations" section of this MD&A.

Internal Controls over Financial Reporting

Management of Acadian is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and the Chief Financial Officer and effected by the Board of Trustees, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Fund's internal control over financial reporting as of December 31, 2008, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2008, Acadian's internal control over financial reporting is effective. Also, management determined that there were no material weaknesses in Acadian's internal control over financial reporting as of December 31, 2008.

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 National 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, 2008 in providing reasonable assurance that material information relating to the company and our consolidated subsidiaries would be made known to them within those entities.

REVIEW OF OPERATIONS

Summary of Results for the Years Ended December 31

The table below summarizes operating and financial data for Acadian:

	Years Ended December 31	
millions, except per unit data and where indicated	**2008**	2007
Total		
Sales volume (000s m^3)	**1,251.0**	1,387.4
Net sales	**$ 67.9**	$ 74.8
EBITDA	**17.4**	20.3
EBITDA margin	**26%**	27%
Distributable cash from operations	**$ 13.3**	$ 15.5
Net income (loss)[1]	**18.9**	(18.6)
Distributions declared		
Class A unitholders	**10.0**	8.0
Class B LP unitholders	**—**	2.0
Class B interest liability of a subsidiary	**3.7**	3.7
	13.7	13.7
Payout ratio	**103%**	88%
Total assets	**$ 229.0**	$ 220.2
Total long-term debt	**80.8**	73.8
Per unit (fully diluted)		
Distributable cash from operations	**$ 0.80**	$ 0.94
Distribution declared per unit		
Class A unitholders	**0.83**	0.83
Class B LP unitholders	**—**	0.55
Class B interest liability of a subsidiary	**0.83**	0.83
Net income (loss)[1]	**0.02**	(1.54)
Book value	**7.45**	7.73
Units outstanding		
Class A unitholders	**12,064,423**	12,064,423
Class B interest liability of a subsidiary	**4,507,030**	4,507,030

[1] 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.

Distributable Cash From Operations

Distributable cash from operations for the year ended December 31, 2008 was $13.3 million as compared to $15.5 million in 2007. Based on distributable cash generated to date and existing cash reserves, Acadian is well positioned to meet distribution targets in 2009.

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 year ended December 31, 2008 were 960 thousand m^3, which was 157 thousand m^3 lower than the comparable period in 2007 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:

	Years Ended December 31	
millions	**2008**	2007
Net income (loss)[1]	**$ 18.9**	$ (18.6)
Add (deduct):		
Interest Income	**(0.2)**	(0.3)
Interest expense on long-term debt	**3.6**	3.9
Distribution on Class B Interest Liability of a subsidiary	**3.7**	3.7
Future income tax expense	**6.2**	11.5
Depreciation and depletion	**7.4**	8.2
Non-cash loss (gain) on Class B Interest Liability of a subsidiary	**(22.2)**	11.9
EBITDA	**17.4**	20.3
Add (deduct):		
Interest income	**0.2**	0.3
Interest expense on long-term debt	**(3.6)**	(3.9)
Silviculture and capital expenditures	**(0.8)**	(1.3)
Non-cash gain on sale of timberlands	**(0.7)**	(0.3)
Proceeds from sale of timberlands, logging roads and fixed assets	**0.8**	0.4
Distributable cash from operations	**$ 13.3**	$ 15.5
Distributions declared	**$ 13.7**	$ 13.7

[1] 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.

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 related to the 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:

millions		Years Ended December 31 2008		2007
Cash flow from operating activities	**$**	**14.1**	$	8.1
Add (deduct):				
Capital adjustments:				
Proceeds from sale of timberlands, logging roads and fixed assets		**0.8**		0.4
Other adjustments:				
Change in non-cash working capital balances and other		**(4.5)**		4.6
Distribution on Class B Interest Liability of a subsidiary		**3.7**		3.7
Silviculture and capital expenditures		**(0.8)**		(1.3)
Distributable cash from operations	**$**	**13.3**	$	15.5
Distributions declared	**$**	**13.7**	$	13.7

The following table provides a comparison of distributions declared on Class A units during the year ended December 31, 2008, and distributions declared on Class A and Class B LP units during the comparable period in 2007, 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 (loss) and distributable cash from operations, as they are recorded as interest expense in accordance with GAAP, and have thus been excluded from this analysis.

millions		Years Ended December 31 2008		2007
Cash flow from operating activities	**$**	**14.1**	$	8.1
Net income (loss)[1]		**18.9**		(18.6)
Actual cash distributions declared on Class A and Class B LP Units		**10.0**		10.0
Excess (shortfall) of cash flows from operating activities over distributions declared	**$**	**4.1**	$	(1.9)
Excess (shortfall) of net income over cash distributions declared	**$**	**8.9**	$	(28.6)

[1] *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.*

The cash distributions declared to Class A unitholders during the year ended December 31, 2008 were less than net income and cash flow from operating activities. This compares to distributions declared to Class A and Class B LP unitholders during 2007 that were more than net income and cash flow from operating activities. The shortfalls in 2007 are not considered to represent an economic return of capital as the distributable cash from operations generated since Acadian's inception has 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 year ended December 31, 2008 is 103% as compared to 88% for the year ended December 31, 2007. Since Acadian's inception on January 31, 2006, the cumulative payout ratio of the Fund is 95%.

As described in more detail on page 12 of this report, as at December 31, 2008, Acadian has borrowings totalling $80.8 million , net of a $0.1 million deferred financing fee incurred in the fourth quarter, (2007 – $73.8 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 the end of the period. 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 22 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 Fund's distributable cash from operations.

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 NB Timberlands, 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 during the year ended December 31, 2008 were $13.7 million or $0.825 per unit (2007 – $13.7 million or $0.825 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 2008 in light of market conditions. 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.

For the year ended December 31, 2008, Acadian generated net sales of $67.9 million and EBITDA of $17.4 million on consolidated log sales volumes of 1,251 thousand m^3. Consolidated sales volumes for the year ended December 31, 2007 were 1,387 thousand m^3, resulting in net sales of $74.8 million and EBITDA of $20.3 million.

Class B Interest Liability

Included in net income for the twelve months ended December 31, 2008, is a non-cash gain related to the Class B Interest Liability of a subsidiary. The settlement obligation of this interest is based on the trading value of Acadian's units at the time of settlement, which requires the liability to be recorded at its fair value at each balance sheet date with the corresponding gain arising from a decrease in Acadian's unit price, or loss arising from an increase in Acadian's unit price, included in the statement of operations. In addition, as this Canadian dollar liability has been issued by a self-sustaining U.S. dollar subsidiary of the Fund, the obligation is required to be converted to U.S. dollars at each reporting period, with the corresponding gain or loss related to the carrying value of the liability included in the statement of operations.

For the year ended December 31, 2008, these items resulted in a $22.2 million gain (2007 – $11.9 million loss), comprised of a $15.0 million mark-to-market gain (2007 – $5.0 million loss) and a $7.2 million foreign exchange gain (2007 – $6.9 million loss).

On February 3, 2009, an affiliate of Brookfield Asset Management Inc. converted all units representing the Class B Liability of a subsidiary into Class A units of the Fund.

Future Income Tax Expense

Included in net income for the year ended December 31, 2008 is a non-cash future tax expense of $6.2 million (2007 – $11.5 million), 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 at the time the differences are anticipated to reverse.

Segmented Results of Operations

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

	Year ended December 31, 2008				*Year ended December 31, 2007*			
millions	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**	NB Timberlands	Maine Timberlands	Corporate	Consolidated
Sales volumes (000s m^3)	**935.9**	**315.1**	**—**	**1,251.0**	1,072.9	314.5	—	1,387.4
Net sales	**$ 50.0**	**$ 17.9**	**—**	**$ 67.9**	$ 57.8	$ 17.0	$ —	$ 74.8
EBITDA	**$ 11.5**	**$ 6.5**	**$ (0.6)**	**$ 17.4**	$ 15.8	$ 5.4	$ (0.9)	$ 20.3
EBITDA margin	**23%**	**36%**	**n/a**	**26%**	27%	32%	n/a	27%

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 2008 harvest operations was performed by third-party contractors and one-third by NB Timberland employees.

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

	Year Ended December 31, 2008			Year Ended December 31, 2007		
	Harvest *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*
Softwood	**273.8**	**280.8**	**$ 17.0**	372.5	382.7	$ 24.0
Hardwood	**389.6**	**413.5**	**23.8**	443.4	442.6	23.7
Biomass	**241.6**	**241.6**	**4.4**	247.6	247.6	5.3
	905.0	**935.9**	**45.2**	1,063.5	1,072.9	53.0
Other sales			**4.8**			4.8
Net sales			**$ 50.0**			$ 57.8
EBITDA			**$ 11.5**			$ 15.8
EBITDA margin			**23%**			27%

Softwood, hardwood and biomass shipments were 281 thousand m^3, 413 thousand m^3 and 242 thousand m^3, respectively, for the year ended December 31, 2008 representing a 13% decrease in overall sales volumes compared to 2007. This decrease largely reflects the continued weak demand for softwood sawlogs. Approximately 27% of sales volumes were sold as sawlogs, 47% as pulpwood and 26% as biomass in 2008. This compares to 35% of sales volumes sold as sawlogs, 42% as pulpwood and 23% as biomass in 2007, demonstrating the operation's responsiveness to market conditions.

Net sales were $50.0 million, down 13% from 2007, attributable to 13% lower sales volumes and a lower value species mix, which was more heavily weighted to pulpwood in the current year.

Costs were $38.5 million, down 8% as compared to last year, attributable to a lower harvest volumes which were partially offset by 2% higher variable costs per m^3, reflecting longer hauling distances and higher fuel costs. Road maintenance costs were also higher in 2008 due to extreme wet weather conditions which damaged roads and bridges.

EBITDA was $11.5 million, compared to $15.8 million in 2007. NB Timberland's EBITDA margin was 23%, compared to 27% for 2007, reflecting a combination of lower sales volumes and a greater proportion of lower value pulpwood in the sales mix, as well as higher fuel costs, and increased road maintenance costs during the period.

For the year ended December 31, 2008, NB Timberlands experienced three recordable incidents among employees and eight recordable incidents among contractors from which the individuals have since fully recovered. A non-recordable incident that occurred in the first quarter of 2008 was re-classified as a recordable incident among employees in the fourth quarter. This incident is included in the aforementioned figures.

There was one reportable environmental incident which occurred on Crown land during 2008 which was immediately cleaned-up. No penalty resulted from this incident.

NB Timberlands' 2008 highlights include:

- Operating flexibility and strong customer relationships allowed NB Timberlands to benefit from a strong pulpwood market. Price per m^3 (excluding biomass) was 1.7% higher in 2008 than in 2007 owing to improved pulpwood pricing.
- Surveillance audits found the NB Timberlands to be in compliance with both ISO 14001:2004 and SFI 2005-2009 certifications.
- NB Timberlands met or exceeded The Ministry of Natural Resources' Crown Land License performance thresholds. As a result, Fraser Papers Inc.'s license has been recommended to be renewed for a further 25 year term.

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:

	Year Ended December 31, 2008			Year Ended December 31, 2007		
	Harvest *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*
Softwood	**234.4**	**234.2**	**$ 13.7**	243.9	243.5	$ 13.6
Hardwood	**62.1**	**62.5**	**3.6**	56.9	56.2	2.5
Biomass	**18.4**	**18.4**	**0.2**	14.8	14.8	0.5
	314.9	**315.1**	**17.5**	315.6	314.5	16.6
Other sales			**0.4**			0.4
Net sales			**$ 17.9**			$ 17.0
EBITDA			**$ 6.5**			$ 5.4
EBITDA margin			**36%**			32%

Softwood, hardwood and biomass shipments were 234 thousand m^3 and 63 thousand m^3 and 18 thousand m^3, respectively, for the year ended December 31, 2008, consistent with overall shipments in 2007. Approximately 53% of sales volumes were sold as sawlogs, 41% as pulpwood and 6% as biomass in 2008. This compares to 52% of sales volumes sold as sawlogs, 43% as pulpwood and 5% as biomass in 2007.

Net sales were $17.9 million, up 5% from 2007, reflecting a higher average price per m^3. Strong hardwood pulpwood prices and a more favourable mix of hardwood sawtimber contributed to this higher average price.

Costs were $11.4 million, consistent with the same period of 2007. Variable costs per m^3 were 2% higher than 2007 due to higher fuel costs experienced throughout the year, which were offset by the gain related to the land sale transaction that closed in the third quarter of 2008.

EBITDA was $6.5 million, compared to $5.4 million in the same period last year, while EBITDA margin increased to 36% from 32% during the same period of 2007.

For the year ended December 31, 2008, there were two recordable incidents among contractors from which the individuals have since fully recovered. There were no reportable environmental incidents.

Maine Timberlands' 2008 highlights include:

- High demand and strong customer relationships allowed Maine Timberlands to benefit from a strong pulpwood market. Price per m^3 (excluding biomass) was 8% higher in fiscal year 2008 than in fiscal year 2007 owing to improved pulpwood pricing.
- Successful completion of a land sale for proceeds of $0.7 million.

Financial Position

As at December 31, 2008, Acadian's balance sheet consisted of total assets of $229.0 million (2007 – $220.2 million), represented primarily by timberlands, logging roads and fixed assets of $207.8 million (2007 – $199.1 million) with the balance in cash and working capital of $15.1 million (2007 – $15.0 million) and intangible assets of $6.1 million (2007 – $6.1 million). Timberlands have been recorded at cost as determined through the purchase of these assets on formation of the Fund and are depleted and charged to operations in a systematic manner based on the utilization of the timber resources. Silviculture costs have been capitalized as they were incurred.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Acadian's principal sources of liquidity include cash earned in operations and a $5.0 million revolving 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 2009. 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 year ended December 31, 2008 were $0.8 million (2007 – $1.3 million), and were in line with management's estimate of annual silviculture and capital expenditures.

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 $47.0 million bank credit facility consisting of a $42.0 million bank term credit facility and a $5.0 million revolving credit facility. As at December 31, 2008, no funds (2007 – no funds) had been drawn on the revolving credit facility. During the fourth quarter of 2008, Acadian entered into an agreement to extend the bank term credit facility and the revolving credit facility for a period of one year. The bank term and revolving credit facilities will continue to bear interest at floating rates based on the 30-day Banker's Acceptances rate, plus the applicable margin reflective of today's credit environment and will mature on January 29, 2010. Based on the terms of the extension agreement, at today's market rates, Acadian would incur approximately $500 thousand in additional interest expense over this period as compared to the terms of the original credit agreement. However, the actual increase in interest expense in 2009, as compared to 2008, is expected to be partially offset by recent reductions in Banker's Acceptances rates.

The Fund also has 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, 2008. This remains unchanged from the prior year.

Outstanding Units

As at December 31, 2008, 12,064,423 Class A units were issued and outstanding, which is consistent with December 31, 2007. 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.

As at December 31, 2008, Brookfield owned 3,006,232 Class A units and 4,507,030 units representing the Class B Interest Liability of a subsidiary. The Class B Interest Liability of a subsidiary is convertible into units of the Fund at the option of Brookfield on a one-for-one basis and represent approximately 27% of the issued and outstanding units of the Fund on a fully-diluted basis. Brookfield's ownership interest is 45% 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, 2008	
	Units	**Percentage**
Class A units outstanding	**12,064,423**	**73%**
Class B Interest Liability of a subsidiary outstanding	**4,507,030**	**27%**
	16,571,453	**100%**

	As at December 31, 2007	
	Units	Percentage
Class A units outstanding	12,064,423	73%
Class B Interest Liability of a subsidiary outstanding	4,507,030	27%
	16,571,453	100%

On February 3, 2009, an affiliate of Brookfield converted all units representing the Class B Liability of a subsidiary into Class A units of the Fund. Subsequent to this conversion, the Fund has 16,571,453 Class A LP Units issued and outstanding, of which 7,513,262 or 45% are held by Brookfield.

OUTLOOK

The following contains forward-looking statements about Acadian Timber Income Fund's market outlook for fiscal 2009. Reference should be made to "Forward-looking Statements" on page 28. 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 Annual Report and in our Annual Information Form available on our website at www.acadiantimber.com or www.sedar.com.

To date, Acadian has been successful in recognizing, producing and selling into market opportunities as they have arisen. The past year offered a supply-demand imbalance for softwood sawlogs that allowed Acadian to move additional volumes at reasonable prices. We also benefited from a strong pulp market in 2008 which offered strong demand and sales realizations while tightening up the softwood sawlog market by consuming a portion of spruce-fir studwood as pulpwood. The outlook for 2009 appears more difficult, however, as U.S. housing starts and lumber demand are expected to experience further declines. In addition, the global pulp market has become much more difficult with inventories well above balanced market levels and spot prices now at or below cash costs from most producing regions. As a result, we expect that market conditions will remain difficult in 2009.

Despite these pressures, we have experienced only limited recent deterioration in the softwood sawlog market as further harvest reductions on Quebec and Ontario crown land, as well as harvest reductions by private woodlot owners, have balanced supply with demand.

Given the recent deterioration of global pulp markets, we expect softness in pulpwood pricing through the first half of 2009 despite the fact that pulp and paper producers will have little alternative supply until lumber markets improve. Local pulp and paper mills, including Sappi, Verso, Mead, Katahdin Paper, and Domtar, have announced production curtailments while the Old Town Maine mill, recently brought out of bankruptcy, remains closed. Both UPM Miramichi and Bowater Dalhousie have permanently shut down. As a preferred supplier to several regional pulp and groundwood mills, Acadian benefits in its ability to continue to move pulpwood volumes despite weakening demand and pricing.

Markets for hardwood sawlogs and specialty products have softened slightly but are expected to remain relatively stable through 2009 as overall hardwood production is expected to decline significantly reducing the availability of hardwood sawlogs in the marketplace.

Biomass demand and pricing is expected to continue to be favourable in 2009 owing to limited supply from reductions in hardwood harvest volumes, and increasing competition as new wood biomass, pellet, and biofuels projects are completed. This favourable environment for biomass may be partially offset if oil prices remain low.

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 2008 Results

The table below summarizes operating and financial data for Acadian:

	Three Months Ended December 31	
millions	**2008**	2007
Total		
Sales volume (000s m^3)	**306.6**	313.7
Net sales	**$ 19.7**	$ 17.7
EBITDA	**6.9**	4.9
EBITDA margin	**35%**	28%
Distributable cash from operations	**$ 5.7**	$ 3.9
Net income[1]	**15.8**	7.4
Distributions declared		
Class A unitholders	**2.5**	2.5
Class B interest liability of a subsidiary	**0.9**	0.9
	3.4	3.4
Payout ratio	**60%**	87%

[1] *Net income 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.*

Distributable Cash from Operations and Distributions

Distributable cash from operations was $5.7 million during the three months ended December 31, 2008 (the "fourth quarter"), which represents an increase of $1.8 million from the same period in 2007. 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 2007. 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	**2008**	2007
Net income[1]	**$ 15.8**	$ 7.4
Add (deduct):		
Interest expense on long-term debt	**1.0**	1.0
Distribution on Class B Interest Liability of a subsidiary	**0.9**	0.9
Future income tax expense (recovery)	**6.1**	(0.6)
Depreciation and depletion	**2.2**	1.8
Non-cash loss (gain) on Class B Interest Liability of a subsidiary	**(19.1)**	(5.6)
EBITDA	**6.9**	4.9
Add (deduct):		
Interest expense on long-term debt	**(1.0)**	(1.0)
Silviculture and capital expenditures	**(0.2)**	—
Distributable cash from operations	**$ 5.7**	$ 3.9
Distributions declared	**$ 3.4**	$ 3.4

[1] *Net income 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.*

millions	Three Months Ended December 31 2008	2007
Cash flow from operating activities	**$ 6.6**	$ 4.3
Add (deduct):		
Other adjustments:		
Change in non-cash working capital balances and other	**(1.6)**	(1.3)
Distribution on Class B Interest Liability of a subsidiary	**0.9**	0.9
Silviculture and capital expenditures	**(0.2)**	—
Distributable cash from operations	**$ 5.7**	$ 3.9
Distributions declared	**$ 3.4**	$ 3.4

Results of Operations

Acadian generated net sales of $19.7 million and EBITDA of $6.9 million on consolidated log sales volumes of 307 thousand m^3 in the fourth quarter of 2008. Consolidated sales volumes in the fourth quarter of 2007 were 314 thousand m^3, resulting in net sales of $17.7 million and EBITDA of $4.9 million. The improved results reflect Maine Timberlands' strong fourth quarter, with shipment volumes up 60% year-over-year.

EBITDA margin increased to 35% as compared to 28% in the fourth quarter of 2007. NB Timberlands received higher payments related to the Crown licensed timberlands, while Maine Timberlands benefited from more favorable weather conditions and improved species mix.

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 $19.1 million gain (2007 – $5.6 million gain), comprised of a $13.4 million mark-to-market gain (2007 – $4.4 million gain) and a $5.7 million foreign exchange gain (2007 – $1.2 million gain).

On February 3, 2009, an affiliate of Brookfield converted all units representing the Class B Liability of a subsidiary into Class A units of the Fund.

Future Income Tax Expense

Included in net income for the three months ended December 31, 2008 is a non-cash future tax expense of $6.1 million (2007 – $0.6 million recovery), resulting from differences between the financial reporting and tax bases of the assets and liabilities of the Fund's subsidiaries.

Segmented Results of Operations

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

	Three Months Ended December 31, 2008				Three Months Ended December 31, 2007			
millions	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**	**NB Timberlands**	**Maine Timberlands**	**Corporate**	**Consolidated**
Sales volumes (000s m^3)	**208.8**	**97.8**	**—**	**306.6**	252.6	61.1	—	313.7
Net sales	**$ 13.3**	**$ 6.4**	**—**	**$ 19.7**	$ 14.8	$ 2.9	$ —	$ 17.7
EBITDA	**$ 4.5**	**$ 2.5**	**$ (0.1)**	**$ 6.9**	$ 4.3	$ 0.8	$ (0.2)	$ 4.9
EBITDA margin	**34%**	**39%**	**n/a**	**35%**	29%	28%	n/a	28%

NB Timberlands

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

	Three Months Ended December 31, 2008			Three Months Ended December 31, 2007		
	Harvest *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*
Softwood	**72.5**	**73.2**	**$ 4.4**	93.4	113.2	$ 7.0
Hardwood	**81.7**	**78.2**	**4.6**	119.6	102.1	5.3
Biomass	**57.4**	**57.4**	**1.1**	37.3	37.3	0.9
	211.6	**208.8**	**10.1**	250.3	252.6	13.2
Other sales			**3.2**			1.6
Net sales			**$ 13.3**			$ 14.8
EBITDA			**$ 4.5**			$ 4.3
EBITDA margin			**34%**			29%

Softwood, hardwood and biomass shipments were 73 thousand m^3, 78 thousand m^3 and 57 thousand m^3 for the fourth quarter of 2008, respectively, representing an overall decrease in sales volumes of 17% as compared to same period in 2007. This decrease reflects continued weak demand for softwood sawlogs and the significant decline in demand for hardwood pulpwood as pulp markets softened in the fourth quarter of 2008. Approximately 34% of sales volumes were sold as sawlogs, 39% as pulpwood and 27% as biomass. This compares to 42% of sales volumes sold as sawlogs, 43% as pulpwood and 15% as biomass in the fourth quarter of 2007.

Net sales of $13.3 million were down 10% from the same period last year, attributable to a 17% reduction in sales volumes and a lower value species mix offset by a $1.6 million increase in other sales. Payments received related to the Crown licensed timberlands were $1.3 million higher in the fourth quarter of 2008 compared to the same period of 2007 due to 13% increase in sales volumes and a higher value species mix. The weighted average selling price was $48.79 in the fourth quarter of 2008 as compared to $52.07 in the same period of 2007.

Costs were $8.8 million, down 16% compared to the fourth quarter of 2007, primarily as a result of lower harvest volumes.

EBITDA was $4.5 million, as compared to EBITDA of $4.3 million in the same period last year while EBITDA margin increased to 34% from 29% during the same period of 2007.

NB Timberlands experienced no recordable incidents among employees and two recordable incidents among contractors during the fourth quarter of 2008 from which the individuals have since fully recovered.

Maine Timberlands

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

	Three Months Ended December 31, 2008			Three Months Ended December 31, 2007		
	Harvest *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*	**Harvest** *(000s m³)*	**Sales** *(000s m³)*	**Results** *(millions)*
Softwood	**72.4**	**72.4**	**$ 4.8**	50.9	50.8	$ 2.4
Hardwood	**18.1**	**18.7**	**1.4**	8.6	8.5	0.4
Biomass	**6.7**	**6.7**	**0.1**	1.8	1.8	—
	97.2	**97.8**	**6.3**	61.3	61.1	2.8
Other sales			**0.1**			0.1
Net sales			**$ 6.4**			$ 2.9
EBITDA			**$ 2.5**			$ 0.8
EBITDA margin			**39%**			28%

Maine Timberlands had a very strong fourth quarter primarily as a result of favorable weather conditions. Softwood, hardwood and biomass shipments were 72 thousand m^3, 19 thousand m^3, and 7 thousand m^3, respectively, with total sales volumes up 60% compared to the fourth quarter of 2007. In addition to favorable weather conditions, the operation's largest contractor was able to catch up on its contract volume in the fourth quarter of 2008 after weather-related difficulties during the spring and early summer operating season. Approximately 55% of shipment volumes were sold as sawlogs, 38% as pulpwood and 7% as biomass. This compares to 56% of sales volumes sold as sawlogs, 41% as pulpwood and 3% as biomass in the fourth quarter of 2007.

Net sales were \$6.4 million, compared to \$2.9 million for the fourth quarter of 2007 due to higher shipment volumes, better species mix, and stronger pulpwood prices. The weighted average price was \$64.19 in the fourth quarter of 2008 as compared to \$47.32 in the same period of 2007.

Costs were \$3.9 million, compared to \$2.1 million for the fourth quarter of 2007. This increase reflects higher harvest volumes and higher variable costs per m^3. Increased fuel prices for most of the year, harvest of blowdown in one operation, and a higher proportion of higher cost harvest equipment utilized contributed to this higher variable cost.

EBITDA was \$2.5 million, compared to \$0.8 million for the same period in 2007, while EBITDA margin increased to 39% from 28%.

Maine Timberlands had one recordable incident among contractors during the fourth quarter. The individual has since fully recovered.

Restatement of Comparative Results

The Fund's comparative financial statements, and supplemental information, have been adjusted to include certain non-cash future tax amounts totalling \$2.1 million that were not recorded in Q2 2007, upon the enactment of the Canadian government's tax fairness plan. The adjustment did not affect distributable cash from operations, cash flow from operations or net income before taxes, but did increase future tax expense and future tax liabilities while reducing net income by that amount.

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.

	2008				2007			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Sales volumes (000s m^3)	**307**	**319**	**213**	**412**	314	323	267	483
Net sales	**\$ 19.7**	**\$ 17.2**	**\$ 8.3**	**\$ 22.7**	\$ 17.7	\$ 16.9	\$ 13.3	\$ 26.9
EBITDA	**\$ 6.9**	**\$ 4.3**	**\$ (1.0)**	**\$ 7.2**	\$ 4.9	\$ 3.9	\$ 1.9	\$ 9.6
Distributable cash from operations	**\$ 5.7**	**\$ 3.3**	**\$ (2.0)**	**\$ 6.3**	\$ 3.9	\$ 2.0	\$ 0.9	\$ 8.7
Net income (loss)[1]	**\$ 15.8**	**\$ 6.8**	**\$ (8.4)**	**\$ 4.7**	\$ 7.4	\$ (4.3)	\$ (19.2)	\$ (2.5)
Net income per unit - basic	**\$ 1.31**	**\$ 0.56**	**\$ (0.70)**	**\$ 0.39**	\$ 0.61	\$ (0.36)	\$ (1.59)	\$ (0.21)
Net income per unit - diluted	**\$ (0.14)**	**\$ 0.11**	**\$ (0.70)**	**\$ 0.22**	\$ 0.16	\$ (0.36)	\$ (1.59)	\$ (0.21)

[1] 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

	2008 Q4			2008 Q3			2008 Q2			2008 Q1		
	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	72.5	73.2	4.4	68.9	64.6	$ 3.8	9.0	20.3	$ 1.2	123.4	122.7	$ 7.6
Hardwood	81.7	78.2	4.6	92.5	111.1	6.3	76.7	92.5	5.6	138.7	131.7	7.3
Biomass	57.4	57.4	1.1	67.8	67.8	1.4	61.9	61.9	0.9	54.5	54.5	1.0
	211.6	208.8	10.1	229.2	243.5	11.5	147.6	174.7	7.7	316.6	308.9	15.9
Other sales			3.2			1.5			(1.2)			1.3
Net sales			13.3			$ 13.0			$ 6.5			$ 17.2
EBITDA			4.5			$ 2.6			$ (0.8)			$ 5.2
EBITDA margin			34%			20%			(12)%			30%

Maine Timberlands

	2008 Q4			2008 Q3			2008 Q2			2008 Q1		
	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	72.4	72.4	4.8	52.3	52.2	$ 3.0	23.1	23.0	$ 1.1	86.6	86.6	$ 4.8
Hardwood	18.1	18.7	1.4	19.6	19.4	1.1	10.0	11.6	0.5	14.4	12.8	0.6
Biomass	6.7	6.7	0.1	4.4	4.4	—	3.6	3.6	0.1	3.7	3.7	—
	97.2	97.8	6.3	76.3	76.0	4.1	36.7	38.2	1.7	104.7	103.1	5.4
Other sales			0.1			0.1			0.1			0.1
Net sales			6.4			$ 4.2			$ 1.8			$ 5.5
EBITDA			2.5			$ 1.8			$ —			$ 2.2
EBITDA margin			39%			43%			0%			40%

Corporate

	2008 Q4			2008 Q3			2008 Q2			2008 Q1		
	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			(0.1)			$ (0.1)			$ (0.2)			$ (0.2)
EBITDA margin			n/a			n/a			n/a			n/a

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

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 materially 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.

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.

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 are translated 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 2008 consisted of 40% taxable income (2007 – 60%) and 60% return of capital (2007 – 40%), 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 one significant related party, Brookfield Asset Management Inc. and affiliates (collectively "Brookfield"), including Fraser Papers Inc. ("Fraser Papers"). As at December 31, 2008, Brookfield owns 3,006,232 Class A units and 4,507,030 units representing the Class B interest liability of a subsidiary, representing approximately 45% of the outstanding units of the Fund on a fully diluted basis. 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 year ended December 31, 2008 amounted to $27.7 million and $2.8 million, respectively, which represented 32% of consolidated total sales (2007 – $36.7 million and $3.6 million, respectively, or 40% of total sales). Included in accounts receivable at December 31, 2008 is $1.2 million related to these agreements (2007 – $1.0 million).

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 during the year ended December 31, 2008 amounted to $2.0 million (2007 – $2.0 million). All fees have been fully paid in accordance with the services agreement.

c) Distributions declared to Fraser Papers during the year ended December 31, 2008 totaled $nil (2007 – $2.2 million).

d) Payments on the Class B Interest Liability to Brookfield during the year ended December 31, 2008 totaled $3.7 million (2007 – $3.7 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, 2008 (2007 – $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 year ended December 31, 2008 (2007 – $16 thousand).

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, 2008 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[(i)]	**$ 42.0**	**$ 42.0**	$ —	$ 42.0	$ —	$ —
Revolving credit facility	**5.0**	**—**	—	—	—	—
Class B Interest Liability	**31.6**	**31.6**	—	—	—	31.6
Term loan facility	**38.9**	**38.9**	—	38.9	—	—
	$ 117.5	**$ 112.5**	$ —	$ 80.9	$ —	$ 31.6
Interest expense [(ii) (iii) (iv)]		**$ 69.5**	$ 7.3	$ 9.7	$ 7.4	$ 45.1

The following assumptions have been made with respect to interest rates for the periods noted in the table above:
(i) Represents principal of bank term facility, excluding the deferred extension fee incurred in the fourth quarter of 2008;
(ii) Bank term debt credit facility variable interest at 4.37% per annum;
(iii) Term loan facility fixed interest at 4.67% with a Canadian to U.S. dollar conversion of 1.22; and,
(iv) Class B Interest Liability 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 29% of Acadian's total sales for the year ended December 31, 2008 were derived from lumber mills and pulp and paper mills owned or managed by Fraser Papers (2007 – 37%). 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, and thus would result in a reduction in distributable cash from operations.

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.

In addition to impacting Acadian's sales, cash flows and earnings, weakness in the market prices of its timber products may also have an effect on Acadian's ability to attract additional capital, its 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. In Acadian's markets, there are many suppliers of softwood and hardwood logs. In addition, Acadian may also be subject to increased competition from worldwide suppliers importing forest products, and/or subject to increased 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 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.

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 of Acadian's timberlands may result in depletion of Acadian's timber assets.

Fuel and Energy Costs

Acadian relies almost exclusively on land transportation for delivering its timber and is therefore exposed to fluctuations in fuel cost. An increase in fuel cost may result in lower earnings and cash flows. 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 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. Insurance for companies who operate timberlands has not been available on commercially acceptable terms or, in some cases, has 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. Harvesting activity can be compromised by inaccessibility to some sites during wet seasons resulting in decreased harvest levels. Results of one quarter will not be indicative of results that may be achieved in other quarters or for the full year.

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 its timberlands, or if regulations become more restrictive, the amount of its 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, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures (Section 1535), Handbook Section 3862, Financial Instruments – Disclosures (Section 3862), and Handbook Section 3863, Financial Instruments – Presentation (Section 3863). Additionally, in 2007 the CICA approved Handbook Section 3031, Inventories (Section 3031). These new standards became effective for Acadian on January 1, 2008.

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. The adoption of this new accounting standard did not impact the Fund's consolidated financial statements, however the required disclosure is provided in Note 11 of the Fund's annual consolidated financial statements.

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. The adoption of these new accounting standards did not impact the amounts reported in Acadian's consolidated financial statements; however, additional quantitative and qualitative information regarding Acadian's financial instruments and their associated risks is provided in Note 12 of the Fund's annual consolidated financial statements.

Inventories

In March 2007, the CICA approved Handbook Section 3031 Inventories, which replaces the existing Section 3030 Inventories. The standard provides more guidance on the measurement and disclosure requirements for inventories, however the adoption of Section 3031 did not have an impact on the consolidated financial statements of the Fund.

FUTURE ACCOUNTING POLICIES

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.

International Financial Reporting Standards

In 2005, the Accounting Standards Board of Canada (AcSB) announced that accounting standards in Canada are to converge with IFRS. In May 2007, the CICA published an updated version of its implementation plan which outlines the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian GAAP with IFRS for years beginning on or after January 1, 2011. The CICA plans to converge Canadian GAAP with IFRS, with the objective to move toward the use of a single set of world-wide accounting standards, improving financial reporting and transparency. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which may significantly impact the Fund's processes and financial results.

The Fund is currently in the planning phase of the conversion. This includes identifying the differences between existing Canadian GAAP and IFRS, identifying potential business impacts, developing the project plan, assessing resource requirements and providing training to staff. Over the next two years, the Fund will assess the implications of converting to IFRS, estimate the impact, implement the changes and perform work to ensure the accuracy of opening balances. It is currently not possible to fully determine the impact to the financial statements and any potential business impacts, as accounting standards and the interpretations of those standards are changing. The Fund currently expects to report under IFRS starting January 1, 2011.

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 should not be relied upon as representing the Fund's views as of any date subsequent to the date of this Annual Report.

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 and operating effectively for the year ended December 31, 2008.

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 10, 2009

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, 2008 and 2007 and the consolidated statements of operations and deficit, comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended, respectively, in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
February 10, 2009

Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

As at December 31 *(CAD millions)*	Note	2008	(restated) 2007[1]
Assets			
Current assets			
Cash and cash equivalents	2	**$ 9.0**	$ 4.9
Account receivable and other assets	9	**4.7**	8.1
Inventory		**1.4**	2.0
		15.1	15.0
Intangible assets		**6.1**	6.1
Timberlands, logging roads and fixed assets	5	**207.8**	199.1
		$ 229.0	$ 220.2
Liabilities and unitholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	**$ 6.2**	$ 6.0
Distributions payable to unitholders		**0.8**	0.8
		7.0	6.8
Future income tax liability	13	**17.7**	11.5
Long-term debt	6	**80.8**	73.8
Class B Interest Liability of a subsidiary	7,16	**31.6**	46.6
Unitholders' equity	8	**91.9**	81.5
		$ 229.0	$ 220.2

See accompanying notes to consolidated financial statements.
[1] *Restated. See Note 4.*

On Behalf of the Board

Reid Carter
President and Chief Executive Officer

David M. Mann
Trustee

Consolidated Statements of Operations and Deficit

For the Years Ended December 31 *(CAD millions)*	Note		2008		(restated) 2007[1]
Net sales		**$**	**67.9**	$	74.8
Operating costs and expenses					
Cost of sales			**44.8**		48.2
Selling, administration and other			**6.4**		6.6
Depreciation and depletion			**7.4**		8.2
			58.6		63.0
Operating earnings			**9.3**		11.8
Gain on sale of timberlands			**(0.7)**		(0.3)
Loss (gain) on Class B Interest Liability of a subsidiary	7		**(22.2)**		11.9
Interest					
Interest income			**(0.2)**		(0.3)
Interest expense on long-term debt	6		**3.6**		3.9
Class B Interest Liability of a subsidiary	7		**3.7**		3.7
Earnings (loss) before income tax expense			**25.1**		(7.1)
Future income tax expense	13		**(6.2)**		(11.5)
Net income (loss) for the year			**18.9**		(18.6)
Deficit, beginning of year			**(29.8)**		(1.2)
Unitholders' distributions	15		**(10.0)**		(10.0)
Deficit, end of year		**$**	**(20.9)**	$	(29.8)
Net income (loss) per unit – basic	8	**$**	**1.57**	$	(1.54)
Net income (loss) per unit – diluted	8	**$**	**0.02**	$	(1.54)

See accompanying notes to consolidated financial statements.

[1] *Restated. See Note 4.*

Consolidated Statements of Comprehensive Income (Loss)

For the Years Ended December 31 *(CAD millions)*	Note		2008		(restated) 2007[1]
Net income (loss)		**$**	**18.9**	$	(18.6)
Other comprehensive income (loss)					
Unrealized foreign currency translation gains (losses)	8		**1.5**		(0.5)
Other comprehensive income (loss)			**1.5**		(0.5)
Comprehensive income (loss)		**$**	**20.4**	$	(19.1)

See accompanying notes to consolidated financial statements.

[1] *Restated. See Note 4.*

Consolidated Statements of Cash Flows

For the Years Ended December 31 *(CAD millions)*	Note		2008		(restated) 2007[1]
Cash provided by (used for):					
Operating activities					
Net income (loss)		**$**	**18.9**	$	(18.6)
Items not affecting cash:					
Future income tax expense	13		**6.2**		11.5
Depreciation and depletion			**7.4**		8.2
Gain on sale of timberlands			**(0.7)**		(0.3)
Loss (gain) on Class B Interest Liability of a subsidiary	7		**(22.2)**		11.9
			9.6		12.7
Net change in non-cash working capital balances			**4.5**		(4.6)
			14.1		8.1
Investing activities					
Sale of timberlands, logging roads and fixed assets			**0.8**		0.4
Additions to Timberlands, logging roads and fixed assets			**(0.5)**		(0.6)
Silviculture expenditures			**(0.3)**		(0.7)
			—		(0.9)
Financing activities					
Distributions paid to unitholders	15		**(10.0)**		(10.0)
			(10.0)		(10.0)
Increase (decrease) in cash and cash equivalents during the year			**4.1**		(2.8)
Cash and cash equivalents, beginning of year			**4.9**		7.7
Cash and cash equivalents, end of year		**$**	**9.0**	$	4.9

See accompanying notes to consolidated financial statements.

[1] *Restated. See Note 4.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 (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.

Acadian owns and manages approximately 765,000 acres of freehold timberlands in New Brunswick ("NB Timberlands"), approximately 311,000 acres of freehold timberlands in Maine ("Maine Timberlands") and provides management services relating to approximately 1.3 million acres of Crown licensed timberlands. Acadian also owns and operates a forest nursery in Second Falls, New Brunswick. Acadian's products include softwood and hardwood sawlogs, pulpwood and biomass by-products, sold to over 110 regional customers.

As part of the initial public offering of the Fund, affiliates of Brookfield Asset Management Inc. ("Brookfield"), including Fraser Papers Inc. ("Fraser Papers") had a significant ownership interest in and exercised significant influence over Acadian. As at December 31, 2008, Brookfield owns 3,006,232 Class A units and 4,507,030 units representing the Class B interest Liability of a subsidiary (Note 7) representing approximately 45% of the outstanding units of the Fund on a fully diluted basis.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
These consolidated financial statements present the results of operations and cash flows of Acadian for the year ended December 31, 2008 along with the comparative results for the year ended December 31, 2007. 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 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 $1.6 million as at December 31, 2008 (2007 – $5.2 million), with a weighted average effective interest rate of 0.25% (2007 – 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, 2008, 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.

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 are translated 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 required to apply the recommendations of the CICA section 3465, "Income Taxes." The Fund 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.

Deferred Financing Costs

Financing fees are deferred and amortized over the life of the debt using the effective interest rate method. Long-term debt is recorded at the principal amount less the net value of the associated financing fees.

3. CHANGES IN ACCOUNTING POLICIES

In 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures (Section 1535), Handbook Section 3862, Financial Instruments - Disclosures (Section 3862), and Handbook Section 3863, Financial Instruments - Presentation (Section 3863). Additionally, in 2007 the CICA approved Handbook Section 3031, Inventories (Section 3031). These new standards became effective for Acadian on January 1, 2008.

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. The adoption of this new accounting standard did not impact the Fund's consolidated financial statements; except for the required disclosure as provided in Note 11.

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. The adoption of these new accounting standards did not impact the amounts reported in Acadian's consolidated financial statements; however, additional quantitative and qualitative information regarding Acadian's financial instruments and their associated risks is provided in Note 12.

Inventories

In March 2007, the CICA approved Handbook Section 3031 Inventories, which replaces the existing Section 3030 Inventories. The standard provides more guidance on the measurement and disclosure requirements for inventories, however the adoption of Section 3031 did not have an impact on the consolidated financial statements of the Fund.

Future Accounting Policies

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 International Financial Reporting Standards ("IFRS") and generally accepted accounting principles in the United States ("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 this new accounting standard on its financial statements.

International Financial Reporting Standards

In 2005, the Accounting Standards Board of Canada (AcSB) announced that accounting standards in Canada are to converge with IFRS. In May 2007, the CICA published an updated version of its implementation plan which outlines the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian GAAP with IFRS by January 1, 2011. The CICA plans to converge Canadian GAAP with IFRS. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies. The Fund currently expects to report under IFRS with the first quarter report in 2011 and is currently assessing the future impact of the new standards on its consolidated financial statements.

4. AMENDMENT OF FINANCIAL STATEMENTS

The 2007 comparative financial statements of the Fund have been amended to reflect certain non-cash future tax amounts totalling $2.1 million that were not recorded in the second quarter of 2007, upon the enactment of the Canadian government's tax fairness plan. The adjustment did not affect distributable cash from operations, cash flow from operations or income before taxes, but increase future tax expense and future tax liabilities while reducing net income by that amount.

The impact of the restatement on the December 31, 2007 results is as follows:

	As previously reported	Change	As restated
Balance Sheet			
Future income tax liability	$ 9.4	$ 2.1	$ 11.5
Unitholders' equity	83.6	(2.1)	81.5
Statement of Operations and Deficit			
Future income tax expense	9.4	2.1	11.5
Net earnings	(16.5)	(2.1)	(18.6)
Per Unit			
Net Income (loss) – basic	$ (1.37)	$ (0.17)	$ (1.54)
Net income (loss) – diluted	(1.37)	(0.17)	(1.54)

5. TIMBERLANDS, LOGGING ROADS AND FIXED ASSETS

As at December 31, 2008 *(millions)*		**Book Value**		**Accumulated Depletion and Depreciation**		**Net Book Value**
Timberlands	**$**	**204.0**	**$**	**(22.0)**	**$**	**182.0**
Land		**10.9**		**—**		**10.9**
Logging roads and bridges		**15.5**		**(2.1)**		**13.4**
Building and equipment		**1.9**		**(0.4)**		**1.5**
		232.3		**(24.5)**		**207.8**

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

6. LONG–TERM DEBT

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

millions		**2008**		2007
Bank term credit facility, repayable in January 2010	**$**	**42.0**	$	42.0
Less: Deferred debt issuance costs		**(0.1)**		—
		41.9		42.0
Term loan facility, repayable in February 2011		**38.9**		31.8
	$	**80.8**	$	73.8

Acadian has a term credit facility of up to $42.0 million and a revolving credit facility of up to $5.0 million. The term credit facility bears interest at floating rates which for the period ended December 31, 2008 was based on 30-day Bankers' Acceptances rates. As at December 31, 2008, the effective interest rate on the term credit facility is 4.37%. The revolving credit facility bears interest at 30-day Bankers' Acceptances rates, has a period of 364 days and has customary extension features. During the fourth quarter of 2008, Acadian entered into an agreement to extend the bank term credit facility and the revolving credit facility for a period of one year. The bank term and revolving credit facilities continue to bear interest at floating rates based on the 30-day Bankers' Acceptances rate, plus the applicable margin reflective of today's credit environment, and will mature on January 29, 2010. Floating interest rates give rise to interest rate risk as earning and cash flows may be negatively impacted by fluctuations in interest rates. As at December 31, 2008, Acadian has borrowed $42.0 million under the term facility and nil under the revolving facility, which remains unchanged from December 31, 2007. 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 (see Note 11). As at December 31, 2008, 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 as at December 31, 2008. 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$33.1 million (2007 – 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, 2008, Maine Timberlands was in compliance with all covenants.

7. CLASS B INTEREST LIABILITY OF A SUBSIDIARY

The Class B Interest Liability represents 4,507,030 preferred interests in the Maine Timberlands which are convertible into units of the Fund. The distributions are entitled to a fixed monthly cumulative preferential dividend equal to the lesser of $0.075625 and the most recently announced distribution per unit of the Fund. These interests are convertible at the option of the holder on a one-for-one basis into units of the Fund or, at the sole discretion of Acadian, into cash equal to the fair market value of these units on the date of conversion. During the period, distributions on the Class B Interests were $0.825 per preferred interest (2007 – $0.825 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 year ended December 31, 2008, the revaluation of this interest resulted in a gain of $22.2 million (2007 – $11.9 million loss). The gain is comprised of a $15.0 million mark-to-market gain (2007 – $5.0 million loss) and a $7.2 million foreign exchange gain (2007 – $6.9 million loss) due to the weakening of the Canadian currency.

On February 3, 2009, an affiliate of Brookfield converted all units representing the Class B Liability of a subsidiary into Class A units of the Fund (Note 16).

8. UNITHOLDERS' EQUITY

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

millions	**2008**	2007[1]
Units issued and outstanding – 12,064,423 units	**$ 111.6**	$ 111.6
Accumulated other comprehensive income (loss)	**1.2**	(0.3)
Deficit	**(20.9)**	(29.8)
Total	**$ 91.9**	$ 81.5

[1] *Restated. See Note 4.*

Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) reflects unrealized gains (losses) on the translation of the financial statements of the Maine Timberlands. Accumulated other comprehensive income (loss) as at December 31 is as follows:

	Years Ended December 31	
millions	**2008**	2007
Balance, beginning of period	**$ (0.3)**	$ 0.2
Other comprehensive income (loss)	**1.5**	(0.5)
Balance, end of period	**$ 1.2**	$ (0.3)

As at December 31, 2008, 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, 2008 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, 2008, and the respective comparable period, was calculated as follows:

Reconciliation to net income:

millions		2008		2007[1]
Net income (loss)	**$**	**18.9**	$	(18.6)
Add (deduct)				
Interest expense of Class B Interest Liability of a subsidiary		**3.7**		—
Gain on Class B Interest Liability of a subsidiary		**(22.2)**		—
Diluted net income (loss) available to unitholders	**$**	**0.4**	$	(18.6)

[1] *Restated. See Note 4.*

Reconciliation of the number of units:

thousands		
Weighted average number of units		
Class A units	**12,064**	12,064
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	**16,571**	12,064

The Class B Interest Liability was anti-dilutive for the year ended December 31, 2007 due to the net loss in the period.

9. RELATED PARTY TRANSACTIONS

All related party transactions are recorded at the exchange amount.

a) Concurrent with the Offering, Acadian entered into a number of fibre-supply agreements whereby Acadian agreed to provide fibre to Fraser Papers and Brookfield for periods of up to 20 years. In addition, Acadian agreed to administer certain licenses on behalf of Fraser Papers. Total sales to Fraser Papers and Brookfield during the year ended December 31, 2008 amounted to $27.7 million and $2.8 million, respectively, which represented 32% of consolidated total sales (2007 – $36.7 million and $3.6 million, respectively, or 40% of total sales). Included in accounts receivable at December 31, 2008 is $1.2 million related to these agreements (2007 – $1.0 million).

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 during the year ended December 31, 2008 amounted to $2.0 million (2007 – $2.0 million). All fees have been fully paid in accordance with the services agreement.

c) Distributions declared to Fraser Papers during the year ended December 31, 2008 totalled $nil million (2007 – $2.2 million).

d) Payments on the Class B Interest Liability to Brookfield during the year ended December 31, 2008 totalled $3.7 million (2007 – $3.7 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, 2008 (2007 – $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 year ended December 31, 2008 (2007 – $16 thousand).

10. SEGMENTED INFORMATION

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

	For the Year Ended December 31, 2008			
millions	**Total**	**NB Timberlands**	**Maine Timberlands**	**Corporate and Other**
Net sales				
Softwood	**$ 30.7**	**$ 17.0**	**$ 13.7**	**$ —**
Hardwood	**27.4**	**23.8**	**3.6**	**—**
Biomass and other	**9.8**	**9.2**	**0.6**	**—**
Total net sales	**67.9**	**50.0**	**17.9**	**—**
Operating costs	**(51.2)**	**(38.6)**	**(12.0)**	**(0.6)**
Earnings (loss) before under noted	**16.7**	**11.4**	**5.9**	**(0.6)**
Depletion and depreciation	**(7.4)**	**(4.2)**	**(3.2)**	**—**
Operating earnings (loss)	**9.3**	**7.2**	**2.7**	**(0.6)**
Gain on sale of timberlands	**0.7**	**0.1**	**0.6**	**—**
Earnings (loss) before under noted items	**$ 10.0**	**$ 7.3**	**$ 3.3**	**$ (0.6)**
Gain on Class B Interest Liability of a subsidiary	**22.2**			
Interest expense, net	**(7.1)**			
Future income tax expense	**(6.2)**			
Net Income	**$ 18.9**			
Additions to logging roads and fixed assets	**0.5**	**0.4**	**0.1**	**—**
Silviculture expenditures	**0.3**	**0.3**	**—**	**—**
Timberlands, logging roads, fixed assets and intangible assets	**213.9**	**129.7**	**84.2**	**—**
Total assets	**$ 229.0**	**138.1**	**87.0**	**3.9**

millions		For the Year Ended December 31, 2007[1] Total	NB Timberlands	Maine Timberlands	Corporate and Other
Net sales					
Softwood	$	37.6	$ 24.0	$ 13.6	$ —
Hardwood		26.2	23.7	2.5	—
Biomass and 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 tax expense		(11.5)			
Net loss	$	(18.6)			
Additions to 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

[1] *Restated. See Note 4.*

During the year ended December 31, 2008, approximately 28% of total sales were originated with customers domiciled in the U.S. with the balance in Canada (2007 – 27% of total sales). During the same period approximately 26% of total sales were denominated in U.S. dollars (twelve months ended December 31, 2007 – 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 year ended December 31, 2008, Acadian's top three suppliers accounted for approximately 20%, 15% and 11%, respectively, of the Fund's cost of sales (2007 – 19%, 14% and 13%, respectively).

Acadian sells its products to many forest product companies in North America. For the year ended December 31, 2008, related parties (see Note 9) and the next largest customer accounted for 32% and 11% of total sales, respectively (2007 – 40% and 10%, respectively). The Fund is exposed to credit risk in the event of non-performance by its counterparties, which includes the non-collection of accounts receivables. The Fund's subsidiaries perform on-going credit evaluations of its customers' financial positions and does not anticipate non-performance by its counterparties. Accounts receivable from the top three customers as at December 31, 2008 amounted to approximately 57% of accounts receivable (2007 – 77%).

11. CAPITAL DISCLOSURES

Acadian's capital structure is comprised of unitholders' equity inclusive of comprehensive income (loss), the Class B Interest Liability of a subsidiary, and long term loan facilities, which include current portions.

Acadian's corporate finance objective is to utilize prudent levels of leverage to lower the trust's cost of capital while minimizing financial risk for unitholders. In managing its capital structure, Acadian may adjust the amount of distributions paid to unitholders, discretionary silviculture and capital expenditures during a given period, or re-evaluate Acadian's leverage ratios.

Acadian monitors its capital structure to ensure compliance with its financial covenants with debtholders. These financial covenants include a funded debt to capitalization ratio (book value of equity of the NB Timberlands) and an interest coverage ratio in respect to the bank term credit facility and a debt service coverage ratio in respect to the term loan credit facility. As part of the one year extension of the bank term credit facility, the funded debt to capitalization ratio has replaced the previous funded debt to last twelve months earnings before interest, taxes, depletion, depreciation and amortization ("LTM EBITDA") covenant requirement.

The financial covenants contained in the bank term credit facility are as follows:

	Years Ended December 31	
millions	**2008**	2007
Funded debt	**$ 42.0**	$ 42.0
Capitalization	**131.4**	136.4
Funded debt / Capitalization (maximum 42.5%)	**32.0%**	30.8%
LTM EBITDA	**$ 11.5**	$ 15.8
LTM Interest for period	**2.0**	2.3
Interest coverage (minimum 3.0)	**5.8**	6.9

The Maine Timberlands' term loan facility requires that a minimum debt service coverage ratio is maintained. This ratio is disclosed below:

	Years Ended December 31	
U.S. millions	**2008**	2007
LTM EBITDA	**$ 6.0**	$ 5.1
Capital expenditure	**(0.1)**	—
Cash flow	**5.9**	5.1
LTM Interest	**1.5**	1.5
Debt service coverage ratio (minimum 1.25)	**3.9**	3.4

Acadian's long-term debt obligations, inclusive of current portions, have restrictive covenants which required the NB Timberlands and Maine Timberlands, respectively, to maintain certain financial ratios. As at December 31, 2008, Acadian is in compliance with all financial covenants.

12. FINANCIAL INSTRUMENTS

Financial assets and liabilities classified as held-for-trading are measured at fair value as 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 (loss) in the period in which they arise; these include cash and cash equivalents and the Class B Interest Liability of a subsidiary (see Note 7). Accounts receivable and other assets have been classified as loans and receivables, which are accounted for at amortized cost, which approximates their carrying value given the short-term nature of these receivables. Accounts payable and accrued liabilities, distributions payable to unitholders and long-term loan facilities, including current portions, have been classified as other financial liabilities which are accounted for at amortized cost.

Financial Risk Management

Acadian is exposed to various risks that have been identified by management. These risks have been categorized as foreign exchange risk, interest rate risk, other price risk, credit risk and liquidity risk.

Foreign Exchange Risk

Acadian owns and manages timberlands in both Canada and the United States; as a result, revenues and expenses are incurred in both Canadian and U.S. dollars. The functional currency of Maine Timberlands is the U.S. dollar and the functional currency of the NB Timberlands is the Canadian dollar. Acadian's reporting currency is the Canadian dollar. Acadian's most significant foreign currency risk exposure arises due to its investment in the Maine Timberlands. Accordingly, the impact of a strengthening (deteriorating) Canadian dollar will reduce (increase) the net income (loss) of Acadian, and will also result in an other comprehensive loss on the revaluation of the Maine Timberlands' assets, including non-financial assets and liabilities in a given period. During the year ended December 31, 2008, a $0.01 appreciation (depreciation) in the period end U.S. to Canadian dollar foreign exchange rates, all else being equal, would have increased (decreased) net income by approximately $0.3 million, primarily as a result of the revaluation of the Class B Interest Liability of a subsidiary, and would not have significantly impacted cash flow from operations or other comprehensive income. The foreign exchange risk arising on the translation of the Maine Timberlands' financial statements is considered to be a financial reporting risk that does not represent a significant operating risk.

The objective of Acadian's foreign exchange risk management activities is to minimize foreign exchange exposures that would have an impact on its operating performance. All of the NB Timberlands expenses and a significant proportion of its revenues are incurred in Canadian dollars. As such, the financial reporting and operational risk associated with the revaluation of NB Timberlands revenues and accounts receivables denominated in U.S. dollars is considered immaterial. Additionally, the only Canadian denominated expense of the Maine Timberlands are payments associated with the Class B Interest Liability of a subsidiary, which are not considered to represent a significant operational risk. Management continues to monitor the operational impact of all foreign exchange exposure, and will consider alternatives, as required, to ensure that this risk is maintained at prudent levels.

Interest Rate Risk

Acadian's interest rate risk arises from the floating interest rate bank term credit facility (see Note 6). A change in Bankers' Acceptances rates will result in variability in the interest expense of Acadian, impacting its consolidated net income. As at December 31, 2008, a 25 bps increase (decrease) in Bankers' Acceptances rates, all else being equal, would have resulted in an increase (decrease) of the interest expense recorded in the year of $0.1 million per annum.

Additionally, a change in interest rates will also expose Acadian to variability in the fair value of the Maine Timberlands' term loan facility, but would have no impact on the reporting value of the debt facility (see Note 6). As at December 31, 2008, a 25 bps increase (decrease) in U.S. treasury rates, all else being equal, would have resulted in a decrease (increase) in the fair value of the term loan facility by approximately $0.2 million.

Other Price Risk

Acadian is exposed to commodity price risk as its financial performance is dependent on the selling prices of its products and the costs incurred in harvesting its timber. 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, global supply and economic conditions, including increased competition from a variety of substitute products. Additionally, Acadian's operating expenses can be impacted by fuel cost increases. Acadian relies almost exclusively on land transportation, 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. Accordingly, commodity price variations may impact Acadian's sales, costs of sales, cash flows and earnings. Furthermore, 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.

To manage these risks, management monitors market developments in all commodity prices to which it is materially exposed. Given the nature of Acadian's operations, during periods of decreased selling prices and increased costs, Acadian will adjust harvest levels and manage variable expenditures in an effort to preserve the long-term value of Acadian's timberlands.

Acadian is also exposed to other price risk, due to the variable nature of the valuation of the Class B Interest Liability of a subsidiary (see Note 7). Each $0.05 increase (decrease) in the trading value of Acadian's Class A Units results in a $0.2 million revaluation loss (gain), which is recorded in Acadian's Consolidated Statement of Operations and Deficit. The revaluation of the Class B Interest Liability does not have an impact on the cash flow from operating activities of Acadian.

Credit Risk

Credit risk arises from cash and cash equivalents held with banks and financial institutions, as well as credit exposures to clients, including outstanding accounts receivables. The maximum exposure is equal to the carrying value of the financial assets as at the balance sheet date.

The objective of managing counterparty credit risk is to prevent losses in financial assets. Investments of excess cash and cash equivalents are invested with counterparties meeting minimum credit quality requirements in accordance with the terms of Acadian's declaration of trust. With respect to outstanding accounts receivables, NB Timberlands and Maine Timberlands each assess the credit quality of the counterparties, including customers, taking into account their financial position, past experience and other factors. In cases where the credit quality of a client does not meet Acadian's credit requirements, a cash deposit is received before any timber is harvested and sold. Management, upon evaluating all open balances as at December 31, 2008, does not anticipate any defaults by its counterparties, and accordingly has not recorded an allowance against outstanding receivables. Pursuant to their respective terms, all outstanding accounts receivables are current with the exception of approximately $0.5 million.

Liquidity Risk

Acadian's objective in managing liquidity risk is to maintain sufficient reserves in order to meet operational and investing requirements at any point in time, and to maintain debt financing at levels which will allow Acadian to attract additional capital at reasonable cost. The bank term credit facility, which has security over the assets of the NB Timberlands, bears interest based on the 30-day Bankers' Acceptances rate. Prevailing interest rates or other factors at the time of the interest re-set or refinancing of this facility could increase the interest expense of Acadian in future years.

Additionally, management assesses the nature and timing of discretionary payments in an effort to mitigate any impact on the financial condition or results of operations of Acadian. As at December 31, 2008, the accounts payable and accrued liabilities and distributions payable of Acadian are due in less than 30 days.

13. 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 Canadian and U.S. 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 Canadian 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		**2008**		2007[1]
Income (loss) before income taxes	**$**	**25.1**	$	(7.1)
Tax recovery (expense) at statutory rate		**7.4**		(2.1)
Income of fund distributed		**(1.2)**		(1.4)
Class B income (loss) allocations		**(1.3)**		2.9
Rate Differential		**1.7**		(0.4)
Valuation allowance		**—**		1.7
Income Trust future tax		**(0.2)**		11.5
Other		**(0.2)**		(0.7)
Income tax expense	**$**	**6.2**	$	11.5

[1] *Restated. See Note 4.*

The future tax liability represents the cumulative amount of tax payable on the differences between the financial reporting and tax bases of the assets and liabilities of the Fund and its corporate subsidiaries 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, and the Class B Interest Liability of a subsidiary.

14. 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 (2007 – \$0.3 million).

15. 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 year ended December 31, 2008 were \$10.0 million (2007 – \$10.0 million).

16. SUBSEQUENT EVENT

On February 3, 2009, an affiliate of Brookfield converted all units representing the Class B Liability of a subsidiary into Class A units of the Fund. Subsequent to this conversion, the Fund has 16,571,453 Class A LP Units issued and outstanding, of which 7,513,262 or 45% are held by Brookfield.

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

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 458, Bentall 5, 550 Burrard Street, Box 51
Vancouver, B.C. V6C 2B5
Please direct your inquiries to: Zev Korman,
Director, Investor Relations and Communications
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, 2008): 16,571,453
Targeted 2009 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 2008 Annual Meeting of unitholders will be held at the Hockey Hall of Fame, The Esso Theatre, Brookfield Place,
30 Yonge Street, Toronto, Ontario, at 1:30 p.m. on May 7, 2009.

www.acadiantimber.com

Acadian Timber Income Fund

Suite 300, Brookfield Place 181 Bay St. Toronto, Ontario M5J 2T3